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Health Care Price Transparency:

*A Strategic Perspective for
State Government Leaders*

Produced by the
Deloitte Center
for Health Solutions

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The Journey to Transformational Change



Transforming the U.S. health care system requires federal policy that encourages the delivery of safe and effective care to all Americans and rewards efforts to innovate in the ways this is done. In my view, state governments are on the front line of these efforts: It is in the Office of the Governor where transformational change in health care is most promising and achievable.

Governors face the daily challenge of balancing transportation and infrastructure necessities with public education and health care needs. Medicaid reforms and services for the uninsured top the list of health care issues facing every governor. In local communities, hospital emergency rooms and trauma services are jammed by uninsured patients who can't get care elsewhere. In four states, plans for a universal care program have been announced; in 21 states, legislatures have been informed that 50 percent or more of new revenues coming to the state will be required to fund health care obligations. Health care reforms at the federal, state and local levels are a major public policy issue; the executive branch of state government plays a key role.

Employers and health plans believe that price transparency is an important step in the journey to health care reform. They believe that if consumers have access to what services cost they will be more discriminating in their health care purchases. States wield considerable influence in this process. As regulator, employer, and plan manager (Medicaid, workers compensation, SCHIP, etc.), states enjoy unusual leverage that is helpful in advancing price transparency.

Recognizing the importance of the transparency discussion in public policy circles, the National Governors Association (NGA) is interested in a variety of state policy options for reforming health care – including health information technology, quality improvement, and transparency of price and quality data. Accordingly, the NGA requested that the Deloitte Center for Health Solutions (the “Center”), a part of Deloitte & Touche USA LLP, evaluate the status of current efforts to improve price transparency in the U.S. health care system.

Transformational change in health care cannot be achieved without leadership at the state level. As a four-term Governor of Wisconsin and the former U.S. Secretary of Health and Human Services, I am keenly aware that states can play a leading role in advancing price transparency in health care to achieve the ultimate goal of better health care at a lower cost for all Americans.

Tommy G. Thompson
Independent Chairman
Deloitte Center for Health Solutions

Preface



Health care reforms at the state level are capturing headlines as Governors grapple with the complex issues of Medicaid and the challenge of the uninsured.

On a national level, polls suggest health care will be a key issue in Campaign '08: Proposals to provide insurance coverage for the uninsured, advance adoption of health information technology, and reward appropriate decisions by providers and patients should receive widespread attention by the media and on the campaign trail.

The prominence of health care issues in public policy and political circles should come as no surprise. In the U.S., health care is a \$2 trillion industry that consumes 17 percent of the Gross Domestic Product (GDP). It is an expensive system, increasing at 10 percent annually, that touches everyone and costs almost \$7,000 per person. Yet, for most consumers, the actual costs of the health care services they use are unknown. Rather, consumers rely on personal experiences with the system and anecdotal evidence of cost – media coverage about bankruptcies that result from medical bills, or out-of-pocket payments for drugs, physician office visits and tests. For them, price transparency in health care does not exist.

Employers and health plans have taken the lead in advancing transparency efforts. Providers – doctors and hospitals – are understandably perplexed, recognizing that the “consumer” model of health care might not be applicable to many, particularly those who are the sickest or not currently covered by traditional insurance programs.

We believe that price and quality transparency for health care services is a transformational trend that will reshape the entire delivery system. We understand the complexity of the issue and the need to avoid over-simplification. We also believe, based upon research and trends, that leaders in the legislative and executive branches of state government can play a key role to assure fair play in the disclosure of prices to protect consumers as well as leverage their influence as a large employer to assure that prices are known to public employees.

Health care price transparency is a significant policy consideration for state leadership. Indeed, it is important to every citizen. Price transparency – in tandem with quality transparency – is a key building block of a more responsive and accountable health care system.

We offer this viewpoint to assist state leaders in deliberating their roles as regulators, employers, payors, and users of the health care systems they govern. It is a topic worthy of deliberation – timely, relevant, and part of the public discussion about transformational change in the entire U.S. health care system.

A handwritten signature in black ink, appearing to read "Paul H. Keckley".

Paul H. Keckley, Ph.D.
Executive Director
Deloitte Center for Health Solutions

Background: The Evolution of Price Transparency

Over the past 35 years, U.S. health care spending has increased 9.9 percent annually while Gross Domestic Product (GDP) growth has averaged only 7.4 percent.¹ The Centers for Medicaid and Medicare Services (CMS) estimates that total health care expenditures for 2006 will reach \$2.16 trillion, increasing to \$4 trillion in 2015.² By 2020, health care will represent 21 percent of the GDP.³

Employers believe that they bear a disproportionate burden in this upward spiral. In fact, some estimate that commercial coverage for employees includes a hidden tax of \$1,200 per employee per year to make up for the shortfall resulting from underpayments by the government or bad debt from the under-insured or indigent populations.

Employer concern about health care costs is widely documented. Many employers and health plans believe a way to reduce costs is to more directly engage consumers in the health care decision-making process for themselves and family members. They reason that consumers will act more responsibly in using health care services if they are equipped with helpful tools on quality and costs and provided with insurance programs that encourage personal accountability. Employers and health plans also believe that health care can be a consumer market – one in which consumers are capable of navigating among treatment and provider options to get the appropriate quality and price for their needed service.

Implicit in the price and quality transparency movement is the concept of a consumer market for health care. Health plans and employers tend to accept that, for the majority of the population, it is achievable. Providers believe that health care consumerism is an important and worthwhile trend. They understand that unhealthy lifestyles are at the heart of escalating health care costs, taxing the system's resources. Providers are a bit more cautious about health care consumerism than employers and health plans: They believe that it will evolve and be beneficial; however, they also believe that health care consumerism promoted by insurance companies might disintermediate traditional physician-patient relationships and increase tension between providers (who think that they are underpaid by insurers) and plans.

Providers, health plans, employers and policy-makers agree on one important point: Engaging individuals to be more responsible in managing their health and purchasing health care services is a necessary remedy to the health system's woes. How it's done, and the role each stakeholder might play is a source of debate. Transparency in pricing and quality is seen as a useful first step.

In this point of view from the Deloitte Center for Health Solutions, we offer a summary of opinions about price transparency from the perspectives of these key stakeholders. This paper examines the attitudes and initiatives

of these key groups and offers viewpoints on how states can use their considerable leverage to direct transparency efforts more effectively. It also seeks to provide some preliminary answers to the following questions:

- How are employers, payors, and providers positioning their efforts to respond to the mandate for price transparency?
- How are vendors – drug companies, device manufacturers, diagnostic technology companies – addressing their role as efforts toward price transparency progress?
- What are state governments doing to stimulate price transparency?
- What mechanisms might a state government use to stimulate price transparency if it is a strategic focus for the state?

