TRANSPARENCY – A CLEAR AND ALMOST-PRESENT DANGER?

By Ron Peck

Transparency in healthcare, and pricing of care, has been a hot topic – especially for those in our industry – for quite some time. That flame has been fed recently by an increase in regulatory and legislative attention. About one year ago, a bipartisan group of Senators unveiled their intention to launch a healthcare price and quality information transparency initiative, and the feedback has been all over the map.

I recently published a blog post regarding failed attempts at transparency in retail. The two examples I shared therein I've also described below. The response I received was passionate – from support, to opposition; it seems as if everyone feels "something" when it comes to "transparency."

Before you read any further, let me state clearly and unequivocally that I am a staunch supporter of transparency – as a concept, as well as a tool to be used in our never-ending quest to minimize costs while maximizing benefits in health coverage and care. Like so many other useful tools, however, transparency in overabundance or without other key ingredients will not only fail to move the needle (as it relates to the cost of health care) but may result in an increase in spending.

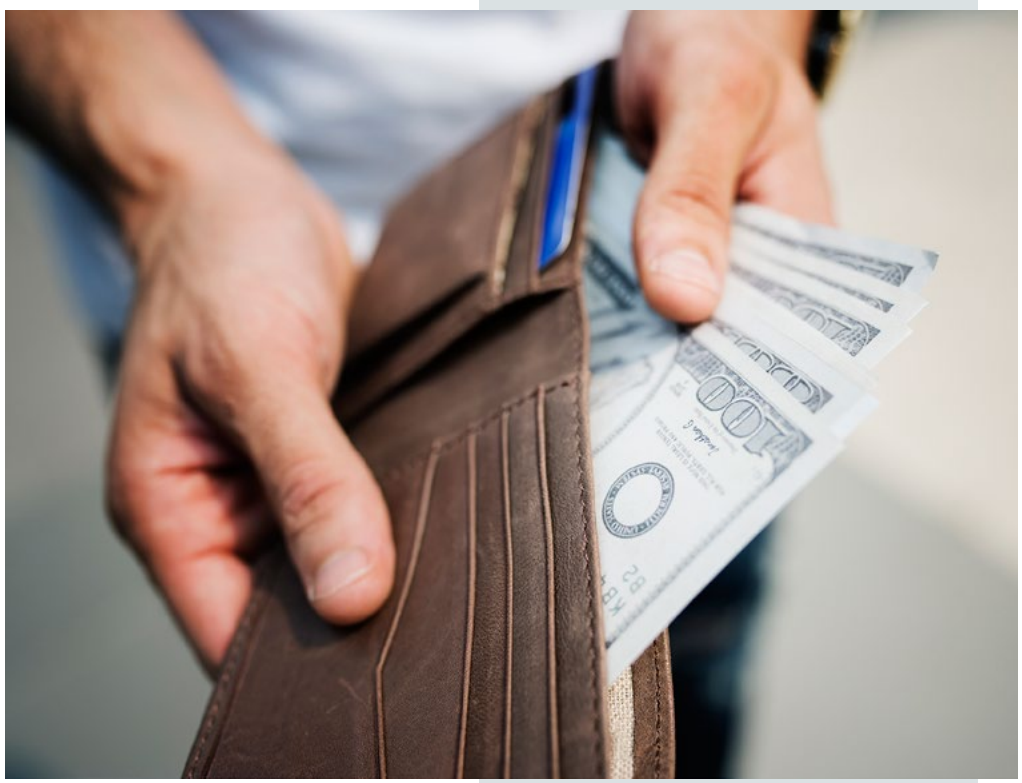
To get you up to speed, the examples of transparency (gone wrong) that I love to share are as follows –

Exhibit A: JC Penney's. Recall in 2011, when JC Penney's made what most experts have deemed a catastrophic, strategic mistake, regarding its pricing strategy. What horrific miscalculation did the retail giant make? It replaced "sales" (a/k/a "discount") and "coupons" with everyday low prices. JC Penney's told consumers: "Hey! We aren't going to bamboozle you by inflating prices, and then throwing arbitrary discounts at you. Instead, we'll offer you fair prices without any games." This was one example where transparency failed miserably.

Exhibit B: Payless. If you want to buy some sneakers from Payless, you'd better do it soon. Payless ShoeSource, Inc. is closing for good. I've never shopped at Payless myself, but they hold a special place in my heart by virtue of something they did in November of 2018. Yes indeed; it was only a few months ago that they supported my theory that transparency without quality awareness is not only useless, but potentially dangerous. Payless opened a fake luxury store, dubbed "Palessi." At this "boutique," they displayed shoes (for which they normally charge $20 at their Payless stores), with price tags that ranged up to $600+ (a 1,800% markup). Shoppers saw the higher prices and assumed that – if it costs more, it must be better.

Another example of transparency that not only fails to reduce spending, but increases it, is also tethered to healthcare. Unlike many other expenses about which we industry members are dealing, (expenses for which the lion's share of the cost is borne by the benefit plan and as such, the patient has no "skin in the game"), one example of healthcare costs for which plan participants are fully responsible to pay is over the counter pain medication.

