Feds: 'Price-Tagging' Key to Consumer-Driven Care

Bush administration's theory is that incentivized consumers will drive price down and quality up.

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WASHINGTON — Price transparency for physician and hospital services is a key element in the Bush administration's vision of "consumer-driven" health care, and the administration is prepared to push for mandatory price-tagging if doctors and hospital administrators won't voluntarily provide the information.

Speaking at a health care congress sponsored by the Wall Street Journal and CNBC, Al Hubbard, assistant to President George W. Bush for Economic Policy, issued a kind of ultimatum to the clinical community: "Make pricing information available without being forced. If you do not do so, we will force you to. We have allies in Congress who are very much inclined to be prescriptive with legislation to impose pricing and quality standards on the health care community."

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Comprehensive and accurate pricing for health care services are essential for the efficacy of health savings accounts (HSAs) and other market-driven solutions to the health care cost crisis favored by the administration and many business leaders, said Mr. Hubbard, who is also director of the National Economic Council, at the meeting.

"Under a consumer-driven health care system, the consumer is incentivized to become a smart shopper, and a driver to push prices down and quality up," he said. He cited LASIK (laser in situ keratomileusis) surgery as a prime example. "Fifteen years ago, LASIK cost about $2,500 per eye. Because the service is an out-of-pocket expense, now the cost is under $1,000 per eye. That's what would happen in the rest of health care if people were price-sensitive consumers."

According to Mr. Hubbard and others within the Bush camp, there's one major obstruction on the road to a consumer-driven health care utopia: the absence of pricing and quality-rating information for medical services.

"You cannot be a wise consumer if you don't know the prices or the quality of the goods. Right now, providers do not make that information available, and a lot of hospital executives don't believe pricing information should be available," he said.

Mr. Hubbard's remarks followed a very brief and fast-spoken video address by President Bush, in which the president underscored his commitment to HSAs as a key instrument for change. He estimated that more than 3 million Americans will be enrolled in HSAs this year, a number he hopes to see vastly increased over the next few years.

The president underscored the "simple and clear philosophy" that underlies his solution to the health care problem: "The American medical system should be run by doctors, patients, and consumers, not the federal government."

It was easy for Mr. Hubbard to talk tough at the meeting. According to the conference organizers, physicians represented only 4% of attendees, and there were very few doctors in the room during Mr. Hubbard's address.

One physician, an anesthesiologist, did stand up to challenge the administration's fixation on price-tagging.

He cited the potential dangers that could arise if "consumers"—that is, patients—began choosing health care services based on price postings. He stressed that the medical community itself is far from having accurate quality measures to determine standards for best practices. Without clear and science-based quality standards, pricing information would have little value because patients would not be able to determine what they would be getting for their money. Further, shopping for health care based on price could encourage substandard care and suboptimal clinical outcomes.

He also pointed out that a higher-priced physician practice or hospital may be incurring those higher costs because they are treating a sicker population. Likewise a practice or hospital with lower outcomes scores may be handling sicker patients. Price tags and raw outcomes data alone would not reflect this, unless accurate risk-stratification measures were also incorporated.

Mr. Hubbard acknowledged that there's much work to be done in developing meaningful outcomes standards and risk assessment tools so that consumers can "compare apples to apples." At the same time, the administration seems unwilling to wait around indefinitely while practitioners and hospitals figure out how to prove their worth.

Several in the audience pointed out that the "shop-around" approach is likely to break down around episodes of emergency care, critical care, and sudden onset of disease.

An individual having a myocardial infarction isn't likely to consult the Internet to find out which area hospital offers the best dollar value.

The unflappable Mr. Hubbard agreed that emergency situations are an exception to the consumer-driven rule, but he insisted that "there's no reason we should not be able to have bundled pricing from our physicians and hospitals on all nonemergency care. We want you to treat your patients/customers exactly the way you want to be treated when you consume a product or service."