Defining Consumerism

The Deloitte Center for Health Solutions defines health care consumerism as having four major categories: (1) purchases of high-deductible, individual insurance policies (such as Health Savings Accounts); (2) use of non-conventional therapies and services (supplements, alternative medicine, walk-in clinics staffed by nurses, et al); (3) voting behaviors of consumers specific to health care issues; and (4) consumer self-care management activities (including use of in-home monitoring technologies, Internet-based, self-management tools and resources, et al). Health care consumerism is one of five transformational themes that the Deloitte Center for Health Solutions is monitoring.

Key Terms and Concepts

Price transparency: The availability to consumers of precise total costs for specific services provided by health care service providers (doctors, hospitals, labs, outpatient facilities, other service providers). Total costs include those amounts paid by consumers out of pocket or through their high-deductible insurance program and the amount paid by an insurer/intermediary on their behalf.

Price versus cost: Price is the sum of all service provider costs plus its margin for operation. A service provider's price might also reflect its transfer pricing; i.e., a hidden indirect cost that it requires to offset payment shortfalls from certain payors.

Consumer market: A consumer market is one in which an individual exercises choice in the selection of services purchased based on comparisons among options. In a consumer market, price, quality and services are key attributes used to make choices.

1 Kaiser Family Foundation, *Snapshots: Health Care Costs*, May 2006

2 Kaiser Family Foundation, *Snapshots: Health Care Costs*, May 2006

3 Anderson, Hussey, et al. "Health Spending in the United States and the Rest of the Industrialized World," *Health Affairs*, 2005

Consumer-Directed Health Plans: A Key Factor in Price Transparency

Many employers and health plans believe that the best vehicle for creation of a consumer market is a high-deductible, consumer-directed health plan (CDHP) that requires/permits individuals to purchase health care services directly. As noted in the *Reducing Corporate Health Care Costs 2006 Survey* conducted by the Human Capital Practice of Deloitte Consulting LLP and the Deloitte Center for Health Solutions, 40 percent of respondents chose CDHPs as the optimal vehicle for managing costs and maintaining quality care.⁴ Most employers and health plans include CDHPs along with traditional programs (PPO, HMO, POS) in their offerings. Regardless of their emphasis on CDHPs or conventional programs, employers and health plans are in accord that consumers (employees/enrollees) must shoulder more of the burden for their health care purchase decisions and bear more financial responsibility for these decisions. Price transparency is an important tool in aiding consumer purchase decisions and thus is viewed as a key element in arresting runaway health care costs, encouraging more personal accountability for unhealthy behaviors, and promoting more thoughtfulness on the part of consumers when making choices about services, doctors and hospitals.

An interesting dynamic in the context of health care consumerism and price transparency is the interaction between health plans and employers: Most health plans encourage price and quality transparency efforts. Most also encourage employers to resist open panels in favor of tiered networks that would readily reflect “low price, high quality” performance characteristics among providers. However, it is common for an employer to feel pressure from its employees or local provider groups to discourage tiered networks in favor of less-efficient, open panels. For health plans, tiered networks are a critical strategy to forward transparency; for employers, the potential value of transparency via tiered networks is often compromised by pressure from employees for open panels.

Enrollment in CDHPs⁵ of different types increased to 24 million by January 2006.⁶ While acknowledging the complexity of the health care system when compared to other industries, there is consensus among providers and payors that engaging consumers more directly in making better decisions about their health is a key to improved care, lower costs, and avoidable errors resulting from non-adherence to treatment regimens. A key element in offering a CDHP is price transparency: providing consumers information about what they can expect to pay for services they “buy” from providers.

Are Consumers Paying Attention to Prices? What Do We Know Today?

- To date, no peer-reviewed studies have been conducted to assess the impact of price transparency in health care service purchases by consumers.
- Most public opinion surveys show increased interest in health care services quality and pricing.
- Studies by health plans and companies that specialize in high-deductible, individual insurance accounts tout a strong, positive correlation between high-deductible, individual insurance programs or traditional group insurance programs and increased interest in pricing.
- Health services researchers and economists postulate that price transparency will increase price sensitivity around routine services (such as physician office visits, tests) that fall under deductibility thresholds. By contrast, they believe that consumer price sensitivity will not play a large role in major purchasing decisions (i.e., major surgical procedures).

For almost 80 years, the U.S. health care system has operated around a patient-centric model. In an Agency for Health Care Research and Quality study, Vanderbilt researchers found consumers to be reluctant to take charge of their health decisions, preferring their physician’s judgment to their own. Today, 90 million Americans have difficulty understanding and acting upon health information,⁷ resulting in three to six percent higher health care costs. A Harris poll showed that consumers asked to estimate a four-day stay in the hospital missed by \$8,100.⁸ Additionally, of individuals who received health care in the last two years, 63 percent did not know the cost of the treatment until the bill arrived, and another 10 percent never learned the cost.⁹ Also, while consumers expressed interest in prices for health care services, the Vanderbilt study noted little correlation between price sensitivity and behaviors related to health care services use.¹⁰

Indeed, the concept of transparency is a “hot” topic in health policy circles. There is considerable debate about whether a consumer can be a discriminating purchaser of health care services *if* provided the necessary price and quality information and the financial resources to make those purchasing decisions.

4 Deloitte Consulting LLP & Deloitte Center for Health Solutions, *Reducing Corporate Health Care Costs 2006 Survey*, 2006

5 CDHP in this text refers to a high-deductible health plan (HDHP) coupled with either a health reimbursement account (HRA) or a health savings account (HSA).

6 GAO, *Consumer Directed Health Plans: Small but Growing Enrollment Fueled by Rising Cost of Health Care Coverage*, April 2006

7 Institute of Medicine, “Health Literacy: A Prescription to End Confusion,” Report Brief, April 2004

8 National Center for Policy Analysis, *Transparency in Health Care*, March 2006

9 National Center for Policy Analysis, *Transparency in Health Care*, March 2006

10 Vanderbilt Center for Evidence-Based Medicine, *7 Core Beliefs of Health Care Consumers*, 2005

Yet, while seemingly simple, making prices available for even the most basic health care services is, in fact, a considerable challenge. Current prices for health care services include a complex series of cost-shifts, severity adjustments and recovery of indirect costs. Coding for health care services is more complex than the IRS tax code. Take, for instance, patient literacy as a cost factor: Some studies suggest illiterate patients cost three to six percent more to treat. Should a “price list” include a sliding scale based on literacy? What about other risk factors or complicating issues?

