

Think tank proposes new laws requiring transparency in health care costs

By Patrick Malone

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Someone facing surgery in Arizona can click on a single website to compare costs for the procedure at various hospitals and view how the hospitals rate in quality of care.

In California, hospitals and insurance companies are prohibited from keeping secret the prices they've agreed to for medical services that determine how much patients pay. And in Maryland, everyone pays the same price for an appendectomy, regardless of whether they have insurance.

But in New Mexico, consumers often are left to guess what they'll pay for medical services, and people who are uninsured can find themselves facing much larger bills than those who have coverage.

It's just one in a litany of problems facing patients in a state that ranks last in the nation in access and affordability of health care. A new report by Think New Mexico, an independent think tank based in Santa Fe, proposes a number of changes in state law to bring down prices and better arm consumers with information on health care costs.

In its annual report to be released Monday, Think New Mexico recommends public disclosure of hospital pricing and quality ratings, and universal pricing for all patients, regardless of whether they're insured.

The report's cover art aptly captures the dilemma Think New Mexico wants to unravel. It depicts a doctor handcuffed and bound by cash-register tape at the bedside of a blindfolded patient. The familiar markings of a U.S. currency note frame the scene.



Think tank's report proposes new laws requiring transparency in health care costs

Think New Mexico's new report on health care costs in the state recommends public disclosure of hospital pricing and quality ratings, and universal pricing for all patients, regardless of whether they're insured. Courtesy of Think New Mexico/Art by Jeff Drew

Fred Nathan, executive director of Think New Mexico, called the picture a visual translation of a quote in the report from Princeton University economist Uwe Reinhardt, who likens the opaque pricing of health care in America to shopping blindfolded in a department store, only to wait months for an incomprehensible statement that concludes with, “Pay this amount.”

“Except that it is actually worse than that, because in the health care market, you are usually shopping for essential goods and services, like a pacemaker, not a pair of jeans,” says the report, “Making Health Care More Affordable by Increasing Transparency and Ending Price Discrimination.”

The report paints a dismal picture of the health care landscape in New Mexico.

Between 1980 and 2009, the amount New Mexicans spent on health care increased from about 6 percent to about 17 percent of their earnings, and it is expected to rise higher in the years ahead. New Mexico earned a grade of “F” from the Health Care Incentives Improvement Institute for its poor health care pricing transparency. New Mexico has a provider shortage that affects nearly every county. Doctors here are paid 13 percent less than the national average. The report says that could contribute to the shortage.

“Today New Mexico’s health care system bankrupts families, burdens employers and taxpayers, strains hospitals and health care providers, and wastes one out of every three dollars,” the report said. “The time has come for reforms that will reorient the system toward providing high-quality health care that New Mexicans can afford.”

Think New Mexico identified problems that its researchers determined are driving the high cost of medical care in the state. The report points to examples of policy shifts in New Mexico and elsewhere that Think New Mexico says could hold solutions.

For example, the report spotlights gaping variations in the prices from one hospital to the next for the same procedure. Treating a blood infection at Holy Cross Hospital in Taos resulted in a bill of \$19,556, while a patient with the same diagnosis at Alta Vista Regional Hospital in Las Vegas faced \$72,346 in charges, according to 2012 data from the Centers for Medicare and Medicaid Service. Meanwhile, the actual cost of providing care for that diagnosis at either hospital ranged from about \$12,000 to \$16,000.

Patients with commercial insurance almost always pay less than the sticker price for medical services because their insurers negotiate rates with hospitals. But uninsured patients can face eye-popping bills for the full rate. What they can’t pay, hospitals sometimes forgive. Those losses, which tend to be proportional to how high hospitals set their rates, make up a hospital’s uncompensated care, which in turn hospitals cite as proof of their charitable giving.

Think New Mexico’s report recounts the story of Embudo organic farmer David Rigsby, who went

uninsured for about 20 years beginning in the 1990s. His story first appeared in *The New Mexican*, along with analysis of federal data that showed New Mexico hospitals charge the patients they admit on average 547 percent of the Medicare rate of reimbursement, which by law is intended to reflect the actual cost of performing medical services.

After doggedly studying how hospitals develop their pricing, Rigsby challenged medical charges for a hernia operation and colonoscopy that amounted to four times more than the \$2,400 the federal government says it cost the hospital to perform the procedures. Ultimately, the hospital walked away from a portion of the amount it had billed Rigsby, but not before threatening to nearly double the charge by sending the bill to a collections company.

To close the cost divide between people with insurance and those without it, Think New Mexico proposes a change in law that would require hospitals in the state to develop a single price schedule for their procedures that applied to all patients, regardless of whether they are insured. Patients who are financially unable to pay their bills would still be eligible for discounts based on the plan the think tank envisions.

Under the proposal, the state would seek a waiver from the federal government so that Medicare and Medicaid would pay the same rates as privately insured and uninsured patients in New Mexico.

The recommendations also include requiring hospitals or insurers to disclose health care pricing and payment information to the New Mexico Department of Health so that it could be posted online, along with quality indicators, such as hospitals' mortality and infection rates.

"As far as possible, the prices should be inclusive (i.e. include facility fees, physician fees and test costs) and be bundled by procedure so patients can easily interpret and understand the information," the report recommends.

These recommendations would require a new law prohibiting "gag clauses" in contracts between insurers and health care providers. The provision not to publicly disclose terms of the pricing agreements between hospitals and insurance companies is common.

"Once gag clauses are outlawed in New Mexico, insurers and health care providers can begin to make their pricing information available to patients," the report said.

How lawmakers and stakeholders such as the insurance industry and hospital organizations will react to the report's recommendations remains to be seen, because it has not yet been released to them. But Nathan said he hopes the Legislature will consider adopting the recommendations in the next session.

"The status quo is not an option. If New Mexico health care spending continues to grow at a pace that far outstrips the overall economy, employers and insurers will be forced to continue shifting costs onto individuals and families," the report concluded. "The higher their costs, the more likely they are to skip essential medical care or wait to see the doctor until illnesses are advanced and more difficult

to treat. The end result will be a sicker, poorer state.”

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