Price Transparency: How to Fix Healthcare
Will Bruhn

How messed up is our health care system? This messed up: Researchers compared prices amongst 53 hospitals for a standard heart procedure called a CABG, or coronary artery bypass grafting. Not only did the researchers find a 10-fold difference in price for the same procedure across hospitals—from $44,000 dollars to $448,000 dollars; but they also found no correlation between higher prices and better quality of care.

Other studies have shown there can be up to a 39-fold variation in price for a simple blood test across medical centers in the same metro area. Here's the punchline: We have *no idea* how much we're paying for healthcare services.

Why is it that when you need to get a surgery or medical test, you can't get a price—the same way you can when you shop for, say, an airline ticket? Imagine if the airlines didn't post prices. Instead, when you bought your ticket, Delta just said, "We'll bill you after your flight because we don't know what the cost of fuel will be that day." Then a week later, you get a bill for $4,000. You'd scream bloody murder—and rightly so. Yet this is precisely what we are dealing with in American health care.

With rare exceptions, when you go in for a back surgery or a thousand other kinds of medical procedures, you have no idea how much it's going to cost you. Worse, no one would be able to tell you if you bothered to ask.

That's because medical billing is a ridiculously complex dance between hospitals, insurance companies, and various middlemen. The hospitals charge crazy prices—$100 for aspirin, for example—and the insurance companies and middlemen agree—through special, often secret, deals—to pay some percentage of that. That's how your knee replacement, which the hospital says costs $50,000 on its itemized bill, actually costs you $5,000 after your deductible.

Out of all this confusion, one thing is crystal-clear: medical costs are skyrocketing. And Americans are having more and more trouble paying the bill. Nearly 1 in 5 of us has medical debt in collections. If you think this problem doesn't apply to you because you have insurance through your employer, and therefore your costs are covered, think again.

Over the past five years, employees have had to increase their contribution to their premiums by 15% in addition to a 36% increase in deductibles. Meanwhile, wage increases have not kept up, rising 14% over that same period. Yes—that salary increase you so richly deserved was eaten up by the increased insurance premium you had to pay.

If the ever-increasing cost of medical care was reflected in the quality of the care you were

getting—that is, if you were paying more to get better care—maybe this would make some sense. But as we saw in the coronary bypass example, there is little or no correlation between what you pay and what you get.

So how do we get out of this mess? A big part of the answer is price transparency—something almost every American wants. Even in our era of political polarization, almost 9 out of 10 Americans say they favor price transparency for medical services. Makes sense.

Markets only work when consumers have the proper information to make purchasing decisions. And the two most important pieces of information are the price and the quality of a good or service. As it relates to health care, Americans don't have access to either of those.

Granted, there are medical situations which don't lend themselves to comparison shopping. If you're in a car accident and have to be rushed to the emergency room, you're not worried about the cost. But 60% of health care is shoppable, meaning it's an elective surgery, medical test, or diagnostic exam that shouldn't have much cost variation amongst providers. These services present a great opportunity to allow the laws of market competition to operate.

One study estimates that $760 billion is wasted in the US healthcare system every year, with "administrative complexities" as one of the main culprits. If a transparent, up-front price was offered, and most medical care could be paid for in advance just like an airline ticket, medical centers could cut a significant portion of their administrative staff that's involved in billing and debt collection.

Furthermore, if pricing was transparent, Americans could actually start pushing the market towards rewarding those who offer a fair and honest price and pushing out the bad actors. That, in turn, would allow more Americans to have access to health care.

We don't need the government to take over our health care. Just the opposite—we need the government to get out of the way. Let entrepreneurs innovate in the healthcare space. Whenever they do, prices go down and quality goes up. It's already happened in fields like laser eye surgery, MRI testing, and plastic surgery.

Giving consumers better information always leads to better decisions, and health care is no exception. Price transparency not only lowers costs, but it puts the patient back in the center of what medicine is all about: helping those in a time of need.

Price transparency: We all want it. So let's do it.

I'm Will Bruhn, co-founder of Restoring Medicine, for Prager University.