Achieving price transparency is not a simple task. Accurate and reliable methods for comparisons among providers for specific services vary. There is no standard methodology for reporting prices for physician and hospital services so confusion results.¹¹ Even in communities where price transparency is more advanced, some studies suggest that underserved populations do not benefit.¹²

Understandably, the prevalence of price transparency initiatives varies widely around the country. In some states, price transparency efforts have not yet begun. In others, transparency efforts are too new to demonstrate results. In still others, price transparency for routine physician and hospital services is readily available – usually through states, health plans and employers.

Optimal Ways to Alert Consumers about Health Care Prices

Employers and health plans have studied optimal ways to alert consumers about prices for health care services. Their studies suggest that “best practices” involve three considerations:

- **Offering easy accessibility for consumers via the Internet.**

The Internet is viewed as the tool of choice for advancing price transparency. Web-based tools that provide prices for specific services can enhance consumer awareness and understanding. The availability of comparative prices for the same service is ideal, although providers might resist such efforts since patient history and risk factors might not be considered appropriately.

Providing readily available price information through a “public” portal that does not require a high-speed connection or a fee for access is optimal, but competitive factors become a consideration: Should a hospital disclose information about its prices and risk that a competing hospital might use the information? Could price transparency lead to “bait and switch” marketing tactics? Is a health plan’s ability to negotiate favorable prices with providers marginalized if prices for services are in the public domain? It is generally agreed that the faster and easier pricing information is made available for consumers, the more likely they are to use it. However, price transparency is more complex than meets the eye. The challenge for policy makers is to assure fair play in the methods used to collect and report prices so

that consumers are given accurate information upon which to act. It is also widely agreed that prices should be provided along with quality information, so that consumer choices are well-informed.

- **Providing price information in teachable moments.** In an emergency, prices for health services do not matter to consumers. When a complex, life-threatening event/condition confronts them, consumers are not prone to “shop” for prices. Comparisons between the quality of care (based on demonstrated outcomes or less-than-precise, word-of-mouth endorsement) is a precursor to price comparison. When does pricing information matter most to consumers? It appears to be of most interest for services that are routine – office visits, tests, elective surgeries, medications, and so on. Additionally, price information for such services is of optimal value when it is provided in a teachable moment – when a consumer can match the price for a specific service with corresponding quality information and the names of local providers.

Personalization of health care information – prices and quality measures for services an individual might purchase – is at the heart of health care consumerism. The adoption of Personal Health Records (PHRs) is increasing. Already, PHR technologies permit prescription re-orders, physician office visits, diagnostic tests, and similar services. In addition, PHRs might be a vehicle for price transparency initiatives by providing prices for services in advance of actual use, or for comparison purposes after services are used. Blue Cross Blue Shield Association (BCBSA), America’s Health Insurance Plans (AHIP), and other influential organizations have taken active positions in support of PHR standards setting – a necessary first step toward widespread adoption. Additionally, in December 2006, leading employers such as Intel and others launched Dossia, a national initiative to stimulate PHR adoption and use in their companies.

- **Making local comparisons available.** Consumers are accustomed to making comparisons. They are most comfortable when they can compare prices among several options. Health care is a community-based service industry. Making price information available for similar/identical local health care services (with secondary comparative data for regional or national options) is central to consumer acceptance of price transparency. Consumers already express interest in report cards showing distinctions between quality of care among local doctors and hospitals; there is no reason to believe comparison of prices would be of less interest.

“Every American should have access to a full range of information about the quality and cost of their health care options.”

- HHS Secretary Mike Leavitt¹³

11 California HealthCare Foundation, *Health Care Cost Comparison Tools: A Market Under Construction*, June 2006

12 California HealthCare Foundation, *Health Care Cost Comparison Tools: A Market Under Construction*, June 2006

13 www.hhs.gov/transparency

The Government's Role in Price Transparency

Price transparency is a trend, not a fad. As such, the federal government plays an important role in assuring that policies, procedures and implementation of transparency efforts protect the public and facilitate fair play among stakeholders.

On August 22, 2006, President George W. Bush signed an executive order requiring all four federal agencies that provide health care services – and all vendors that contract with these agencies – to develop plans by January 2007 to make their prices transparent to the citizens they serve. Noting the grass-roots success of employer-led efforts such as The Leapfrog Group's Hospital Report Card, federal policy has now embraced price and quality transparency as central features of the U.S. health care system. Using its formidable muscle through legislative policy and market pressure via the Medicare system, the Centers for Medicare and Medicaid Services (CMS) is likely to propel transparency efforts forward exponentially. Health plans and large employers are particularly encouraged by federal attention to transparency efforts. Clearly, they see it playing a key role in standardizing measures and policies surrounding implementation to insure consistency from state to state and community to community.

Following the President's Executive Order, HHS Secretary Leavitt announced in November 2006 the Four Cornerstones Plan, incorporating price transparency as a key pillar. Already, major health systems, large employers and insurers have signaled their support for the initiative. Among the tenets of the Four Cornerstones Plan, which is detailed on the HHS web site, <http://www.hhs.gov/transparency/fourcornerstones/index.html>, are the following:

Health Care Transparency is Built on Four Cornerstones:

Building a value-driven health care system requires four interconnected cornerstones. With the growing use of electronic health records, all four are within our grasp.

- **Connecting the System:** Every medical provider has some system for health records. Increasingly, those systems are electronic. Standards need to be identified so all health information systems can quickly and securely communicate and exchange data.
- **Measure and Publish Quality:** Every case, every procedure, has an outcome. Some are better than others. To measure quality, we must work with doctors and hospitals to define benchmarks for what constitutes quality care.
- **Measure and Publish Price:** Price information is useless unless cost is calculated for identical services. Agreement is needed on what procedures and services are covered in each "episode of care."
- **Create Positive Incentives:** All parties – providers, patients, insurance plans, and payors – should participate in arrangements that reward both those who offer and those who purchase high-quality, competitively-price health care.

The executive order and Four Cornerstones Plan lend federal support to transparency efforts. But states are, in many ways, a step ahead. For many years, states such as Florida and Pennsylvania have provided metrics about hospital quality as a key resource to citizens. Several states have announced their intention to provide price information in a similar fashion. Wisconsin Hospital Association's price transparency effort may be the most advanced, affording a user-friendly template for local price searches.

In examining state web sites for quality and price transparency, it is notable that "transparency" per se is not a term found on any state's site as a separate health policy issue. In fact, it can be quite challenging for a consumer to find online tools to support either price or quality transparency; usually requiring multiple searches within the state's ".gov" web site.

