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Why the Cost of Health Care is So Hard to Understand—and What to Do About It

By [David Blumenthal](#) Feb 7, 2019



The final cost of health-care procedures is unknowable to the average consumer, writes WSJ Health Expert David Blumenthal.

Your 10-year-old car is a wreck. It's time for new wheels. At the dealership, you find the model and color you want. You then look for the sticker price, but there isn't one.

Instead, a salesman hands you a binder about five inches thick, filled with thousands of pages of microscopic print. It's an endless list of parts and prices: alternators, brake pads, floor mats, tailpipes, sunroofs, catalytic converters, tires, mufflers and more.

Which ones do you need? Which are even in the car you're buying?

"It's all there" says the dealer. "Everything to figure out what she goes for." He dangles the keys. "This one's got your name on it. Let's take it for a spin."

How is this working for you? Are you feeling like an informed buyer? Is this any way to run a marketplace?

This scenario would never be allowed in the auto industry but it's precisely what's playing out, countless times a day, in health care. Since 2015, hospitals across the U.S. have been releasing their list prices under the direction of the Centers for Medicare and Medicaid Services (CMS). The professed goal: to inform consumers about the costs of their care so they can be smart purchasers and bring competition to health-care markets.

This year, in an effort to push the competition agenda, [CMS updated its guidelines](#). As of January, hospitals are required to make public a list of their standard charges via the internet in a machine-readable format, and to update this information at least annually, or more often as appropriate. The idea is that patients expecting something like a hip or knee replacement can go online, check prices and shop around for the best deal.

While the guidelines may give patients more information, that information may be more confusing than clarifying, as the car analogy suggests. For starters, patients may not be familiar with many of the

thousands of items on the list of charges. If they are, they may not know what portion of the price they are responsible for (their copay), or how much they must pay before insurance kicks in (their deductible). They likely won't know what prices their insurer (if they have one) may have negotiated, which will be different from the list price. They may not know which services they need for their care, or how many of any one service their condition requires. Even if they have a sense of what they might need, they have no idea what unexpected events, requiring unexpected services, may occur in a particular case. Their doctors likely don't know either.

For believers in consumer empowerment and choice, and for advocates of the free market, this new reality should be profoundly troubling. Consumers have the right to know what their care will cost. And for competition between hospitals to thrive—which would, in turn, help consumers make comparisons and push hospitals to lower prices—they absolutely need to know.

The challenge is that sharing meaningful price information is actually quite complex.

The work has to start with defining units of care. A hospital admission? An episode of care? An elective procedure? All care for a patient provided in a period of time?

Next is defining the makeup of that unit. What elements go into it on average? What about for people with particular co-existing conditions? With or without complications? Where multiple institutions share in the care, how are their separate prices lists combined? What about combining inpatient and outpatient care? What about when people are transferred in the middle of their treatment from one place to another?

Getting consumers the information they need to be smart purchasers of health care will likely prove a multiyear project, which, CMS realizes. Their new rule sought suggestions from the public on how to overcome barriers to make price information meaningful, and broadly outlined the challenge ahead.

By my measure, the first step in the project should probably concentrate on the small set of services and procedures that experts consider “shoppable.” These are well-defined, common, completely elective, and unlikely to result in complications, such as hip and knee replacements, hernia repairs, non-urgent cardiac surgeries or placement of insulin pumps for diabetics. These services are also planned well in advance so patients have a chance—if they are so inclined—to collect pricing data and try to figure them out.

And don't forget that pricing information is only half the picture. Consumers need to know the quality of each service as well. It's the equivalent of knowing whether that smart-looking car on the lot is preowned or not, and if it is, how many miles it has on the odometer and whether it's been in a crash.

Markets are great in theory, but complex in practice—perhaps no market more so than health care. Right now, we lack even the most basic requirements for flourishing competition in the health-care sector. For real, effective competition, consumers need well-defined products, and clear, simple prices. Like that new car with a sticker price.

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