

**SERVING THE UNINSURED:  
MANAGING YOUR  
MISSION AND MARGIN**



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**Pricing Transparency—Why It Will  
Happen**



# Pricing Transparency—Why It Will Happen

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Serving the Uninsured

Boston, MA

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# The Imminence of Pricing Transparency

- The Background and the Basics
  - Why it Will Happen
  - Who Will Drive the Initiative
  - What it Will Mean
  - How to Respond
- The Practical Implication and Application
- What it Signifies on a Broader Scale

# The Reality

Hospitals are under increasing pressure from a variety of groups and organizations to become more transparent and to validate quality and value

# Why it Will Happen

## *And why does it matter*

- Outgrowth of the marketing/consumerism push of the 90s and recent years
- More economic accountability by consumers/patients
- Publicity on “retail” pricing for the uninsured calls attention to overall pricing (return of \$15 Tylenol or \$5,000/day stay)
- Begging the question of relative cost/quality issue for healthcare services: rising concern over diminishing value

# Who Will Drive the Initiative

## *The convergence of multiple interests*

- Insurance Companies (i.e. Aetna, Humana experiences)
- Employer push
- Consumers/patients
- Legislation (i.e. California, Florida)—the Bush Push

# Humana in Milwaukee

## *An Outlier or a Harbinger*

- Health plan web site compared estimated prices for 30 inpatient and 6 outpatient operations/tests at area hospitals
- Colonoscopy range from \$940 (Milwaukee Endoscopy Center) to \$3,050 (Froedtert Memorial Lutheran)
- Hip replacement range from \$20,600 to \$41,800
- Key component of plan for the Business Health Care Group of Southeast Wisconsin—effort to “lower healthcare costs”

# Engagement by the Employer

## *Awaking a Sleeping Giant*

- Employers facing daunting reality of diminished competitiveness due to rising benefits costs
- Response ranges from shifting economic burden to encouraging healthier lifestyle
- No more “Mr./Ms. Passive”—just taking what they get
- Employers do not view providers as partners—no historic link or affiliation

# Empowered and Informed Consumer/Patient *With Accountability Comes Awareness*

- Increased out-of-pocket, co-pay and deductibles precipitate heightened interest in comparative costs
- Push to HSAs and other consumer-driven market mechanisms increase desire for transparency
- Internet proves not only the “democratization of American medicine,” but the commoditization of healthcare services
- Publicity on hospital prices increases interest, awareness and concern (i.e. *CBS 60 Minutes*)

# On the Political Waterfront

## *Legislative Mandates and State Actions*

- What's happening at the state levels (California, Florida as bellwethers)
- Legislative initiatives at the federal level
- The Bush push for consumer-driven mechanisms and market deliverance
- Speech at Wendy's "If we don't have voluntary movement, then there is always legislation"

# What it Will Mean

## *Boon for Some, Bane for Others*

- Likely to catch many hospitals and systems off guard
- Competitive advantage to the well-prepared
- Market agility and retail acumen come into play
- “This changes everything”

# How to Respond

## *A Plan for All Reasons*

- Realize it's a matter of when, not if
- Understand pricing configuration and variability
- Compare pricing among competitors (market position)
- Establish communication strategy and channels

# The Practical Implication and Application

## *Understanding the Pricing Configuration*

- Get clear on the current pricing structure and impact
- Review the options and the ramifications
- Consider a three-tiered approach
- Outline the opportunities for strategic pricing
- Profile how the shift would align competitively