Some states appear to be approaching transparency quite aggressively. Consider these examples:

Notable State-Driven Transparency Efforts

State	Program Name	Description
Pennsylvania	Pennsylvania Health Care Cost Containment Council www.phc4.org	The Pennsylvania Health Care Cost Containment Council is an independent state agency responsible for addressing the problem of escalating health costs, ensuring the quality of health care, and increasing access for all citizens regardless of ability to pay. Legislation requires that the Pennsylvania Health Care Cost Containment Council develop a computerized system for the collection, analysis and dissemination of health care quality and cost information. It also requires that the Council collect patient data, including total charges of health care facilities. Through these efforts, the Council will make available prices and quality measures for the top 65 percent of all covered inpatient and outpatient procedures. Certain administrative and quality data is archived back to 1990. Price data is not currently available.
California	California Health Care Reform www.stayhealthy.com	On January 8, 2007, Governor Schwarzenegger outlined his health care reforms. They include an individual mandate along with health plan and provider responsibilities. A previous state statute required that hospitals disclose prices for the top 25 most common outpatient services or procedures. It also required that, if requested, a hospital must provide an individual a written estimate of charges for health care services reasonably expected to be provided for a given diagnosis.
Florida	Florida Compare Care www.floridacomparecare.gov	The Florida Agency for Health Care Administration's (AHCA) redesigned web site is the first step in an ambitious program. This site ultimately will give Florida's health care consumers, purchasers and professionals an unprecedented degree of easy-to-access and understandable information on quality, pricing and performance. Florida Compare Care consists of two adjoining web sites that disseminate comparative health care information to consumers. The MyFloridaHealthStat web site displays price and quality information for hospital services based on risk-adjusted DRG codes. The MyFloridaRx site conveys information on prescription drugs, and anecdotal evidence shows that it is working to lower costs. For example, in Miami-Dade County there was a dramatic decrease in the range of retail prices for the drug Neurontin since the introduction of the price comparison web site. Florida has plans to begin reporting comparative information for health plans and individual physicians in the near future.
Massachusetts	Massachusetts Health Care Quality and Cost Council www.mass.gov/healthcareqc	NEW! Health care reform legislation required that the state provide information about the cost and quality of care in Massachusetts via this newly formed independent council. The Health Care Quality and Cost Council is currently deciding how best to display the data for consumers. The initiative builds on Governor Romney's health reform plan featuring mandatory individual coverage.

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Methodology

To ascertain key health care industry stakeholders' prevailing opinions and anticipated strategies about price transparency, the Deloitte Center for Health Solutions conducted a series of 34 interviews with representatives from key stakeholder organizations.

Sample Design

Based on secondary literature about U.S. price transparency efforts and trends, the Center examined four major groups of stakeholders in the price transparency adoption process: employers, health plans, providers and organizations that provide goods or services to providers/plans/consumers. (In certain categories, such as employers, interviews with a senior executive of a professional organization representing multiple employers, rather than with many individual employers, captured a more strategic view of current efforts.) A second study, now under way, will assess consumer awareness and use of price and quality transparency tools, strategies and approaches. From a list of 59 target organizations in the four identified categories, the Center conducted interviews with senior executives* from 22 organizations, listed below:

Stakeholder Group	Participating Organizations
Employers	ERISA Industry Committee National Business Coalition on Health National Business Group on Health
Health Plans	Aetna America's Health Insurance Plans Blue Cross and Blue Shield of Minnesota Cigna Harvard Pilgrim Health Care Humana WellPoint
Providers	AQA (formerly Ambulatory Care Quality Alliance) American Hospital Association Christus Health Cleveland Clinic Federation of American Hospitals Healthcare Financial Management Association Mayo Clinic Wisconsin Hospital Association Information Center
Organizations that Provide Goods or Services to Providers/Plans/Consumers	Advanced Medical Technology Association National Association of Chain Drug Stores National Clinical Lab Company (name withheld by request) Pfizer

* Participants included senior executives with responsibility for policy and program efforts specific to price transparency. In most cases, these individuals were members of executive management or the chief executive of the organization.

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In addition to investigating the industry viewpoint, the Center explored opinions and expectations of state and federal leaders engaged in price transparency efforts. Specifically, Center staff members interviewed senior officials from the 12 government entities listed below:

Government Perspective	Participating Organizations
Federal	House Energy and Commerce Committee, Subcommittee on Health Senate Health, Education, Labor and Pensions Committee, Subcommittee on Health Sponsor of the "Hospital Price Reporting and Disclosure Act of 2005"
State	Arizona Florida Hawaii Massachusetts Minnesota National Conference of State Legislatures National Legislative Association on Prescription Drug Prices Pennsylvania Utah

* Participants were senior administrative staff members assigned/designated responsibility for the organization's efforts, programs, or policies relative to price transparency.

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Data Collection: Delphi Technique

The Deloitte Center for Health Solutions conducted structured telephone interviews between August 4 and December 13, 2006. Two interviewers from the Center participated in each interview. Interviewees were guaranteed anonymity. Center staff compiled results using standard content analysis methodologies.

Drafts of the working paper were circulated to respondents for comment. As a result, this paper reflects a consensus view within the sub-groupings of respondents above, and for the entire sample population.

Analysis

Four members of the Center research staff independently reviewed the interview results. To reduce analyst bias, actual interview results were shared with the entire team and numerous drafts of this report were circulated to assure objectivity.

Key Findings: Industry Stakeholders

Employers

- Employers support price transparency efforts and see a supportive role for government in stimulating efforts at the state and federal levels. They believe that competition among providers will stimulate enhanced transparency more than government mandates. One interviewee conceded that the federal government should play a key role in advancing transparency efforts by hosting databases permitting comparisons of prices and quality across states and regions. Large, multi-site employers believe that the federal government can assist in reducing inconsistencies across states and communities by providing standards and policies for implementation of price transparency efforts nationwide. All seem to agree that support for transparency initiatives by state and federal officials will lead to transparency efforts overall and benefit all stakeholders.
- Employers do not believe that health care price transparency will lead to lower costs in the near future. They recognize that price transparency will help consumers be better informed when making health purchases but acknowledge the complexity of pricing for even the simplest services.

- Employers see health plan efforts as key to price transparency. They believe health plans have the technical capability and claims data useful for enrollee price transparency information.
- Employers welcome efforts such as the Four Cornerstones Plan (Leavitt) but readily acknowledge that the most significant advances will be at the state and local levels, where they can exercise greater direct influence on provider disclosures.

