

Banning negotiated prices

Legislators to force \$6 Billion per year increase on health care spending

By Greg Dattilo, CFP, CEBS & Dave Racerⁱ March 7, 2008

Later this year, if Minnesota legislators get their way, it will be illegal for insurance companies, on your behalf, to negotiate lower prices with doctors and hospitals.

This is how it works now, before this law change would go into effect: You get a new, artificial knee. Weeks later, just as the surgical pain is wearing off, you get a bill from the doctors and the hospital. The total bill gives you sticker shock - \$42,800.¹ "How can they charge so much? This is outrageous! I sure hope the insurance company can negotiate a discount to a more realistic price."

That "realistic price" results from the right that insurance companies currently have to negotiate lower prices with doctors and hospitals. The reason insurance companies are able to negotiate lower prices is because each year, they bring a large number of patients to the doctor and hospital.

Competition between insurance companies for your insurance business creates pressure on them to negotiate large discounts. Without that competition, the price of health care services would soar.

For your knee surgery, the insurance company informs you that their negotiated price is \$29,875 - a discounted savings to you of \$12,925. Imagine how much more you would have to pay for health care if your insurance company could no longer negotiate lower prices. Yet, that is precisely what legislators are planning to do with Senate File 3099.

Senate File 3099, currently flying through State Senate committees, specifies under Section 23, "No health care provider [doctor, hospital, clinic, pharmacy, etc.] shall vary the payment amount that the provider accepts as full payment for health care service based upon the identity of the payer, upon a contractual relationship with a payer, upon the identity of the patient, or upon whether the patient has coverage through a group purchaser."² This provision excludes government health plans and people on charity. So it just penalizes people who own private health insurance.

In simple terms, this provision prohibits insurance companies from negotiating discounts on your behalf with health care providers. In fact, it prohibits everyone (even you), except government and charity cases, from negotiating discounts. This makes no sense, and it will drive up the cost of health care by \$6 billion or more each year, beginning later this year—if this becomes law, but you can stop it.

Doing the math

Discounts usually range from 20-60 percent, depending on numerous factors. Here we will use 30 percent.

According to the University of Minnesota, health care spending in Minnesota totaled \$29.4 billion in 2005. This reflects the actual amount paid to providers for health related services.

The share of Minnesota's health care bill paid by insurance equaled about \$14 billion - 48 percent. Without the discounts negotiated by insurance companies, this \$14 billion would have been \$20 billion or more. Minnesotans benefited from negotiated discounts by at least \$6 billion.

Why would your legislator do this to you? Why does your legislator want to drive up health care spending by \$6 billion? We have no answer, and this is why we urge you to contact your legislators for an answer. You can find your legislators' contact information at this link: <http://geo.commissions.leg.state.mn.us/districts/start.html>.

We offer two possible explanations: Politics or ignorance, and we fall on the side of ignorance.

1. Politics: Who would benefit from this huge increase in the cost of health care services? Obviously, providers will benefit - doctors and hospitals. But legislators stand to gain even more, through campaign donations and increased power over the health care economy. Unfortunately, consumers lose under this plan. Next time you need a new knee, you will pay \$42,800 instead of \$29,875.

2. Ignorance: Most legislators are trying to do the right thing. In this case, they are trying to get more insurance companies to sell products in this state. In the early 1990s, Minnesota had more than 20 companies competing for business. Then the legislature passed numerous laws that resulted in most companies fleeing from Minnesota. This resulted in less competition and drove up cost. Now, they are trying to fix that problem by passing a new law, hoping that it will bring more companies back into Minnesota to compete. If this new scheme doesn't work, it will eventually force government to set health care prices, even for private patients, and that will lead to rationing for everyone.

We are all for doctors and hospitals charging a fair price, but we also want to retain the right to negotiate the lowest possible price. As it is now, when insurance companies negotiate on our behalf, we get reduced pricing.

The legislature got this right

In the past few years, the legislature has made some wise decisions that allow you to purchase affordable health insurance. These are called high deductible health plans and have had the effect of reducing insurance premiums by as much as 40 percent. This, in turn, has helped to reduce health care spending. At the same time, these current laws still allow insurance companies to negotiate lower prices on your behalf.

Another wise decision the legislators made was to pass price transparency laws. These require providers and insurance companies to tell you, in advance, the cost of health care.

If legislators do no damage to these two provisions, the market will adjust itself, and health care cost will eventually be set at a consumer level, not a government level. When consumers know the price and directly pay for the service, providers will have to adjust their price to meet what consumers are willing to pay.

How to protect yourself

Just fax, write a letter, or an email to your legislator. It is easy to do. You can find their contact information at this link: <http://geo.commissions.leg.state.mn.us/districts/start.html>

Tell them you believe insurance companies should be able to negotiate reduced prices on your behalf.

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¹ Based on an actual case in Minnesota during November 2007.

² S.F. 3099, 1st Engrossment - 2007-2008th Legislative Session (2007-2008), lines 60.13-60.18, p 60.

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