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THE PRICE Is the Price ... Except When It's Not

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Imagine this. Your boss asks you to run a quick errand. You go to the store, hunt down the $50 item your boss requested, and head to the checkout counter to pay for it. When you pull your boss's corporate credit card out of your pocket, however, the cashier tells you you're not allowed to use someone else's card, so you use your personal credit card instead. For some unexplained reason, when you switch from your boss's credit card to your personal credit card, the price of the item automatically drops from $50 to $25. In other words, when your boss was the purchaser, the price was $50, but when you became the purchaser, the price magically dropped to $25.

In the scenario above, I'm sure you'd be happy to receive a $25 discount for the minor inconvenience of paying with your personal credit card and getting reimbursed from your boss. I'm also sure your boss would be happy to receive a 50% discount on an item that was originally priced at $50 in exchange for the inconvenience of cutting you a reimbursement check. If we dig a bit deeper, however, it becomes clear that inconsistent pricing that is simply based on who is paying the bill is not only unfair and discriminatory, but it's destructive to free market principles that keep prices in check. This is particularly problematic when insurance companies pay higher-than-market prices for health care and medications incurred by their insureds because in the end, the money insurance companies pay for claims directly drives the premiums insureds pay for coverage.

To illustrate how this works in the health insurance industry, let's take a look at some simple examples. These real-life examples range from a nominal $10 gift card to a huge $10,000 self-pay cash discount, but regardless of the dollar amount at stake, they illustrate three things: **(1)** consumer discounted pricing undermines equilibrium price which is critical in a free market economy; **(2)** when one party purchases health care or prescription drugs at a price that is lower than what is paid by another party, the party paying the higher price actually subsidizes the lower price; and **(3)** lowering the price to the insured (only) but not the true price of the good or service actually props up an artificially high price because it circumvents the cost sharing balance between the parties, it frustrates the delicate utilization tools that help control claim costs, and it encourages more frequent usage of higher-priced products. Ultimately, these three facts artificially prop up excessive costs and higher sustained pricing because insured members save money on claims while insurance companies spend more. Invariably, this results in higher premiums to the very individuals who are ostensibly saving money on the claims in the first place.

Example 1: Last October, I dropped by Walmart to get a flu shot. I asked the pharmacist how much flu shots cost, and she told me $40. She asked me for my insurance card, but when I told her I would self-pay, she smiled and said, "Oh, in that case, I can lower the price to $20." Similarly, some stores like Publix Pharmacy offer a $10 gift card to customers who get a flu shot while shopping. This "gift" is usually at the expense of a health insurance company that ends up paying an inflated price for the vaccinations.

Example 2: In December, a close friend decided she would undergo cosmetic rhinoplasty. The normal cost for this particular cosmetic surgery when insurance is involved is about $18,000. Since her health insurance policy doesn't pay for elective cosmetic surgery, she turned to me for help and advice. As someone who works in the insurance industry, I know doctors (and even hospitals) routinely discount their charges when a patient's insurance policy doesn't cover the medical care or when the patient pays cash at the time of service. That said, this case even surprised me. After all was said and done, she paid $8,200 for the surgery! This global cash payment included the surgeon's bill, the operating room, the recovery room, the anesthesiologist's charges, and all follow-up care, and every one of the providers wrote off any outstanding balance!

Example 3: More and more often, prescription drug companies are offering financial help to individuals who either don't have prescription drug coverage or whose policies restrict access to their drug. They usually do this in the form of a prescription drug discount coupon or voucher that caps the member's copayment at a modest amount like $10 per month. These medications are frequently expensive brand drugs (*e.g.*, Actimmune, Sovaldi or Enbrel), or they are drugs that have gone off patent and have a strong generic competitor (*e.g.*, Lipitor, Copaxone and (soon) Advair). By artificially capping the member's cost without lowering the overall cost of the drug, the manufacturer encourages the member to spend more of their insurance company's money for the expensive brand drug rather than the cheaper generic. In fact, in many cases, the insured actually pays less out-of-pocket for the expensive brand drug than the equivalent generic drug so the pharmaceutical company is, in effect, incentivizing the insured to choose the more expensive therapy without even trying the more affordable medication. Ultimately, this results in higher claim costs which are reflected in higher insurance premiums.

At the end of the day, we all make decisions based on our personal pocketbook. When we make these decisions, however, it's important that we have complete and accurate information lest we be duped into choosing something that might not be in our best interest after all. This situation becomes even more complicated when we're paying with someone else's money or when something appears on the surface to be in our best interest but there is a hidden agenda or ulterior motive.

In this article, I've tried to pull back the curtain on something that on the surface appears to be a generous gift, but in reality, is more of a scheme to prop up pricing, pump up demand, shift costs to insurance companies, and line the pockets of "benevolent" providers or drug manufacturers. I fully realize that many (if not most) readers will want to help "the little guy," and are willing to do so at the expense of the big bad insurance company, but it's important to realize there are unintended consequences with this approach. The main consequence is higher premiums due to consumer apathy and increased utilization of higher-priced treatments, but there are several others (*e.g.*, sustention of artificial product demand, circumvention of price control mechanisms, price inflation, and perpetuation of higher-than-market pricing). These less obvious effects quietly (but inevitably) drive up claim costs which are ultimately passed on in the form of higher premiums to the consumer … the very person who was supposed to benefit from the lower prices in the first place.

If you have questions about this article or would like to discuss your company's health insurance progam, feel free to contact me at ***(801) 263-8000*** or ***info@wmimutual.com.***