Enter any retail pharmacy and you'll see brand name medication, and identical store brand drugs, sharing shelf space. The store brand is clearly marked with a lower price than the brand name drug – who's price is also clearly labeled. Additionally, both medications list the ingredients on the package; identical ingredients and percentages.



This is the ultimate cross-roads between healthcare, patient skin in the game, and transparency. So, of course people buy the store brand drug – it's the same drug, costs less, and the patient is financially responsible to pay the price. Transparency works, right? Wrong! People overwhelmingly purchase the branded drug.

I've said it before, and I'll say it again – people want the most expensive option. People don't want to pay for the most expensive option, but they want to have the most expensive option.

Look no further than the credit crisis bankrupting so many Americans. Credit cards made it so easy for people to buy more than they could afford, because they made it "feel" like it was someone else's money.

Sound familiar?

People inherently want the most expensive option, because they are convinced price is an indicator of quality. Additionally, luxury purchases are a status symbol.

So we (human beings) want the best. We assume the most expensive option must be the best option – ever hear someone say "you get what you pay for?" Additionally, we want other people to think we have the best (a/k/a the most expensive) stuff as well. The only roadblock is that we don't always have enough money with which to buy the best (most expensive) stuff.

Drat.

But, when someone gives me a magical "card" and that "card" grants me access to deeper pockets than my own, I can now use that "card" to buy the best (a/k/a most expensive) stuff. The fact that I will tomorrow be asked to pay for that "stuff" later (either in the form of credit card payments … or … [assuming my metaphor didn't go over your head] insurance premiums) won't stop me from running up an unaffordable bill today.

Transparency did nothing to stop people from getting themselves into credit card debt. Transparency will do nothing to curb people's health care spending, and I actually foresee it making things worse. Consider the proposals to have drug prices on TV advertisements.

I'm watching the Patriots beat another opponent, when a commercial for Viagra pops up; (pun intended). The commercial ends by telling me the cost of the drug is $400. Next, a commercial for Cialis appears, and tells me that drug costs $600. Well – don't I and my spouse deserve the best? Cialis it is!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I'd like to say that I am the first to spot these phenomena, but I'm not. In 2016, the Journal of the American Medical Association published a study[1] that supports my assertion that transparency on its own doesn't lead to savings. In this study, two employers offered web-based tools to their employee plan participants, providing them with "transparent" healthcare prices.

It empowered these participants to compare prices and "shop around" for their care. The result? The tools were rarely accessed, despite the introduction of high deductibles. In fact, as a side note, the high deductibles caused more participants to seek more costly care, in an effort to burn through the out of pocket maximum as quickly as possible.

Additionally, for the reasons already discussed earlier, researchers discovered that the participants with access to pricing ended up picking the more expensive options, more often than participants without access to pricing.

This report supports my theory above that patients always apply the type of rational behavior upon which traditional economic theory is based, especially when they are shopping for health care. Rational behavior and economics would anticipate that a consumer will buy a less costly option unless the more expensive option includes additional features worth the added expense to the consumer.

That attitude, however, fails to take into account people's need to "be seen" as affluent (and flaunt non-existent

wealth), as well as their unfounded belief that if something costs more it must be better, and is worth the added expense. Consider, for instance, the blind taste tests where a person is given two glasses of wine, and they are told one is a $100 glass of wine, and the other is a $10 glass of wine. Without fail, the drinker claims the more expensive wine is better tasting – even though (you guessed it) the wine in the glasses is the same wine!

Looking at the impact of transparency on a broader scale, Professor David De Cremer of Cambridge University's Judge Business School, published a fascinating article about transparency, and when it backfires.[2] In it, he lists four negative side effects of transparency.

He discusses how it: creates a culture of blame (people become hyper-focused on what they are seeing and reacting to it, rather than identify bigger picture issues, causes for those issues, and solutions); increases distrust (those whose work is constantly under the microscope feel micro-managed and unable to take risks); increases cheating (those who are constantly being watched begin to look for, and take advantage of, any opportunity to game the system when the albeit rare opportunity arises); and sparks resistance (people refuse to do any work that will be hyper-examined, protesting the lack of faith)..

Finally, let's not lose sight of the fact that not everyone agrees on what transparency in healthcare even is. Consider the Federation of American Hospitals which wrote to Congress that: " …the healthcare price transparency initiative should focus on sharing out-of-pocket costs.

