Which Path Leads to Health Care Cost Containment: Selection or Reputation?

One of the key approaches to slowing cost growth is to provide public reports of the costs of individual providers. The hope is that health care consumers will consider cost data when choosing a physician and opt for lower-cost providers—a process referred to as the selection pathway. The assumption is that if the public learns that they can get high-quality medical care at a lower cost, high-cost providers will reduce their prices in order to remain competitive in the health care marketplace.

Unfortunately, the available evidence does not support this assumption. This study determined that current initiatives to report provider costs are unlikely to motivate consumers to select lower-cost providers. In fact, they may do the opposite. However, there is evidence that higher-cost providers—particularly hospitals—may positively respond to public reports if the measures signal wastefulness or poor quality.

Why Don’t Currently Reported Cost Measures Encourage Consumers to Choose Lower-Cost Providers?

■ One reason is that consumers have little practical interest in cost data: They have fixed co-payments for services and a cap on their out-of-pocket spending. The cost measures currently listed in most public reports focus on the total cost of care or the amount that an insurer will reimburse. But what consumers care about most is their out-of-pocket cost.

■ More problematic is that many consumers use price as a proxy measure for quality. In other words, they believe that higher-cost providers must be better than lower-cost providers. If prices aren’t paired with valid quality measures, publicizing prices may have the perverse effect of boosting prices across the board as lower-cost providers raise their prices to appear as “good” as higher-cost providers.

■ A third challenge is that many consumers find it difficult to understand reports of cost measures. For example, many studies have shown that consumers find it burdensome to interpret information about quality of care. In addition, they don’t trust information that comes from a health plan or providers.

■ Finally, in order to influence consumer choice, a measure should focus on a discretionary service that consumers might be willing to shop for. Average reimbursement to a hospital for treatment of a heart attack is a commonly reported cost measure. But typically, ambulance drivers, not consumers, play a major role in making that choice. Consumers are not very choosy in a life-threatening emergency.

Can the Potholes in the Selection Pathway Be Filled?

If public reporting of provider costs is to influence consumer choice, the cost measures reported must focus on choices that consumers care about, and the information must be presented in a way that can be easily understood. In addition, tying cost measures to quality—for example, showing cost rankings within broad quality tiers—might help counteract the consumer belief that lower-cost care is of lower quality than high-cost care. Consumers may also need financial incentives to switch providers—for
example, when higher-cost physicians are excluded from health plan networks, patients could face higher co-pays if they continued to use these physicians.

**Another Road to Cost Containment Is the Reputation Pathway, Which Focuses on Provider Reputation**

There have been no systematic studies of whether providers respond to publicly reported cost data. However, provider response to publicly reported data on quality of care appears to be driven by concern about reputation. Thus, by analogy, it seems likely that public reporting of cost measures could change physician or hospital behavior if poor performance is viewed by opinion leaders and the physician’s peers as signaling inefficiency. For example, a substantially longer-than-average hospital stay following a heart attack is a measure of a doctor’s performance that may be negatively viewed by the provider’s peers on the hospital staff.

Policymakers can pursue both pathways simultaneously. Indeed, synergy between the two approaches could result in more favorable change. The study’s authors propose practical ways to make public information on health care providers more understandable and influential.

The figure illustrates how public reports could better engage consumers, focusing on the choice of a maternity hospital, an area of health care in which patients are motivated and have the time to make a decision. The data include the key piece of information that consumers want, their out-of-pocket costs. The figure draws attention to the high-value hospitals by putting them in a separate section highlighted in green. In recognition that consumers may distrust cost information and link higher costs with higher quality, information about quality is presented before information about cost. The cost metrics used to distinguish between the two tiers are not shown—consumers who want more information can drill down by clicking the question marks.

**Proposed Example of a Public Report That Could Better Engage Consumers**

**Report Card for Maternity Hospitals**

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Quality of care for deliveries</th>
<th>How much will you pay out of your own pocket?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kline Memorial Hospital</td>
<td>Excellent</td>
<td>$100</td>
</tr>
<tr>
<td>Pazak Women’s Hospital</td>
<td>Excellent</td>
<td>$125</td>
</tr>
<tr>
<td>Walkowiak Hospital</td>
<td>Above Average</td>
<td>$50</td>
</tr>
</tbody>
</table>

**Other Hospitals**

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Quality of care for deliveries</th>
<th>How much will you pay out of your own pocket?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Williams Hospital</td>
<td>Excellent</td>
<td>$300</td>
</tr>
<tr>
<td>Brown Memorial Hospital</td>
<td>Average</td>
<td>$300</td>
</tr>
<tr>
<td>Saint Floyd Hospital</td>
<td>Average</td>
<td>$300</td>
</tr>
<tr>
<td>Simmons Hospital</td>
<td>Below Average</td>
<td>$300</td>
</tr>
<tr>
<td>Johnson Memorial Hospital</td>
<td>Below Average</td>
<td>$100</td>
</tr>
</tbody>
</table>

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