

Complex negotiations set health care costs

Some say it's time to make the rate-setting process for health care procedures more transparent to consumers.

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For The Patriot-News

Ever wonder how health care providers set their rates?

Why, for instance, your insurer — and, by extension, you and your employer — pay the fee that's charged for a knee replacement, MRI or hysterectomy?

The answers are shrouded

in mystery. Midstate hospitals won't even share generalities on the rate-setting process.

But with 22 million Americans in high-deductible health plans and another 50 million lacking health insurance, medical experts said it's time to put price in the equation when shopping for health care services.

In an ideal world, health care consumers could "go online and look up what different hospitals and groups are charging [for a service] and go

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to the place with the lowest price, said Mark V. Pauly, professor of health care management at University of Pennsylvania's Wharton School.

"It's hard to find out," Pauly said. "There isn't enough competition to force them to price more transparently."

PinnacleHealth spokesman Gray Onobrakpeya said questions on rate-setting sought "proprietary information."

"The amount an insured patient will pay when their deductible or co-insurance percentage is applied, is solely based on the pre-established contractual terms agreed upon between their insurer and the hospital," Onobrakpeya said in an email. "The contractual fee structure agreed upon is not normally contingent on the hospital charges."

Holy Spirit Health System and Penn State Milton S. Hershey Medical Center declined to make someone available to answer questions.

Pauly said the answers to how medical fees are determined begin with list prices set by hospitals, but those prices aren't based in reality.

"It's almost certain that neither you nor your insurer pay those prices," he said. "It's like electronics. Nobody pays the list price. Everybody gets a deal."

Those list prices, or hospital charges, are "the starting point for negotiating reimbursement rates from insurers," said Valerie Barowski, a researcher for state Rep. Matt Baker, R-

Tioga County, chairman of the House Health Committee. "The higher the charge, the higher the reimbursement."

Large insurers or better negotiators get more favorable fees, and hospitals make up the difference by charging higher rates to smaller insurers, Pauly said. Specialized hospitals, such as children's hospitals, might have reverse clout in negotiations because patients will demand access through their insurer's network, he said.

And that, Pauly said, helps explain wide price ranges for the same health care services.

"In a world where insurers seem to differ so much in their bargaining power, it's almost an inevitable consequence that even if hospitals weren't trying to game the system that you'd have different prices for the same thing," he said.

Health care functions "in a free-market environment," where pricing is subject to internal and external influences, said Joe Butera, a spokesman for Capital Blue Cross.

Factors affecting pricing can include the hospital's leverage in a competitive or noncompetitive market, the insurer's market share, payment methodology, and the insurer's share of hospital losses for serving the uninsured or Medicare and Medicaid patients, Butera said.

Consumers trying to be savvy about health care

costs will find that "what hospitals charge really is not helpful in this whole equation," said Joe Martin, executive director of the Pennsylvania Health Care Cost Containment System. "The hospital charge or what they bill is akin to the sticker price on a new car, and that's about as close to reality as it comes," Martin said. "Typically, the charges will run anywhere from three to four times what an actual reimbursement is, and that varies dramatically. It's very difficult for the consumer to navigate."

Price has little to do with quality of care, said Jeffrey Rice, a physician and attorney in Nashville, Tenn., and founder of online price-finding tool Healthcare Blue Book.

Studies from the Massachusetts attorney general and others show that "pric-

ing is determined almost exclusively by market positioning and negotiating power," he said.

"In most things, we assume higher costs mean higher quality, but all the good evidence suggests there is not any relationship between quality and price" in health care, Rice said.

Martin, with the containment system, said the agency has convened an advisory group of insurers, providers and others to compile a database of fees paid by commercial insurers, but there's no deadline for finishing the job.

The panel must resolve how to publicize information while respecting laws banning insurers from sharing their negotiated discounts and their "legitimate proprietary business issues."

"How do we weave through this to provide data that's useful and accurate but still operates in legal framework?" Martin said.