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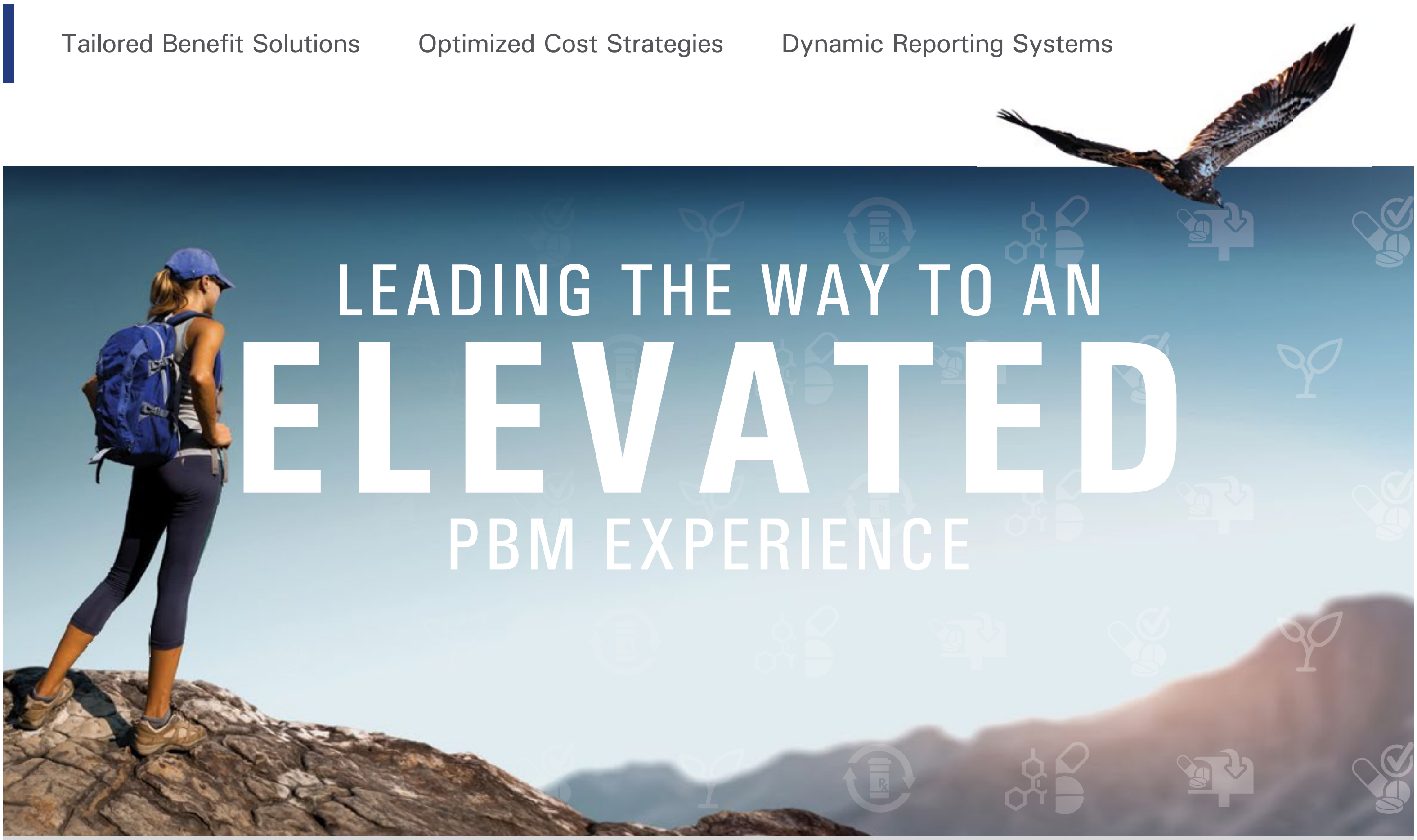

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Patients undergoing the same procedure could end up paying different amounts based on their health plan. Therefore, out-of-pocket cost information is more valuable to consumers … effective price transparency should involve the release of information that is clear, accessible, and actionable so that consumers easily can determine the cost of their premiums, deductibles, copayments, and non-covered services (out-of-pocket costs), prior to purchasing health insurance coverage as well as receiving medical services." Yikes.

Dr. Niran S. Al-Agba, MD posted on the MedPage Today Professional "KevinMD Blog"[3] – "Comprehensive transparency is only relevant if packaged in a reliable comparative context. Information regarding cost, value, and effectiveness should be readily accessible to patients enabling them to make meaningful comparisons across providers and specialists.

However, choices must be incentivized properly, so they are not only empowered but also motivated to use the information to make informed choices." I totally agree.

Unless and until reliable quality measurements are included in the transparency discussion, and that information is delivered in such a way that the consumer will understand and appreciate that price has no relationship with quality, I fear "price transparency" on its own is not only a step too short, but potentially a step backwards, in Palessi boots. ■

Ron E. Peck has been a member of The Phia Group's team since 2006. As an ERISA attorney with The Phia Group, Ron has been an innovative force in the drafting of improved benefit plan provisions, handled complex subrogation and third-party recovery disputes, healthcare direct contracting and spearheaded efforts to combat the steadily increasing costs of healthcare.

Attorney Peck obtained his Juris Doctorate from Rutgers University School of Law and earned his Bachelor of Science degree in Policy Analysis and Management from Cornell University. Attorney Peck now serves as The Phia Group's Executive Vice President and General Counsel and is also a dedicated member of SIIA's Government Relations Committee.

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