HEALTH FINANCING POLICY BRIEF NO. 7

PRICE SETTING AND REGULATION IN HEALTH SERVICES

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Key Messages

- With the increasing levels of public funding to health care, countries are taking strategic approaches in defining what services are purchased and paid for, and how to link payments with quality and performance.
- The price for health services is the amount that must be paid to elicit the supply and quality of health care services that society wishes to have and is willing to pay for.
- The process or negotiation by which prices are determined can be grouped into three main methods: individual negotiations between providers and purchasers, collective negotiation between associations of providers and purchasers, and unilateral decisions by purchasers.
- Collective and unilateral price setting eliminate price discrimination and have performed better in controlling the growth in health care costs. Both have the potential to improve quality better than individual negotiations. A single or collective purchaser also has the power to put some discipline into prices.
- Price adjustments are typically made to ensure coverage and access, for example, to health care providers in rural and remote areas; those treating disproportionately high numbers of low-income or high-cost patients to ensure coverage and quality; and facilities providing medical education.
- Countries have eliminated balance billing as a means of financial protection, in which providers are not permitted to charge patients more than the prices established for covered services.
- Building institutional capacity for price setting and regulation can support the use of prices as policy instruments to attain broader health-related objectives, i.e., guarantee coverage and financial protection, enhance quality and access, and increase efficiency.

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1. WHAT CONSTITUTES PRICE SETTING AND REGULATION FOR HEALTH SERVICES?

The purpose of this brief is to explain health services price setting and regulation in the context of accelerating progress towards universal health coverage (UHC). There is a special focus on the implications for middle-income settings, where increases in public spending have been accompanied by new ways of purchasing, organizing, and delivering health care (Mathauer & Wittenbecher, 2013). This paper focuses on health services; price setting and regulation for goods, in particular, medicines and medical devices, follow different approaches that are detailed elsewhere (WHO, 2015).

Provider payment systems consist of one or more payment methods including prices and rules,[1] regulations, and supporting systems such as contracting and monitoring mechanisms. These systems create economic signals and incentives that influence behavior. Any payment method has three dimensions: the base upon which prices are defined and set; *the process by which the price level is determined; and the price level per unit of payment* (Reinhardt 2006, 2011, 2012). This paper focuses on the second and third dimensions and describes the processes by which price levels are determined.

Price setting refers to an administrative process or negotiation by which prices are determined after the unit for payment is established (e.g., a general practitioner service, a day of care in a residential facility, or a case of hospitalization). These processes can be grouped into three main methods (Reinhardt, 2012):

- Individual negotiations between providers and purchasers.
- Collective negotiation between associations of providers and purchasers
- Unilateral decisions by purchasers.

From a societal perspective, the price is the amount that must be paid to elicit the supply and quality of health care services that society wishes to have and is willing to pay for. Hence pricing supports broader health systems objectives, i.e., guarantee coverage and financial protection, enhance access and quality, and increase efficiency.

Price regulations usually aim at ensuring price transparency, setting price ceilings on commercial health plans, defining rules for out-of-network provider prices, and instructing providers on conditions of billing within the legislative framework for the health care sector.[2] This paper focuses on balance billing in which providers are permitted to charge patients more than the price established for covered services, and limitations imposed on balance billing that have been established in some settings as a means of financial protection.

[1] A set of prices and rules used by a purchaser to pay a provider may also be referred to as "tariff".
[2] This legislative framework usually comprises a competition, consumer and market authority.

2. WHY IS PRICE SETTING FOR HEALTH SERVICES IMPORTANT IN THE CONTEXT OF UHC?

Middle-income countries represent more than 70% of the world's population and a large share of the disease burden (World Bank, 2019). While increases in public spending on health are occurring across all countries, the share of public spending on health doubled between 2000 and 2016 in middle-income countries (WHO, 2018). With the increase in public spending on health, countries are paying more attention to value for public spending on health, and the decisions about how to channel funding and organize services to respond to people's needs. This is particularly true for inpatient services and curative outpatient care, which accounts for 70% of total public spending on health on average globally (WHO, 2018). As health systems mature, policy decisions about the services covered, payments to providers, and the conditions for those payments become the determining factors in individual care-seeking behaviors (Getzen, 2006). Copayments can determine an individual's decision about whether and which care to access; as such, policies about coverage, payments and prices thus support the progress towards UHC, especially in middle income countries. Given that health care is far from being a classic market for goods and services, the economic rationale for setting prices is to control costs, foster competition on quality, and mitigate against excessive financial claims (Kumar et al., 2014)

Policy interventions are particularly important because health care markets are characterized by such failures as information asymmetry and lack of information on prices and quality that preclude consumer choice. For many commodities, consumers assess the price and value of goods; in health in developed countries, users have health insurance or access to public services and, consequently, they pay nothing or a relatively small co-payment when using health services. Users are also represented in the market by agents (health care practitioners) instead of operating by themselves, and thus face information asymmetry. These differences make consumers less sensitive to price signals. In addition, the price signals that connect purchasers and providers operate differently because prices are not formed directly by the interplay of demand and supply.

3. HOW DOES PRICE SETTING AND REGULATION FIT WITHIN HEALTH FINANCING POLICY?

Price setting and regulation for health services is a key component of strategic purchasing. It is linked with revenue raising, given that ultimately the prices must be in line with the available resources. There are also associations with pooling, i.e., price setting and regulation can be used to harmonize payment methods and rates across different schemes or pools. Countries have aligned pricing policies with the broader goals of ensuring financial protection, equitable distribution of resources according to health needs, promotion of quality and public health objectives, as well as controlling the growth in health care expenditures and increase efficiency (Table 1).

Table 1. Key health financing policy issues and ways in which countries have aligned pricing and policy goals

	Policy issues	Ways in which countries have aligned pricing with policy goals
Revenue raising	Ensuring that promised benefits do not exceed available revenues to avoid implicit rationing and informal payments.	Prices are set within the boundaries of available resources.
Pooling	Ensuring that pooling enables the equitable distribution of resources according to needs, and the provision of public health goods.	Prices can be used to harmonize payment methods and rates across different schemes or pools, and strengthen cross subsidization across risk pools. Price differences across pools can, on the other hand, worsen the fragmentation and increase inequity across pools and their members.