Health Plans

- Health plans are strong proponents of price transparency, believing it essential to engaging consumers in health decisions. They regard their role as central to transparency efforts in making price and quality information available at the local level; offering consumer-directed health plans for employers and individuals; and leading public discussion about improvements in the efficiency and effectiveness of the health system. They believe consumers need understandable information about the price and quality of health care services to make informed purchase decisions.
- Health plans are investing in transparency efforts to show comparisons of price, quality and efficiency.¹⁴ Provider efficiency is a key concern to health plans. They reason that efficient physicians (those that do the right thing the first time/every time and avoid overuse of tests, medications, and surgeries) should be recognized in addition to those offering lower prices and superior service. One health plan representative pointed out that displaying efficiency measures can yield greater savings than price information. If practitioners are divided into low-, medium- and high-efficiency tiers, then there is evidence that sending consumers to the high-efficiency providers would yield real dollar savings. Notably, the addition of efficiency as a transparency initiative has captured the attention of HHS Secretary Leavitt, who has formed an efficiency work group.
- Health plans likely will resist efforts to expose their negotiated rates with providers to the public as this may result in increased prices for consumers. Of note, the Federal Trade Commission (FTC) has warned that knowledge of competitors' prices "can dilute incentives to bid aggressively and can facilitate tacit collusion,"¹⁵ which may lead to higher prices.
- Health plans believe the use of tiered networks to show relationships between price, quality, and efficiency is an effective vehicle to stimulate transparency efforts. By providing enrollees a basis for comparing providers based on all three measures – price, quality and efficiency – via tiers of providers, they reason that consumers will be able to obtain more value for their health care purchases by using preferred tiers.



- Health plans believe that they have significant influence at the state level and see a key role for themselves in shaping state policies about price transparency.
- Five out of seven health plan interviewees realize the importance of communicating with providers as they design a price transparency tool that reveals the provider's negotiated rates to the health plan's members. There is recognition that tension is likely as provider prices are disclosed and they wish to mitigate this to the extent possible.
- Strategies for price transparency vary from plan to plan, but most have common elements: High-volume, routine services (inpatient and outpatient) are "priced" for public consumption, and "prices" differentiate between likely out-of-pocket payments for individuals and the balance paid by the plan.
- Gaining/retaining consumer trust is a concern to all plans. Plans regard providing quality and price information to consumers in a user-friendly mode as key to enrollee service and trust. There is widespread recognition among health plans that they protect and enhance enrollee (consumer) trust in the process of advancing transparency efforts.

¹⁴ Efficiency is related to the consumption of services, without regard to a particular unit cost contract with a provider. It is the combination of unit cost with consumption of services that yields the total cost for services.

¹⁵ Letter from Federal Trade Commission Bureau of Competition to Rep. Patrick McHenry, July 15, 2005



Providers

- Opinions about price transparency vary somewhat among the major sectors of provider organizations. Hospitals and integrated health systems appear more favorably disposed while medical groups and others are prone to caution. There is widespread recognition that price transparency, along with quality transparency, is a trend benefiting consumers. However, there is concern that the sheer complexity of pricing and difficulty in comparing provider organizations might ultimately confuse consumers.

- Hospitals play a key role in price transparency efforts: They have experience with state quality transparency programs (e.g., Pennsylvania, Florida, New York), health plan initiatives, commercial organizations that provide report cards (e.g., Subimo, HealthGrades, Solucient), and even federal programs that illustrate differences in performance among hospitals (e.g., CMS' Hospital Compare). These quality transparency efforts have used valid and reliable data on mortality, morbidity and infection rates, adherence to evidence-based guidelines, and other information to highlight the variable performance of hospitals. It is from their experience of collecting and reporting this information for public consumption that hospitals, state hospital associations and the American Hospital Association have framed their approaches in support of price transparency. Understandably, hospitals are ahead of other provider sectors in preparing for price transparency.
- Providers are concerned that the methodology used for price comparisons be systematic and fair. They are insistent that methodologies accommodate differences in the severity/risks for patient populations and want to play active roles in the definition of the methodologies likely to be used. There is some concern that price transparency might adversely impact patient relationships: the possibility that an individual might seek care from a lower-priced provider is unsettling to most. For this reason, they look to the government to play a role in assuring "fair play" as price transparency efforts increase at the local, state and national levels. State hospital associations, along with the American Hospital Association, are playing an active role in assuring fair play and that appropriate methodologies are used. Other provider sectors, such as medical groups and freestanding outpatient surgery centers, will likely weigh-in as metrics and methods are defined.
- Several of the best-known integrated systems, such as Mayo Clinic, Cleveland Clinic and others, are actively engaged in price and quality transparency efforts. For example, Mayo Clinic has implemented a price estimator tool in Jacksonville, Florida, that can tell patients upon admission their approximate out-of-pocket costs. Most organizations are re-evaluating their pricing models and approaches: Some seem to be leaning toward an overall patient experience score that would provide consumers information about anticipated prices, quality and efficiency.

- While the focus of most current price transparency efforts is on hospital prices, there is recognition among all provider sectors that price comparisons for physician services and for outpatient tests and procedures are the next major focus of attention.
- Providers are concerned about the potential distortion of health care services prices if efforts for price transparency are unduly influenced by employers and health plans. There is recognition that health plans offer a necessary insight about price transparency, but also fear that a payor-centric view of price transparency might unfairly impact the public's understanding. Price transparency is a source of friction between health plans and provider organizations; states likely will play a key role in managing the process, with inclusiveness as a key goal.
- Provider organizations believe that states will play an increasingly important role in transparency efforts because the factious political climate in Washington will limit federal efforts toward transparency.
- Most provider groups do not know which types and formats of pricing information consumers find most useful. Five out of eight interviewees believe that consumer out-of-pocket costs are the most useful price information. Others suspect a "total price" calculation might be worthwhile. Notably, two of the three hospitals already provide a price estimate service calculator tool incorporating out-of-pocket and total costs.
- Standardization of the specific metrics and methodologies for collecting and reporting prices is considered complex. Most provider groups see a role for states in assuring standardization of processes and methodologies.
- Providers recognize that the design of these procedures and methodologies should include payor and provider input.

Organizations that Provide Goods or Services to Providers/Plans/Consumers

- Organizations that provide goods and services to providers, employers, and health plans regard price transparency as an inevitable trend. Opinions are mixed about the near-term impact of price transparency among these organizations. A key factor is a sector's business model: In a sector such as pharmaceuticals, where direct-to-consumer activity is high (via a vis advertising, highly visible formularies, promotion toward generics, et al), responsiveness to price transparency is somewhat higher than in sectors that use a business-to-business or B2B model (i.e., laboratories, diagnostic equipment vendors, information technology companies, et al).