Whether a mandate for pricing transparency is truly in the offing remains to be seen.

What is clear is that the Bush administration views HSAs and other strategies for shifting greater cost and greater health care responsibility onto consumers as the only viable strategy for the nation's health care financing woes.

During a separate session at the meeting, Jack Brennan, CEO of the Vanguard Group, the nation's second largest mutual fund company, and Jim Guest, president of Consumers Union (publisher of Consumer Reports), reviewed the potential strengths and weaknesses of consumer-driven health care plans.

Mr. Brennan, who said that he believes the health care world has a lot to learn by studying the evolution of the 401(k) business, said that Vanguard offers its 12,000 employees a consumer-driven health plan option, and has for several years.

However, no more than 10% of the company's employees have chosen it. "I'd say there's a bit of a reluctance, but it is a start, and I'd like to see more," he said.

Asked whether he himself had enrolled in such a plan, Mr. Brennan said he had not.

"I don't use it because I'm still trapped in the belief that if it is more expensive, it must be better," he joked, but added that one of his family members has a complicated medical situation that would make a consumer-driven plan a less-than-optimal prospect for him.

Consumer Reports' Mr. Guest said his organization supports the general idea of "consumer-informed health care," but said it is far too early to tell whether strategies like those advocated by the Bush administration will really deliver on their stated promises.

"We're really far away from where we need to be. I don't think the consumer voice has been strongly heard. The movement [toward consumer-driven plans] has been driven more by the industry than by the consumer. Until consumers have full information about what the choices are that they're making, it is not really consumer driven. And right now, most people do not understand what they're deciding between." ■

What Can Health Care Learn From 401(k) Retirement Plans?

Health care right now is in a situation somewhat analogous to that facing the employee benefits, pension, and investment world nearly 3 decades ago, when the 401(k) concept was first developed, the Vanguard Group's Mr. Brennan said.

"Twenty-five years ago, the 401(k) industry was very fragmented. It was high cost and poorly understood by the public. Now, it has gotten to the point where 90% or more of all U.S. companies offer them. It is a $2.1 trillion market, and it's basically a story of empowering people to make decisions and choices that are good for them. It is based on one single bedrock idea: that given good information and good tools, the consumer will make smart decisions."

Why did the 401(k) movement succeed? Effective consumer education based on simple language and clear elucidation of benefits was the fundamental key to winning buy-in from ordinary people. "You can't have overeducated MBAs writing explanations for working people. It all needs to be very simple and straightforward."

The benefits promised by early advocates of 401(k) investment (greater personal control over investment choices, tailored investment planning, facilitated transactions, and strong returns) were delivered via a vast powerhouse of new interactive technology. "Before 401(k) [plans], you were dependent on quarterly statements. The 401(k) industry developed all this real-time transactional information, 800 numbers, and Web sites that offered more consumer interactivity."

Choice, said Mr. Brennan, is the watchword of the 401(k) industry. Previously, people had few retirement investment options. They got the plans their employers gave them, end of story. They didn't see where their money was going, and for the most part, they didn't care. The 401(k) put a new range of investment options within reach of ordinary working people, and more important, the industry taught people how to think about investment choices in a way that really spoke to their concerns and needs.

To what extent is health care really similar to retirement investing? Should the health care industry operate more like the investment world? These are open questions, and one could easily tear holes in Mr. Brennan's comparisons. But the issue of how to communicate the relative benefits and downsides of various forms of health care financing to the public is one that physicians, health benefits managers, and policy makers need to face.

Underneath all the policy debate, Mr. Brennan said the real question posed by the consumer-driven health care vision amounts to this: Is the average American worker smart enough to make good decisions about present and future health care needs?

He said he believes, for the most part, that they are. "I come at my business from the point of view that people are smart. A lot of people, especially in the health care business, come from the point of view that people are not smart and are unable to make intelligent, informed choices. That's a fundamental difference."