

Metrics for Success: Seven Reasons Why Price Transparency Must Be a Top Strategic Priority Now

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On an index scale of zero to 100 (low to high), how transparent is your organization right now? Looking forward three to five years, what index level of transparency do you expect will be necessary to be competitive as an organization? How difficult will it be to go from where you are now to where you want to be? Does transparency really matter?

Many hospital/health system board members and CEOs are being pressured from traditional and non-traditional sources for more pricing transparency. Savvy financial leaders are preparing for and pursuing health system delivery transformation as a result of healthcare reform, overshadowing the attention that the hospital chargemaster once received. The questions of how to transition to payment-for-value and what the financial implications are from leaving the current volume-driven structure are now top priority strategic concerns.

There is a greater push now than ever before for pricing transparency as consumers, employers, and others want to know what services will actually cost and to be able to compare pricing across providers for a given procedure. While price comparison is an underlying market function in most industries, healthcare has suffered from a lack of available data to allow cost comparisons primarily because of the complexity of the reimbursement structures.



Defining “Charge” vs. “Price” in Healthcare

Unlike most other markets, there are many factors that make healthcare charges and prices complex and confusing. When one endeavors on a college education, for example, the “charge” and the “price” for tuition are one and the same. Likewise, when one goes to the grocery store, the “charge” and the “price” for food items are interchangeable. Healthcare is very different in that the “charge” that is submitted to a health plan for any given service is very different from the “price” that the health plan actually pays to the provider of service.

The “charge” is set by the provider and may not be directly related to the actual cost incurred by the hospital or other provider. The “price” is based on a negotiated discount with each health plan—and may vary from plan to plan. Negotiated rates may include fixed reimbursement for certain services, such as diagnosis related groups (DRGs) for inpatient services or ambulatory patient classifications (APCs) for outpatient services. Some healthcare providers still receive reimbursement based on a percentage discount from their charges, setting an incentive to charge more for these services (though most health plans cap annual chargemaster increases for this reason). Of course, with government health plans, there is no negotiation and the “price” is set by those agencies, such as Medicare, Medicaid, and the Bureau of Worker’s Compensation. Adding all this together, it becomes clear why healthcare prices are difficult to ascertain.

Why Is Charge and Price Transparency Increasingly Important?

The Triple Aim is a framework developed by the Institute for Healthcare Improvement that pursues three dimensions to optimize healthcare performance:

- Patient experience (including cost and quality)



- Improving the health of populations
- Reducing the per capita cost of healthcare

Neither charge nor price has been able to serve as a measure of quality to consumers historically. As quality metrics and outcomes become more available, more consumers are evaluating their choices based on value—a function of both quality and cost.

Additionally, as many consumers are shifting to high-deductible health plans (HDHP), there is a stronger desire for them to know their total financial responsibility before having a procedure. Armed with price information and quality data, consumers will be better equipped to make more informed decisions on where to receive healthcare services.

Reasons Why Transparency Must Be a Top Priority Now

1. Consumers will be more price sensitive, thus hospital charges and prices will increasingly become drivers of market share and volume in the future.
2. Historically, hospital leaders pushed negotiations with commercial carriers as far as possible. Increasing commercial rates may price a hospital out of the market in a price transparent world.
3. Understanding costs to the procedure level is an important part of price

Exhibit 1: Average Charge and Payment for DRG 470

470—Major Joint Replacement, Lower Extremity w/o MCC

Provider Name	State	Total Discharges	Average Covered Charges	Average Total Payments	Charge/Payment Ratio	Rate of Complication for Hip/Knee Replacements
Stanford Hospital	CA	566	\$135,816	\$25,769	5.27	No Different than U.S. National Average
Cedars-Sinai Medical Center	CA	773	\$117,236	\$18,375	6.38	No Different than U.S. National Average
Massachusetts General Hospital	MA	668	\$55,362	\$20,395	2.71	No Different than U.S. National Average
Mayo Clinic Methodist Hospital	MN	1,187	\$28,477	\$16,948	1.68	Better than U.S. National Average
Mount Sinai Hospital	NY	319	\$44,710	\$23,141	1.93	No Different than U.S. National Average
Duke University Hospital	NC	474	\$46,402	\$18,161	2.56	No Different than U.S. National Average
Cleveland Clinic	OH	428	\$52,040	\$16,144	3.22	No Different than U.S. National Average

Source: Medicare Provider Utilization and Payment Data: Inpatient; and Medicare Hospital Compare.

transparency, but it is also integral to transitioning to a population health model.