Hospital Associations Play Leadership Role in Price Transparency

As representatives for all hospitals in a given state, hospital associations have considerable leverage and are in an excellent position to collaborate with state policy makers to promote price transparency within the hospital industry. This is exactly what has happened in the state of Wisconsin.

The Wisconsin Hospital Association (WHA) has designed an application called PricePoint that has gained widespread acceptance as a consumer-friendly and data-rich price transparency tool. The PricePoint system displays average aggregate discount data among three major payor categories: commercial insurance, Medicare and Medicaid. WHA selected this format because it wanted to provide more context to the data rather than simply displaying billed charges. In this way, it offsets total charges by contractual adjustments. As of January 2007, the WHA PricePoint system is under contract to 10 other states, suggesting strong acceptance of state-level commitments to price transparency.

- Pharmaceutical industry leaders already consider drug prices to be transparent (i.e., prescription drug co-payments are readily known to consumers). Also, the concept of “retail pharmacy” is, by definition, a frontline lab for price transparency – 65 percent of the U.S. adult population uses at least one medication and is, therefore, accustomed to prescription refills, out-of-pocket payments and estimates of the total cost of the medication.
- Price transparency for specialty pharmaceuticals and injectibles might be more problematic since they are often dispensed in tandem with a provider or facility fee. Specialty pharma tends toward a B2B business model but its leaders anticipate transparency nonetheless.

- For diagnostic equipment suppliers or laboratory services, price transparency is considered a looming trend but not a significant threat to their business models. They operate as B2B companies so their prices are negotiated with provider organizations and insurers, not directly with consumers. However, trade industry leaders are paying attention: The Advanced Medical Technology Association has developed a policy statement about appropriate and inappropriate price disclosure.

Industry stakeholders play distinct roles in responding to public demand and regulatory efforts toward price transparency. Acknowledging these roles will assist state leaders in defining appropriate strategies:

Stakeholder	Price Transparency Positioning	Likely Role in State Strategy
Employer	Supportive of unlimited access; more is better	Pilot
Health Plan	Supportive of limited access; in the short-term, best leveraged in context of tiered networks	Co-pilot
Provider	Responsive but concerned that metrics be fair and standardized, and that they have input in process for defining, collecting and reporting. NOTE: Hospitals ahead of other provider sectors	Cockpit crew with a flight plan (and perhaps an alternative route) Or Pilot/co-pilot in states where hospitals have taken the lead
Organizations that Provide Goods or Services to Providers/Plans/Consumers	Watchful recognition of trend toward transparency; development of policies and procedures in accord with legislative/plan/provider requests. NOTE: pharmaceuticals ahead of other sector groups in price transparency strategy	Attentive passenger: Watching the skies (Prescription drug companies sitting in the cockpit)

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Price Transparency Hits Home for a U.S. Representative

In the summer of 2004, Illinois Representative Dan Lipinski suffered serious injuries from a cycling accident. As a result, he went through a grueling process of managing multiple hospital bills and was surprised at the complexity of the hospital pricing system. In an attempt to make this process easier for consumers, Representative Lipinski pursued legislation in the House to make health care price information more available to everyone.¹⁶

Key Findings: Federal and State Government

Federal Government

- The U.S. Department of Health and Human Services (HHS) is straightforward about its desire to advance price transparency, as evidenced by the Leavitt Four Cornerstones Plan and the President's August 2006 Executive Order. However, effectiveness in advancing legislative initiatives is offset by lack of congressional support for bills (Lipinski Bill, Burgess Bill) promoting price transparency and the factious political climate in Congress. The federal government's efforts may be limited as a result of its inability to build a broad-based consensus around transparency as a standalone issue separated from other aspects of its efforts to reform health care (i.e., Medicare privatization, consumer-directed health care, Medicare Modernization Act reforms and others). To the extent that efforts to stimulate price and quality transparency can be separated from other issues, it is assumed that broad, bipartisan support would be found.
- The federal government's two most significant leverage points for the advancement of price transparency are through its administration of Medicare and its role as a major employer (federal employee health benefits plan). To date, it has been successful via CMS Hospital Compare in advancing transparency about hospital quality; it is thought to be capable of advancing pricing in a similar manner.
- One interviewee, a congressional staffer working on health issues, noted that the chairman of his committee wants to wait and see if transparency initiatives can be successfully handled by states or the private sector before promoting federal legislation.
- Price transparency is considered a low-risk campaign issue for candidates: Politicians seem unafraid to support efforts toward transparency.



¹⁶ Representative Dan Lipinski's staff member



State Government

- Price transparency is not a major political issue in most states and the political risk for advancing price transparency efforts is considered low. Since it is not considered a “hot topic” by voters or legislators, efforts to create a state strategy around price transparency require education by key industry stakeholder groups about the nature of price and quality measurements. Collaboration with these stakeholders in the design and implementation of state transparency efforts is viewed as helpful and essential to program success.

- Leaders in state price transparency efforts believe that their role is to regulate the processes for collecting and reporting prices and to facilitate collaboration with providers, health plans and employers. Some believe that the strategy should include legislative mandates; others believe that the approach should focus on voluntary participation by provider organizations. The federal government’s role is thought to be in the development of national standards (metrics/methodologies/policies) that can be adapted by the states. Initiatives by the National Quality Forum and similar organizations might be a framework for government efforts. For example, a National Health Prices Forum might be convened to discuss, define, and recommend policies and procedures helpful to state and local officials to assure that pricing methodologies and reporting are done credibly and with fairness to all parties.
- Efforts to encourage price transparency fall into four categories. In some cases, states are focused on more than one area:
 - Payor-focused efforts: Legislative actions (laws, mandates) that require price transparency compliance by employers/insurers for enrollees in their plans.
 - Provider-focused efforts: Legislative actions (laws, mandates) that require price transparency compliance by doctors and hospitals (i.e., routine visits, lab tests, minor surgical cases, normal obstetrics, et al).
 - Clearinghouse efforts: Collection and dissemination of price information via a state-sponsored, public web site.
 - Licensing-related indirect efforts: Encouragement or requirement of insurers, providers and health care organizations that are licensed through states to provide a level of price transparency in the course of license renewals.
- The degree to which a state has latitude to advance price transparency is a function of two major market factors: (1) employer and health plan pressure for price transparency; and (2) provider resistance and concern. States have optimal latitude to advance significant price transparency efforts when they have substantial support from both groups. Seven out of nine interviewees referenced the need to promote collaboration and consensus among all stakeholders, often through the use of public-private partnerships, pilot projects, and educational efforts.
- Interviewees did not focus on prices for health plan services; rather, attention is on provider services. A state wishing to balance fairness in efforts to promote price transparency might consider promotion of health plan/employee-related “prices,” including the administrative costs associated with the plan.

