**Episode-Based Cost-Sharing to Protect Patients from the Financial Risk in Receiving Planned Care**

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# Abstract

Patients’ ability to understand and reliably anticipate the cost of care is critical for making informed decisions regarding provider and treatment alternatives and for household financial planning. Despite recent policies aimed at improving the discoverability of health care prices, meaningful information on the total cost of care is difficult to obtain for patients in the United States before receiving care. One of the key factors is the difficulty of predicting which services will comprise an episode of care. Consequently, pre-case cost estimates are often incomplete and unreliable. This is a fundamental problem of existing price transparency initiatives, which disclose prices to patients at the service level.

In this paper, I use childbirth as an example of a common, expensive, and “shoppable” health-related episode and quantify the financial risk for patients stemming from the ex-ante uncertainty in treatment intensity. Using administrative data from employer-sponsored insurance plans, I estimate the cost of childbirth episodes as a function of the realized treatment intensity and then estimate the financial risk as the cost variation that is not explained by patient choice or preexisting condition. Subsequently, I quantify the welfare gain for patients if their cost share were derived prospectively based on the expected treatment intensity conditional on their choices and preexisting conditions instead of retrospectively based on the realized treatment intensity.

I find that patients seeking childbirth services face substantial financial risk stemming from the unpredictable treatment intensity due to complications and other factors that are beyond patients’ control. This risk and consequent unexpected burden for some patients cannot be addressed by service-level price transparency. Novel cost-sharing mechanisms such as episode-based cost-sharing would protect patients from financial risk and improve the reliability of price signals in health care.