



HOW CAN WE INCREASE PATIENT SHOPPING FOR HIGH-VALUE PROVIDERS?

Why This Study Is Important

Prices for common medical services often vary significantly across providers even when similar quality can be expected from all providers. Opportunities for cost savings exist if patients using these services can be encouraged to seek out lower-priced providers. Evidence is mounting, however, that price transparency tools do little to encourage such price shopping; only a very small portion of patients use these tools, limiting their overall impact. This finding is seen even among patients in high deductible health plans, who should have a strong financial incentive to shop for lower-priced providers. This study examines the additive impact of an alternative way to incent patients to price shop for specific services, reference pricing. With reference pricing, patients have access to a broad network of providers but must pay the full difference between the provider's price and a pre-set threshold if they receive care from a high-priced provider.

What This Study Found

- When given access to a price transparency tool alone, employees of a major national retailer were not more likely to shop for lower-priced providers, despite being enrolled in a high deductible health plan.
- When the incentives of reference pricing were added to the price transparency tool, patients made large shifts to lower-priced providers. The average price paid for a laboratory test fell by 27 percent once reference pricing was introduced, and the average price paid per imaging test fell by 13 percent. These changes reflect price shopping by patients who used the targeted services, not a response by providers to lower their prices.
- Considering the average prices for laboratory and imaging services and the actual volume of such care received by the employees, their price shopping translated into \$1.7 million lower spending on laboratory tests and almost \$200,000 in savings on imaging tests.
- The post-reference pricing decrease in prices was sustained throughout the study period for laboratory tests, but dissipated for imaging tests by the end of the period.

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What These Findings Mean

With traditional insurance benefits shielding patients from the full financial consequences of provider price differences, price transparency alone is ineffective at getting patients to shift to lower-priced providers because it does not change the underlying financial incentives to price shop. In order to encourage patients to seek out higher-value providers, they must be given incentives to care about prices. By sharpening patients' financial incentives and signaling them about provider value, reference pricing can simultaneously address the financial and informational barriers to price shopping.

More About This Study

This study estimated difference-in-difference models to explore how price transparency alone and in combination with reference pricing affected trends in the prices paid for laboratory tests and diagnostic imaging procedures. Data for the treatment group reflected four years of claims experience for a large national employer who initially implemented a price transparency tool then added reference pricing, first for laboratory tests and later for diagnostic imaging. Data for the control group came from a matched set of claims from a nationwide insurer who had not implemented reference pricing. By comparing the impact of the sequential implementation of two different programs within the same firm, this study minimized estimation problems that could result if different types of firms opt to adopt price transparency vs. reference pricing. In addition to examining the program impacts on average prices, the work also considered how the distribution of prices changed.

Whaley C, Brown T, and Robinson J. "Consumer Responses to Price Transparency Alone Versus Price Transparency Combined with Reference Pricing." *American Journal of Health Economics* (forthcoming), https://doi.org/10.1162/ajhe_a_00118

For more information about the NIHCM Foundation Investigator-Initiated Research Grant Program, contact Dr. Julie Schoenman at 202-296-4426.