- The specific services that are targeted for price transparency and the methodologies by which their prices are accounted are the basis for the “fair play” that states must assure. Five out of eight states suggested the need for standardizing pricing methodologies so that states could consistently and effectively respond to provider concerns.
- “Episodes of care” is considered the useful metric for calculating prices. Notably, four of the six states that provide web-based prices through a state-sponsored site have used charge data. There is acknowledgement that episode-based methodologies might fall short of desirable goals for showing “total costs” for services delivered to individuals over a series of “episodes,” thus limiting outcomes-based consideration in price transparency.
- Five out of nine interviewees noted the need to ensure that published price information is conveyed in a manner that is useful to consumers.
- Four of seven states believe that more consumer marketing and communication is needed. There is widespread recognition that states can play a key role in educating citizens about transparency efforts.

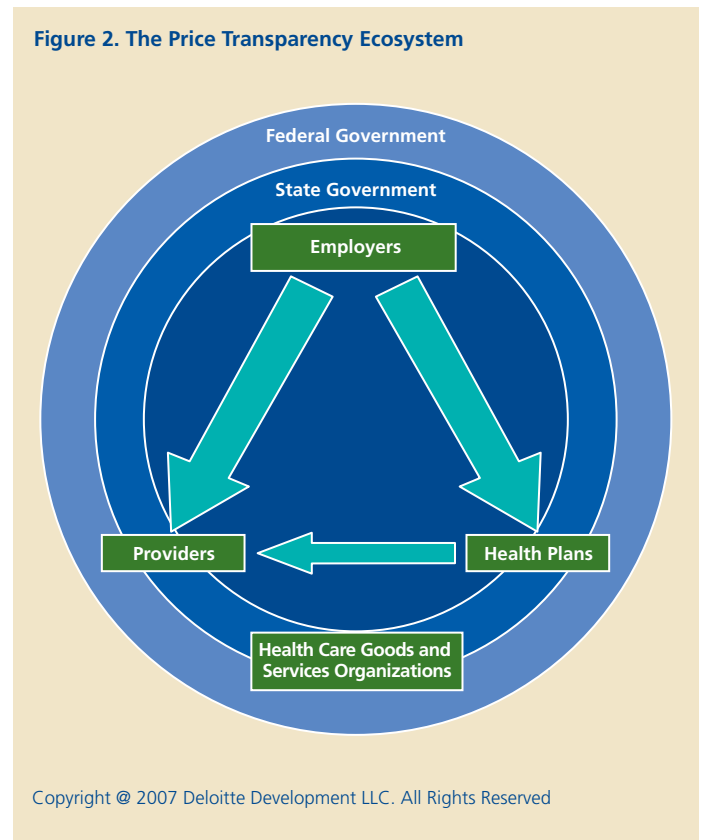
Based on these findings, the government’s role in advancing price transparency can be summarized as follows:

Government Entity	Price Transparency Positioning	Role
Federal Government (primarily HHS, CMS)	Support voluntary price disclosure; provide tools for Medicare enrollees; cautious progress; market pressure via executive order and Four Cornerstones plan; set tone for fair play	Co-pilot
State Government (Executive and Legislative Branch)	Balance employer and plan expectations with provider concerns; deliberate progress; structure state/local pilots; educate public and key stakeholders; monitor fair play	Pilot

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Looking across the entire price transparency ecosystem, the interaction between key stakeholders is depicted in Figure 2:

Figure 2. The Price Transparency Ecosystem



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Price Transparency Checklist for States

Principles	Strategic Consideration
Provide prices for health services that matter to consumers	Target basic services: tests, office visits, simple procedures; keep the list simple – start with the 25-50 most common services; include inpatient, outpatient, & physician office
Make it easy to understand	Use prices/price ranges, not color schemes or complicated “scales” of expense; always show local prices in comparison to regional/national
Keep stakeholders – physicians, hospitals, outpatient services providers, health plans & pharmaceutical companies – engaged and informed	Create mechanisms for price updates and reviews; evaluate inconsistencies between reported prices where there is disagreement
Provide price and quality measures	Facilitate transparency efforts that balance price and quality; utilize nationally accepted process measures for quality (i.e., NQF)
Keep expanding it	Add services that matter; include conditions/interventions for which evidence/best practice is strong so that high-quality-low-price judgments can be made
Maintain methodological rigor	Adjust for differences that are relevant (data validity and reliability are key); use a system that can be standardized (episodes of care is optimal); obtain consensus about metrics; determine how severity adjustment will be addressed in price and quality metrics
Promote access and use of price information	Promote use via regular, frequent communications; consider public education campaigns; use a catchy web site and promote site visits through advertising vehicles such as outdoor billboards (requires dedicated budget for promotion); make sure users can get to prices desired in fewer than two clicks
Evaluate impact and ROI	In collaboration with an academic organization or consultant, develop analytical tools to assess return on investment; develop a reporting mechanism to legislators and executive branch

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Examples: Stakeholder-Sponsored Price Transparency Innovators

Organization	Web Site	Summary
PATIENT FRIENDLY BILLING®	www.patientfriendlybilling.org	Spearheaded by HFMA, a collaborative effort to provide clear, concise and correct patient-friendly financial communications
Four Cornerstones Plan U.S. Dept. of Health and Human Services	www.hhs.gov/transparency	Secretary Leavitt’s approach to greater price transparency as part of a value-driven health care system
Blue Cross and Blue Shield of Minnesota	www.healthcarefacts.org	Public portal providing range of quality and price information
Wisconsin Hospital Association	www.wipricepoint.org	Initiative of the state hospital association to display prices for inpatient and outpatient services

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Looking Ahead: The State Journey to Price Transparency

States play four key roles that can be leveraged to enhance price transparency efforts:

- Using its *legislative and executive powers*, a state can develop a policy agenda for price transparency with input and support from industry stakeholders.
- In its role as a *large employer*, a state can require transparency tools from its intermediaries and promote their use among enrollees in its plans. NOTE: In tandem with price transparency, states should provide employees with quality transparency tools.
- In its role as a *focal point for public discussion*, particularly in the executive branch, a state can advance thoughtful discourse about the journey to transparency.
- As a *health plan sponsor* for the state’s poor, elderly, and underinsured via Medicaid and other programs, a state can leverage price transparency efforts with access to affordable services and focus on evidence-based care to improve the system’s effectiveness and efficiency.

