

The
Economist

Health care in America

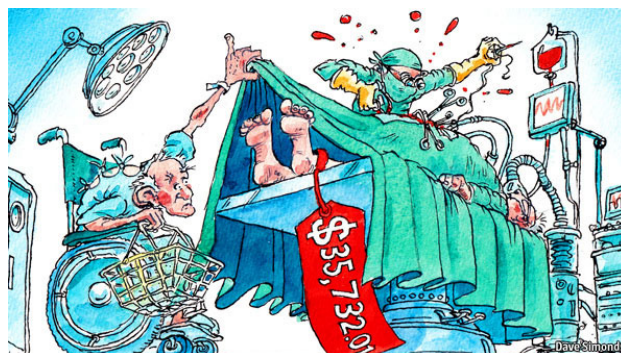
Shopping around for surgery

Companies try to make health-care costs transparent

Feb 4th 2012 | NEW YORK | From the print edition

AMERICANS spent \$2.6 trillion on health care in 2010, a staggering 18% of GDP. Yet few of them have the faintest idea what any treatment costs or how it compares with any other treatment. Prices vary wildly and seemingly without reason (see chart).

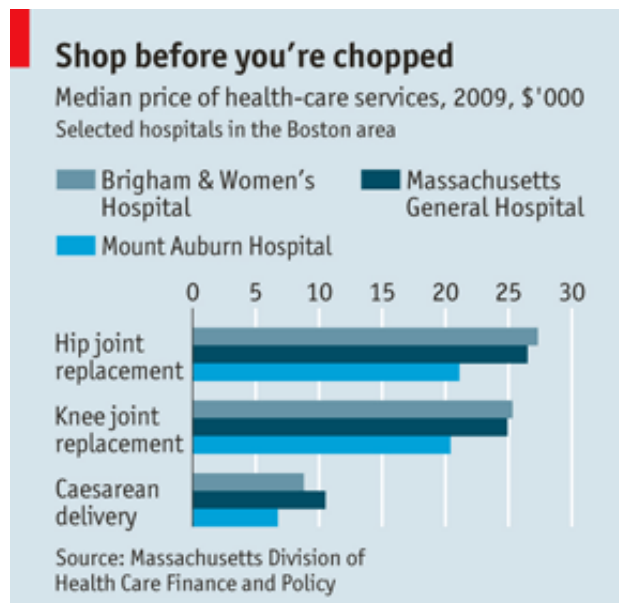
Insurance terms require a dictionary. For most Americans, buying a procedure is akin to choosing a house blindfolded, signing a mortgage in Aramaic, then discovering the price later. Slowly, however, this is changing.



The past decade has seen a shift in how people pay for medicine. Americans' health spending is growing at a slower pace. This is partly because of the downturn, but not entirely. The rate of growth fell every year between 2002 and 2009, note David Knott and Rodney Zemmel of McKinsey & Company, a consultancy. There are many reasons for this—for example, many costly drugs have lost their patents. But spending habits also seem to be changing.

Most American workers receive health insurance through their employers. They typically shoulder the costs without realising it. The more a company spends on health insurance, the less is left over to pay wages. Now employers are trying to give staff an incentive to think hard about costs.

Under “consumer-driven health plans”, workers must cough up part of the price of any treatment before their insurance coverage kicks in. Most have an untaxed account to spend on health; they think twice before depleting it. In 2006 only 10% of workers had to pay at



least \$1,000 before their insurer picked up the rest of the bill. By 2010 that share had more than tripled.

General Electric (GE) shifted its salaried employees into consumer-driven plans in 2010. It urged them to shop around for bargains, but they found this nearly impossible due to a lack of information. “People started saying: ‘If you want me to be an active consumer, I need to know prices,’” explains Virginia Proestakes, the head of GE's benefits programme. When employees asked doctors for prices, the doctors were baffled. They had no clue how much different insurers paid for the same procedure, or what share a patient would pay. A recent study by the Government Accountability Office (GAO), a public watchdog, reported similar problems.

Barack Obama's health reform requires hospitals to list standard prices each year, and more than 30 states have either proposed or passed laws to promote price transparency, according to the GAO. None of these measures has come close to solving the problem. Few provide enough data to allow people to shop around.

So private firms are having a go. GE, for example, hired Thomson Reuters, an information firm, to show employees the cost of different services. Thomson Reuters analyses prices from prior purchases—by workers at GE and other firms—to show the cost of a given procedure at different hospitals and clinics.

Another company, Castlight Health of California, has made transparency its sole mission. Working with big firms, Castlight assembles data from past transactions so that employees can shop for doctors online and read reviews posted by patients. Castlight wants to do for health what Travelocity did for air travel, explains Giovanni Colella, the founder. Mr Colella's co-founder is now the chief technology officer for Mr Obama's health department.

These plans face several obstacles. Health care is more complicated than flying. A traveller knows she wants to get from A to B, and that more or less any airline will get her there in one piece. So it is easy to rank air tickets by price. By contrast, someone with a heart problem may be unsure whether to pop pills, operate, change his diet or do nothing. Informed medical decisions require a tonne of information.

To make matters worse, health insurers are reluctant to share data about costs, says Bobbi Coluni, who leads Thomson Reuters's consumer-health unit. If an insurer has a contract to pay one hospital \$7,000 for a caesarean and a contract to pay another hospital \$10,000 for the same service, and this information leaks, the first hospital will lobby for a higher price. GE's contracts with insurers stipulate that GE owns the data from workers' past health purchases. But such agreements are rare.

Despite this, greater transparency seems inevitable. Smart insurers are hawking their own tools. Cigna uses Thomson Reuters's technology to support its “cost of care estimator”. Aetna,

another insurer, offers a sophisticated web tool that patients use more than 67,000 times a month. Meg McCabe of Aetna hopes that consumers will soon be able to use their smartphones to enter symptoms, find doctors, compare prices and schedule an appointment.

Such experiments will serve insurers well. If Mr Obama's health law stands, millions will soon shop for insurance on new exchanges. The easier the plan is to understand, the more people may pick it. A fully transparent market is years away. But a bit of sunlight is creeping in.

From the print edition: Business