The Daily Dish

Disclosing Negotiated Hospital Prices

DOUGLAS HOLTZ-EAKIN | MARCH 12, 2019

Eakinomics: Disclosing Negotiated Hospital Prices

When I read *The Wall Street Journal* article that a proposed rule by the Department of Health and Human Services (HHS) would require hospitals to disclose the prices they had negotiated with insurance companies, my first reaction was, "Oh good, you should know the prices of products and services when you are shopping." This was followed a nanosecond (or less) later by "No way! Those are private contracts and it is not the government's business to be prying them open." This was echoed, two nanoseconds later by, "And it will undercut the incentives to bargain effectively." But by the end of 5 nanoseconds, I had returned to "Gee, it sure would be nice for people to know what services cost."

Obviously, I've got a lot of voices in my head; enough said. But let's think through the issues. Given the cost of health care in the United States, it is important to preserve incentives for strong negotiations. Forcing a hospital to reveal that it gave a $8,000 price for a knee replacement to Insurer A but $10,000 to Insurer B practically guarantees that both end up at $10,000. We've seen that movie before in drug pricing, where the Medicaid "best price" provision undercuts negotiations for lower drug prices (because they would have to be shared automatically with Medicaid). Indeed, in its worst unintended consequence, best price destroyed charitable giving of drugs to the poor and forced the creation of the currently-out-of-control 340B program. So, the principle that private contracts should be sacrosanct, combined with the desire to have hospitals and providers willing to negotiate lower prices, leads me to say "no thanks" to this proposal. Some of the voices in my head cheered.

But the others remain disgruntled. It really should be the case that families know the price of any good or service before they purchase it. In this instance, it could very well affect their copay or deductible. Or, it could even be the case that there is no negotiated price for their insurance company, and they will be hit with a surprise, out-of-network bill. Here, I think the key is that the insurer is really acting as an agent of the policyholder in negotiating prices, so it should be the obligation of the insurer to reveal those prices — but only to their customers. The idea in its modern form would be an app provided by my insurer into which I could enter the location, provider, and service. It would return the negotiated price, or the fact that there is not a negotiated price. Either way, the patient is forewarned of the potential consequences. More voices cheering.

This seems right as a matter of principle. Now, it may not matter in some cases — acute, emergency care — but an enormous amount of health care is delivered in circumstances that allow some discretion, and this transparency would aid families in those circumstances. It would be nice if the market drove insurers to deliver this information, and, indeed, many insurers have apps that are steadily approaching this functionality.

But if I had to choose between a rule affecting the hospital and the same rule applying to insurers, I'd choose the latter.