# How we get paid

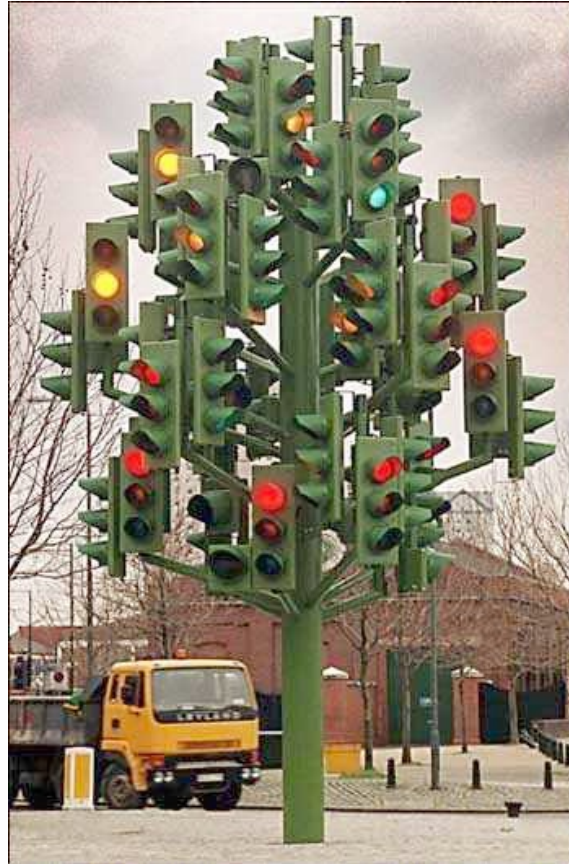
## Typical Rate Structures

	INPATIENT	OUTPATIENT
Government	Non-charge based Case Rates (DRG/APC) Per-diems Outlier/DSH/UPL	
Commercial	% of Charge Case Rates Per Diems	
Managed Care	Per Diems Case Rate Stop-Loss	Fee Schedule % of Charge
Self Pay	Discounted Charges	

## The impact of a price increase

	INPATIENT	OUTPATIENT
Government	Non-charge based Case Rates (DRG/APC) Per-diems Outlier/DSH/UPL	
Commercial	% of Charge Case Rates Per Diems	
Managed Care	Per Diems Case Rate Stop-Loss	Fee Schedule % of Charge
Self Pay	Discounted Charges	

# What to do??



# One approach



# Cost Based

	<u>FY 2005</u>
TOTAL DIRECT EXPENSE ( <i>Chargeable ONLY</i> )	<u>\$ 8,378,882</u>
TOTAL INDIRECT EXPENSE ALLOCATION	<u>\$ 6,205,892</u>
<b>TOTAL COST</b>	<b>\$ 14,584,774</b>
January-December 2005 Minutes	769,980
<b>Cost per Minute</b>	<b>\$ 18.94</b>
<b>Charge per Minute</b>	<b>\$19.21</b>
Cost to Charge Ratio	0.99
Benchmark Cost to Charge (Revenue Code 360)	0.38
- Charge per benchmark	\$ 49.85
<b>Total Charges - Dept. 3450 OR Services</b>	<b>\$ 14,791,316</b>
<b>Total Payments</b>	<b>\$ 7,543,571</b>
<b>Total Costs - Direct + Indirect</b>	<b>\$ (14,584,774)</b>
<b>Operating Margin</b>	<b>\$ (7,041,203)</b>