4. Reputation—even if your hospital is the highest quality, you don’t want to be known as an excessively expensive hospital. The goal should be that of efficiency and value—the highest quality for a reasonable price.
5. Many hospital systems are already embarking on these initiatives. A hospital should not want to be among the last to implement changes in charge and pricing strategy.
6. Consumers, health plans, employers, and regulatory bodies are pushing for efficiency in price transparency. Major health plans have already implemented tools to share prices with consumers. And there are proposed regulations to require charge and price transparency (such as the Healthcare Price Transparency Promotion Act of 2013).
7. In an electronic era, apps are already available to allow consumers to compare price and quality. While they may not be perfect today, advances will happen rapidly.¹

Improving Consumer Access to Relevant Data

The Centers for Medicare and Medicaid Services (CMS) has started to release charge, payment (price), and quality information via its Medicare Provider Utilization and Payment Data files and its Hospital Compare Web site aimed at consumers.

As an example, using this publicly available data, in **Exhibit 1** we show for several major hospitals the average charge and average payment for DRG 470, which is major joint replacement, lower extremity without major complications. This information, coupled with the rate of complication for hip/knee replacements (also provided by CMS), aids decision making for the consumer in need of a hip or knee replacement.

In this sample, Mayo Clinic in Rochester, MN, has the lowest average charge for this

DRG, the second lowest payment (price), and is the only one of the major hospitals on this list that performed better than the U.S. national average for complications related to hip and knee replacements. (Out of 3,474 hospitals, only 108 scored better than the national average.) Using this data exclusively to compare value, Mayo Clinic would be the provider of choice for hip and knee replacements. Cautionary note: this data is based on Medicare enrollees only, and results may vary significantly for privately insured or uninsured patients.

Transparency as a Strategic Advantage

The CMS release of charge and payment data is one of the strongest efforts toward improving price transparency. Many states are making efforts to implement all payer

¹ For example, see www.healthinreach.com, www.changehealthcare.com, www.txpricepoint.org, www.healthcarebluebook.com, www.newchoicehealth.com, www.uhc.com/news_room/2014_news_release_archive/health4me_app_available_to_all.htm, and www.saveonmedical.com.



claims databases (APCD), which will significantly boost price transparency efforts and consumerism for healthcare services. Because of these factors, aligning costs, charges, and prices should be a major strategic focus for all hospitals.

As part of a broader strategy to reform the delivery system, hospitals and health systems should consider integrating their chargemaster and reimbursement strategy to support transparency. A basic building block of price transparency is having an adequate cost accounting system in place to identify costs down to the procedure level. Embracing this change has the advantage of allowing hospitals and health systems to be on the leading edge with regard to price transparency, and it allows them to understand their costs for use in modified reimbursement structures such as risk arrangements or those involving shared savings.

There are hurdles beyond the complexity of costing to the procedure level, such as understanding how health plans sell their product in the market and engaging health plan partners as to the chargemaster changes to ensure financial protection to the health system. The window for receiving over-reimbursement on certain services to help subsidize others that are provided at a loss is closing. Conversion to a cost-based, transparent chargemaster structure that is linked to reimbursement must be an integral part of every health system's strategy in this era of change.

Nine Essential Steps to Transition to Price Transparency

1. Understand your costs. If you are not cost accounting to the procedure level today, now is the time to start. This will not only enable price transparency, but will support the transition to population health models.
2. Based on your costs, identify those services that are profitable versus those that are not profitable.
3. For those services that are not profitable, understand why and if there is something the hospital can do differently from a cost perspective to change the profitability for those services.
4. Engage your physician and provider staff to collaboratively improve quality and control unnecessary cost.



5. Engage your health plan partners. Work with them to increase reimbursement in areas where the hospital is underpaid (which can be proven with cost data) and be prepared to reduce reimbursement in areas that are over-paid.
6. Embrace the change to a reduced cost-shifting structure. Recognize that there are limitations to changes that can be made with government health plans; identify the related issues and plan accordingly.
7. Establish a chargemaster based on a cost-plus methodology. Manage the cost-based chargemaster on an ongoing basis, directly linking cost to charge.
8. Recognize that if you are able to be price transparent proactively for patients, you also arm your institution with the information to proactively collect patient responsibility for services.
9. Educate the public and your patient base on the initiatives and the benefit to them.

View to the Future: Transparency in 2024

A much higher degree of price, quality, and overall transparency will be an assumed critical factor in competitively positioning your organization as a consumer-friendly and accessible provider of healthcare services in the future. Increased transparency will result in basic consumerism, including price sensitivity, becoming more important in patients' healthcare choices. Not

only will patients expect quality of care, but comparison shopping will become the "new normal" for elective procedures, testing, and virtually every other facet of healthcare delivery across the service continuum. Competition for patient volume will be driven by cost and quality and consumers will be able to access user-friendly applications that show all available providers and systems within a specified region (even nationally and worldwide) with "Expedia"-type ease and information, such as price, patient satisfaction and value perception, accessibility, outcomes, consumer responsibility based on their benefits, and the quality of the provider compared to others. This "eye-opening" transparency will truly result in a new era of competition driven by patient centricity and demands. Are you ready to have the current "consumer transparency expectation" equilibrium shift to a much higher level in a very short period of time? It will be an eye-opening process for all. ●

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