

Why can't anyone tell me how much this surgery will cost?

January 12 2016, by Betsy Q. Cliff, University Of Michigan



Why is it so hard to figure out what medical care costs? Credit: www.shutterstock.com

Thanks to rising annual deductibles and a push toward consumer-driven health care, people are increasingly encouraged to [shop around](#) for

medical care. Many [states](#) or state hospital associations have price transparency initiatives, and there are a number of private companies that also purport to help consumers find value for their health care dollar.

But the search for the best price is often stymied, not necessarily by a lack of information, but by a lack of *relevant* information.

Price in health care is a squishy concept. Different words relating to cost – charge, price and out-of-pocket cost – all have different meanings and there is no standard among consumer transparency websites about which of these prices to report. So, while the price variation between hospitals is well-recognized, less often discussed is that when consumers search for price, the variation in information reported means they may see wide variation within the same hospital for the same procedure. The lack of standards in this respect can leave consumers confused and means some price transparency efforts may be doing more harm than good.

Searching for a price

As an example of how confusing things can get, in mid-December 2015 I searched for the price of [spinal fusion surgery](#), a common procedure, at a hospital near my Michigan home, the Henry Ford Health System.

My first stop was the website run by the Michigan Health & Hospital Association, the trade association representing hospitals in the state. There, I found out that the average charge at Henry Ford was about US\$71,000. Then I looked for other sources of price information for consumers. The first result that came up in a Google search for "compare hospital prices" was a site called [OpsCost](#). That site showed me a billed price of about \$67,000 at Henry Ford and also told me Medicare reimbursed about \$33,000 for the procedure. I looked for something on the site that would explain why there was a difference

between these numbers, and how they relate to other insurers, but couldn't find it.



Sometimes, searching for hospital prices adds to confusion about what a procedure will cost. Credit: www.shutterstock.com

Then, I tried [Healthcare Bluebook](#), which allowed me to narrow into a zip code but not a specific hospital. That website said that the "fair price" for my spinal fusion procedure in the zip code where Henry Ford is located would be about \$39,000. I tried another, [Fair Health](#), which also let me search just by zip code. That website said my procedure cost \$9,350.

It's easy to see how a well-intentioned consumer would get frustrated.

Why is there so much variation?

None of the prices in the above examples are wrong, per se. They just give the cost of different things. And, most importantly, none of them likely reflect the cost that someone with insurance would pay for the procedure.

The first two examples, from the hospital association and OpsCost, show the billed, or [chargemaster](#), amounts at Henry Ford. That is akin to a "sticker price" for the service. It is rare that anyone with health insurance would pay an amount that high if the hospital is included in their insurer's network. Just as a car buyer might haggle down from the sticker price of a vehicle, an insurance company negotiates a lower price for its members.



Too many prices. Credit: www.shutterstock.com

People with insurance pay less than the chargemaster amount, but it's hard to tell just how much less. This is known as the negotiated price, or sometimes the actual paid amount. In some instances, the insurer pays very close to the chargemaster price, while in others they pay much less. That can vary based on the insurer or by the hospital, making the chargemaster price virtually meaningless for comparing hospital prices for those with commercial insurance.

The prices quoted by Healthcare Bluebook and Fair Health are both meant to estimate actual amounts paid by insurers to hospitals. These prices are disclosed in an explanation of benefits statement (it's the

amount after the insurance discount is removed), but you usually don't see that until after the procedure is done and you get the statement.

The negotiated price is usually a closely guarded secret. Because of this fact, the websites do not have or do not reveal Henry Ford's or any other hospitals' actual negotiated prices. So unless you know someone with the same insurance who just had done the same procedure at the same hospital, you'd have a hard time finding that number. In addition, neither website asked about the generosity of my insurance benefit, which determines my out-of-pocket cost, the actual amount I would owe.

Then, there's the issue of what is encompassed in the quoted price, which is likely the source of the large discrepancy between what Fair Health reported as a fair cost (\$9,350) and what Healthcare Bluebook reported (\$39,000). Healthcare Bluebook estimated the hospital's facility fee, physician fee and anesthesia fee based on typical recovery time and prices. The Fair Health price is a bit unclear, but it seems to include only the price of the actual surgery, not taking anesthesia or the cost of the [hospital](#) stay into account.

What if you don't have insurance? In some cases, patients are billed chargemaster prices. However, many hospitals will work with these people to lower large bills. Additionally, thanks to the Affordable Care Act, anyone without insurance who is eligible for financial assistance must be billed a lower amount, usually based on average insurer payments. Uninsured people with higher incomes may still pay chargemaster prices within the law.

What's a consumer to do?

The best thing you can do if you know you have a major medical expense coming up is call your insurer. Most large insurers now have tools that help consumers shop around for [health care](#) providers, and

they can often give you an idea of the variation in costs you would face at different providers in your network and specific to your plan.

Next, as a policy recommendation, we need to be careful about releasing information on billed charges under the guise of price transparency, and particularly about calling these numbers prices. They bear little relevance to what the vast majority of consumers will pay and simply distract from finding relevant information on actual [prices](#) facing patients.

Price transparency is undoubtedly hard to implement. But it doesn't have to be as hard as we are making it.

This article was originally published on [The Conversation](#). Read the [original article](#).

Source: The Conversation

Citation: Why can't anyone tell me how much this surgery will cost? (2016, January 12) retrieved 30 March 2023 from <https://medicalxpress.com/news/2016-01-surgery.html>

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