# Market Comparison

Below peer average

APC/Fee Amount	HCPCS	Definition	Facility Volume	Charge	Peer Group Avg Charge	(Peer Minus Facility)	Impact
\$ 44	99201	Office/outpatient visit, new	15,624	\$ 48.05	\$ 191.94	\$ 143.88	\$ 2,248,047
\$ 36	71020	Chest x-ray	7,436	\$ 74.00	\$ 127.02	\$ 53.02	\$ 394,225
\$ 817	37204	Transcatheter occlusion	87	\$ 1,002.00	\$ 4,739.43	\$ 3,737.43	\$ 325,156
\$ 115	20550	Inject tendon/ligament/cyst	2,196	\$ 27.60	\$ 151.56	\$ 123.96	\$ 272,217
\$ 646	14040	Skin tissue rearrangement	161	\$ 446.78	\$ 2,115.79	\$ 1,669.00	\$ 268,709
\$ 272	36430	Blood transfusion service	551	\$ 105.88	\$ 555.98	\$ 450.10	\$ 248,006
\$ 230	74160	CT abdomen w/dye	846	\$ 693.00	\$ 972.49	\$ 279.49	\$ 236,448
\$ 322	70551	MRI brain w/o dye	620	\$ 910.99	\$ 1,228.53	\$ 317.53	\$ 196,871
\$ 70	16020	Treatment of burn(s)	1,831	\$ 94.01	\$ 201.22	\$ 107.21	\$ 196,307
\$ 34	17003	Destroy lesions, 2-14	5,181	\$ 15.61	\$ 53.23	\$ 37.62	\$ 194,886
\$ 18	93005	Electrocardiogram, tracing	7,305	\$ 64.35	\$ 88.70	\$ 24.35	\$ 177,882
\$ 540	95810	Polysomnography, 4 or	408	\$ 790.80	\$ 1,185.09	\$ 394.29	\$ 160,869
\$ 79	76805	Echo exam of pregnant	3,894	\$ 182.40	\$ 221.62	\$ 39.22	\$ 152,717
\$ 1,778	93526	Rt & Lt heart catheters	226	\$ 2,661.90	\$ 3,335.07	\$ 673.17	\$ 152,137

Below APC amount

# Strategic Pricing

## Considers Payer Mix by IP/OP and Reimbursement

CDM-Desc	CDM	Price	YTD Total Revenue	Inpatient Utilization	Outpatient Utilization	Realization	Price Change	New Price
INTENSIVE CARE UNIT	1201000	\$ 2,750.00	\$ 10,628,750	100%	0%	26.1%	90%	\$ 2,475.00
M8 STANDARD ROOM (SP)	1371001	\$ 1,200.00	\$ 6,114,000	100%	0%	26.2%	90%	\$ 1,080.00
T6 STANDARD ROOM (SP)	1001001	\$ 850.00	\$ 4,936,800	100%	0%	26.1%	90%	\$ 765.00
COMPREHENSIVE METABOLIC PANEL	3011033	\$ 271.00	\$ 4,838,917	55%	45%	26.2%	90%	\$ 243.90
MISCELLANEOUS IMPLANT CHARGE	3609363	\$ 2,976.51	\$ 4,155,203	91%	9%	26.5%	90%	\$ 2,678.86
TELEMETRY/PER DAY	1002005	\$ 614.00	\$ 4,103,362	99%	1%	26.2%	90%	\$ 552.60
IMPLANT-TOTAL JOINT	3606392	\$ 6,761.25	\$ 3,962,095	100%	0%	26.9%	90%	\$ 6,085.13
OXYGEN LOW FLOW, PER HOUR	4606002	\$ 23.00	\$ 4,062,214	100%	0%	25.9%	90%	\$ 20.70
NEONATAL INTENSIVE CARE UNIT	1251000	\$ 2,743.62	\$ 3,868,500	100%	0%	27.1%	90%	\$ 2,469.26
T7 SEMI-PRIVATE ROOM	1061001	\$ 750.00	\$ 3,945,750	100%	0%	26.2%	90%	\$ 675.00
COMPLETE BLOOD COUNT	3015028	\$ 97.00	\$ 3,623,962	65%	35%	26.1%	90%	\$ 87.30
BASIC METABOLIC PANEL	3011038	\$ 220.00	\$ 3,544,200	75%	25%	26.3%	90%	\$ 198.00
CT-PELVIC W/CONTRAST	3212021	\$ 1,760.00	\$ 3,973,200	46%	54%	45.2%	110%	\$ 1,936.00
CT-SINUSES;LIMITED SCREENING	3212029	\$ 672.00	\$ 291,648	28%	72%	45.7%	110%	\$ 739.20
UNIVERSAL DRAINAGE W/NIT 8 FR	3216000	\$ 2,170.00	\$ 121,520	75%	25%	45.9%	110%	\$ 2,387.00
CT-TEMP BONE/ORBIT/SELLA/EAR	3212005	\$ 1,352.00	\$ 56,784	42%	58%	44.8%	110%	\$ 1,487.20
CT-PERC DRAIN ABCS-PERINTO/RAD	3212044	\$ 1,449.00	\$ 55,787	82%	18%	46.7%	110%	\$ 1,593.90
CT LIMITED/FOLLOW-UP STUDY	3212004	\$ 1,240.00	\$ 39,060	0%	100%	47.1%	110%	\$ 1,364.00
CT-PELVIC COMPLETE	3212022	\$ 2,164.00	\$ 37,870	60%	40%	47.0%	110%	\$ 2,380.40
CT SINUSES W/CONTRAST	3212042	\$ 1,174.00	\$ 24,654	100%	0%	45.2%	110%	\$ 1,291.40
DEVICE PERU-STAY FASTENING	3216006	\$ 323.00	\$ 22,610	70%	30%	45.7%	110%	\$ 355.30

