Medical Xpress

Helping patients shop around for health care could control costs better than current system

July 15 2019, by Greta Guest

Credit: CC0 Public Domain

Most consumers haven't shopped around for standard medical procedures such as a knee replacement, but reference pricing could open that possibility for many services and lower health care costs at the same time.

Reference pricing is a cost-sharing mechanism with patients that gives them incentives to select lower-priced providers. While the idea of reference pricing has been around for several years and is the basis for how insurance companies set prices for generic drugs, new research looks at how the pricing system might work for health care procedures.

"The current payment systems fail to control rising health care prices because of the unique structure of incentives and the presence of moral hazard in health care decisions," said Shima Nassiri, an assistant professor of technology and operations at the University of Michigan. "Reference pricing has the potential to better align incentives by ensuring that patients have a financial stake in the decisions they make."

Nassiri was joined in the research by Elodie Adida of the University of California, Riverside, and Hamed Mamani of the University of Washington.

Reference pricing system can help patients shop around for better-priced providers, which can lower prices. Insurers would set standard prices (also called the reference price level) for non-emergency procedures. Patients could select a provider that charges more than the reference price level for a procedure and would bear the additional cost or could choose one that meets the set price.

"We found that the fixed payment system, which is the closest representative of the current cost-sharing mechanisms with the patients, is outperformed by reference pricing for the patients, the insurer and the entire system in most scenarios," Nassiri said.

Reference pricing can only be applied to "shoppable" health care services, for which patients can make an advance selection of a provider (not for emergency care). To work, price transparency is essential as is a uniform treatment protocol.

The researchers warn that reference pricing cannot solve all the shortcomings of the current health care system. It focuses on price rather utilization and thus does not reduce the volume of unnecessary care, nor is it an all-encompassing substitute for other cost-sharing mechanisms.

The main objective of reference pricing is to save money by providing patients incentives to seek treatments at low-priced providers, while at the same time using competition to motivate high-priced providers to lower prices so as to retain their market share.

"Our analysis shows that reference pricing can be a more effective strategy than more traditional cost-sharing mechanisms, such as co-payment and co-insurance," Nassiri said.

Co-payments limit patients financial exposure to the price of a treatment because there is often no connection between the total price of a health service and its co-payment, she said. Similarly, co-insurance may not expose the patient to the real health care prices for expensive procedures because once patients reach their maximum out-of-pocket, they incur no additional costs.

Provided by University of Michigan

Citation: Helping patients shop around for health care could control costs better than current system (2019, July 15) retrieved 3 May 2024 from https://medicalxpress.com/news/2019-07-patients-health-current.html