Assuming these powerful roles, a state can flex its muscles through formal and informal means to advance price transparency among its constituents. Consider some of the strategies a state might employ:

State Role	Key Strategies
Legislative and Executive Leadership	<ul style="list-style-type: none"> • Encourage price and quality transparency provisions in legislation. • In state economic and community-development efforts, provide prospective employers results of local price and quality transparency efforts. • In licensing health care facilities, services providers and health plans (through Certificate of Need requirements and licensing for state-approved facilities), require price disclosure for designated services. • Develop transparency applications in Health Information Exchanges (HIEs) and Regional Health Information Organizations (RHIOs). • Encourage price transparency provisions as part of negotiations to recruit health care providers and health plans to the state. • In concert with providers and health plans, develop a minimum set of health services for which price information will be made available to the public. • Require standardized metrics consistent with nationally accepted standards for price and quality transparency. • Participate in an NGA task force to study the direct and indirect impact of price transparency (considerations: population health status, physician work force issues, economic and community development, costs for Medicaid services, et al). This task force should offer standardized metrics and services for voluntary use by the states. • In each state, create a legislative task force to promote understanding of the dynamics of price and quality transparency (education is essential). • Create a statewide “fair play” task force to oversee price transparency efforts. The task force should be composed of all key stakeholder groups.
Major Employer	<ul style="list-style-type: none"> • Require the state’s intermediaries to provide price and quality information to enrollees and contract through plans that use tiered networks or comparable means to facilitate transparency efforts. • Collaborate with other major employers to support price and quality transparency initiatives at the local and state levels. • Facilitate the development of local business-health coalitions in each urban community to encourage price and quality transparency efforts by local providers. • Encourage all public employee groups (local school boards, utilities, et al) to align price transparency initiatives with the state’s. • Require state employees to secure price information for elective surgeries, routine diagnostic tests, and first-time visits to primary care physicians as preauthorization for coverage.
Public Policy Agenda Setting	<ul style="list-style-type: none"> • Encourage discussion. Sponsor agenda. • Host public forums to educate voters about the complexity around and necessity for price and quality transparency. • Host educational programs for physicians and allied health professionals to acclimate them to the emergence of health care consumerism and necessary preparations. • Sponsor/fund public-private partnerships to spawn pilot programs supportive of price transparency. • Leverage access to critical venues that encourage responsible health consumption (i.e., the educational system, public health agencies).
Medicaid	<ul style="list-style-type: none"> • Require network providers to participate in transparency programs for price, access and quality. • Develop a price hotline for Medicaid enrollees to answer questions in advance of securing non-emergency services. • Install appropriate co-pay and deductible scales for public health services that reward enrollee awareness of prices for routine services. (Secure access to price information through public Internet portals in community health centers, retail pharmacies, et al.) • Facilitate agreements with vendors for the state’s health program that require them to make pricing information available to patients and their providers (while protecting against public access and violation of privacy).



Final Thoughts

Although health care price transparency is in its infancy, evidence suggests that it could support the shift to health care consumerism, in which individuals make purchase decisions based on firsthand knowledge of price, quality and service. Most industry and government stakeholders interviewed for this study believe that widespread adoption of price transparency is a matter of when, not if.

Understandably, some interviewees are concerned that consumers might not be prepared. Others observe that true transparency is a monumental shift facing almost insurmountable challenges – the willingness of providers to cooperate, the willingness of employers and health plans to share information, the ability and interest of consumers to research pricing options.

It is our belief that price transparency will contribute to a transformed health care delivery system in which information is shared and individuals are empowered to proactively care for their health. States, in their roles of legislator, employer, payor, and focal point for public policy discussions, are in an ideal position to lead this journey to transformational change.

Appendix

Interviewers

Shane Heiser is a Senior Manager in Deloitte Consulting LLP's Public Sector State Health and Human Services (HHS) Practice. Shane has experience working with HHS agencies in numerous states, having consulted on and led business process, performance improvement, and customer service integration projects. Shane also has performed research in the areas of Medicaid transformation, employee health care cost reduction and consumer-driven health care.

Melissa Rutala is a Consultant in Deloitte Consulting LLP's Public Sector Federal Practice. Melissa has a master of public health degree from The George Washington University with a concentration in health policy. Her areas of interest and concentrated knowledge include Medicaid, Medicare, price transparency, pandemic flu preparedness, the federal budget process and health care quality.

Other interviewees participated on an as-needed basis according to their subject matter expertise in a particular stakeholder group area. These individuals included Jennifer Cowherd, Christina Dorfhuber, Tom Henderson, Matthew Kates, Dean Miller, Keith Strier and James Whisler.

Contributors

We'd like to recognize the individuals who contributed their insights and support to this project.

Bob Campbell
Principal
Deloitte Consulting LLP
bcampbell@deloitte.com

Jenny Cowherd
Senior Manager
Deloitte Consulting LLP
jcowherd@deloitte.com

Christina Dorfhuber
Principal
Deloitte Consulting LLP
cdorfhuber@deloitte.com

Shane A. Heiser
Senior Manager
Public Sector
Deloitte Consulting LLP
sheiser@deloitte.com

Tom Henderson
Manager
Deloitte Consulting LLP
tomhenderson@deloitte.com

Matthew Kates
Partner
Deloitte AERS
mkates@deloitte.com

Paul H. Keckley, Ph.D
Executive Director
Deloitte Center for Health Solutions
pkeckley@deloitte.com

John Keith
Principal
Deloitte Consulting LLP
jkeith@deloitte.com

Dean Miller
Senior Manager
Deloitte Consulting LLP
deanmiller@deloitte.com

Martha Priddy Patterson
Director
Deloitte Consulting LLP
mapatterson@deloitte.com

Melissa Rutala
Consultant
Public Sector
Deloitte Consulting LLP
mrutala@deloitte.com

Keith Strier
Senior Manager
Deloitte Consulting LLP
kstrier@deloitte.com

James Whisler
Principal
Deloitte Consulting LLP
jwhisler@deloitte.com

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Contact Information

To learn more about the Deloitte Center for Health Solutions, its projects and events, please visit www.deloitte.com/us/healthsolutions.

Deloitte Center for Health Solutions
555 12th Street N.W.
Washington, DC 20004
Phone 202-220-2177
Fax 202-220-2178
Toll free 888-233-6169
Email healthsolutions@deloitte.com
Web <http://www.deloitte.com/us/healthsolutions>

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