Description	Price
ACETAMINOPHEN-325 MG TABLET	\$ -
ACETAMINOPHEN 120 MG SUPP	\$ -
ACETAMINOPHEN 650MG SUPPOS	\$ -
ACETAMINOPHEN 160 MG/5ML 120ML	\$ -
ACETAMINOPHEN 500MG TAB ET	\$ -

Zero Price “patient visible items” and cost shift elective and price sensitive procedures.

# Strategic Pricing (continued)

		CHARGES			PAYMENTS		
		<u>Initial</u>	<u>Final</u>	Change	<u>Initial</u>	<u>Final</u>	Change
IP Mcare	24.3%	105,623,464	109,356,209	104%	25,669,567	26,576,732	
IP Mcaid	26.2%	47,646,270	50,142,169	105%	12,507,005	13,162,171	
IP Mgd Care	29.1%	20,101,642	21,252,597	106%	5,854,890	6,190,122	335,232
IP Comm	29.5%	69,550,772	73,663,580	106%	20,512,510	21,725,494	1,212,985
OP Mcare	17.0%	30,552,110	28,976,336	95%	5,198,247	4,930,139	
OP Mcaid	19.6%	12,545,839	12,103,737	96%	2,460,848	2,374,130	
OP Mgd Care	30.1%	12,331,199	12,383,905	100%	3,709,374	3,725,229	15,854
OP Comm	29.9%	45,419,225	46,128,787	102%	13,599,678	13,812,140	212,461
		<u>\$ 343,770,520</u>	<u>\$ 354,007,320</u>	103%	<u>\$ 89,512,119</u>	<u>\$ 92,496,157</u>	<u>\$ 1,776,532</u>
						Annualized:	<b>\$ 3,045,484</b>

# Practical Implication and Application (con)

## *Cooperation and Communication*

- Responsiveness to requests (don't stonewall)
- Understanding of consumer expectations
- A philosophical commitment to be communicative
- Woven into the broad strategy of implementation
- Inform the board and other groups
- Get the right information to the right people

# How Best to Prepare for the Ramp-Up (Meltdown)

## *Lessons from the frontier*

- Senior level interest and involvement
- Scenario planning to profile possibilities
- Clear definition of role responsibilities and timelines
- Data driven approach—competitive assessment
- Organizational communication for buy-in/support
- Broader part of the overarching strategy

# What it Signifies on a Broader Scale

## *What's This Really About?*

- A move toward price transparency is only the beginning
- This represents a possible sea change in healthcare
- To follow—quality transparency, retail orientation, extreme competition (i.e. Big-Box healthcare, Minute Clinics, etc)
- How will your organization compete under that model
- What is the best time to begin the transformation
- Pioneer, second-wave or late adopter

# Summary

- Hospitals/Health Systems need to recognize the imminence of pricing transparency
- Understanding the driving forces behind the move is beneficial to developing strategy and response
- A fundamental review of the organization's pricing configuration is essential to optimal implementation
- An effective strategy involves thorough planning and well-orchestrated communication
- Successful systems will be progressive, agile and ready



# Questions/Discussion

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