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Preston Gee

the perils of transparent pricing

The time for speculation is over: Transparent pricing is becoming a reality for hospitals.

AT A GLANCE

- > *Transparent pricing can be defined, in short, as the publication of a hospital's retail prices.*
- > *Healthcare executives need to recognize that the movement to transparent pricing is irreversible and imminent.*
- > *A critical step in preparing for transparent pricing is to determine how the organization's prices stack up against the competition.*

Two years ago, transparent pricing was the subject of speculation more than certainty. Recent events and emerging trends, however, have caused this phenomenon—in essence, the publication of a hospital's retail prices—to become more of an imminent reality, bringing a potential sea change for the industry.

These recent events and emerging trends should provide a sharp and sudden wake-up call for healthcare executives who don't want to lose competitive market advantage by being unprepared for this dramatic shift.

Physician, Steel Thyself

Somewhat surprisingly, the movement may start with the physicians. In August, Aetna, one of America's largest insurance companies, announced that it would start publishing the rates it negotiates with physicians in the Cincinnati area. This unprecedented maneuver was expected to initiate a cascade of similar practices by other insurance companies in multiple markets throughout the country.

Under the proposed Aetna arrangement, consumers could log on to the insurance company's web site and compare prices on 600 common services for every Cincinnati-area primary care physician and specialist in Aetna's network. The media coverage of the announcement included examples of variances in prices among cardiologists of up to \$50 for relatively simple office procedures. As would be expected, the medical community in Cincinnati expressed concern

about the practice. However, the president of Aetna was quoted in the *Wall Street Journal* as saying, "To create a more functional healthcare market, we need more transparency."

On the surface, Aetna's decision may not appear to be all that significant, especially given its narrow geographic scope. Nonetheless, this dramatic proposal, coupled with other concurrent trends and market forces, may just prove to be the crack in the dyke that opens the way for a sweeping tide of related moves and market maneuvers throughout the healthcare industry.

A growing number of organizations—ranging from employers to consumer groups—want to see rising costs in health care begin to stabilize, if not abate. Many observers and pundits believe that increased awareness of pricing will heighten accountability on the part of both providers and consumers. Consequently, although Aetna's announcement was greeted with a measure of skepticism and chagrin by the medical community, it was roundly applauded by prominent groups and organizations trying to rein in health-care costs.

Are Hospitals Next?

The obvious question for healthcare executives is how quickly will this affect hospitals? The odds-on answer is, "very soon."

The reality is that this expectation is already affecting hospitals in some states. North Carolina, for example, already has measures in place that require

hospitals to give the public access to chargemaster data for their most common procedures. California requires hospitals to make publicly available their complete chargemasters.

Such a measure was on the legislative docket in Texas during the most recent legislative session. Even though the measure failed, or at least was tabled, it will likely surface again, and should be viewed as a harbinger of what other states can expect in the near future. Indeed, legislators at the federal level and a handful of other states throughout the nation have been considering similar measures.

Even if such a measure or requirement isn't mandated by legislation, other organizations and entities are calling for the curtain to be pulled back on hospital pricing by pushing for its overt publication and for increased general awareness of the costs associated with hospital care.

Hospital executives have long maintained and lobbied that hospital pricing is too complex and too market-specific to allow for the kind of meaningful comparison that pricing transparency is designed to offer and promote. However, that shroud of complexity is fast losing its plausibility in the eyes of those who are challenging healthcare organizations to be more forthcoming with their pricing algorithms.

Consequently, whether or not hospital executives are required to release their rates, the writing is on the wall and the message is clear: Expect more transparency in the future.

Rationales and Ramifications

So why is the issue of transparent pricing looming so large? Most likely, it's a reflection of the prevailing, and perhaps substantially based, belief that increased economic accountability will lead to stabilizing healthcare costs, which continue to outpace the general rise in consumer price index and every other relevant measure. Indeed, just about everyone, from politicians to corporate executives are seeking solutions to the unrelenting rise in healthcare costs—especially hospital

prices. This same prevailing belief explains why employers and other groups applaud and support the increase in health spending accounts and other market mechanisms that encourage greater accountability and increased engagement by healthcare consumers.

So what if prices become more transparent and consumers more savvy? What's the big deal, one might ask? The significance lies in the ramifications for the way the healthcare payment or monetary exchange works. In the immortal words of some astute anonymous sage: "This changes everything."

In short order, the entire structure of opaque, third-party negotiated pricing collapses. Consumers now know the prices, and because they are paying more out of their own pocket, they care more about the cost. They start shopping on price, and the Wal-Mart model of lowest price for goods/services provided takes precedence.

Predictably, some healthcare executives will argue that "patients would never put price over quality, when it comes to health care." Yet if that's the case, it is belied by recent market phenomena, such as the increasing number of medical patients who are flying to places like India to have their heart surgery performed for a fraction of the cost. And it clearly doesn't resonate with healthcare consumers who in increasing numbers are opting to receive their primary care in the "minute clinics" that are springing up in Target Stores and CMS Pharmacy outlets. And the list goes on.

The harsh reality is this: Transparent pricing will quickly disclose that the practice of medicine is much more of a commodity than many in the healthcare world would like to believe. For a long time, people in this industry have largely assumed that new players have been dissuaded from entry into the market by the higher perceptions of quality that a hospital or a health system provides. Yet the recent and rapid rise of delivery venues outside the traditional hospital clearly demonstrates that this belief is not supported by either empirical evidence or market reality.

If retail pricing becomes more commonplace, the very dynamics of hospital delivery systems are likely to change, which is exactly what people who regard the current system as suboptimal are hoping for. However, for healthcare leaders, such change could dramatically alter how the business is conducted, forcing not only a new operating environment, but also a significantly different managerial mind-set.

How to Prepare

Given the current market forces, and the seeming predilection of patients to gravitate to more economical settings, how should you prepare for price transparency?

Make the issue a priority. The important first step is to recognize that the movement to transparent pricing is imminent and irreversible. Given that realization, your organization's approach and plan of attack should be given high priority and senior-level attention. The action plan for dealing with transparency should be developed by senior executives and should include everything from developing a pricing comparison grid to assessing how best to communicate the information to interested parties, and when to communicate the information.

Unfortunately, many hospital executives don't have a good handle on their pricing structure. Obviously, high priority must be given to working with the financial staff to accurately assess pricing for the more common procedures and services. If your organization does not have a reliable and robust cost accounting system, consider either purchasing such a system or working with outside data management firms to obtain the necessary information.

Compare pricing. The next step is to determine how the organization's prices stack up against the competition. This critical exercise will provide a basis for outlining your organization's communication message and strategy, as outside groups will eventually work toward publishing such data

for public awareness. Again, you may want to work with outside data management firms or other external entities in assembling this information. Remember, trying to hide behind the excuse that "it's virtually impossible to compare our prices with the competition due to complexity" is not a viable response or strategy, as has been borne out with the publication of quality data.

Set up clear communication channels. Communication at several levels will be essential. If your organization's prices are notably higher than those of the competition, you had better have a good reason why, or you need to reevaluate your pricing configuration. Transparent pricing has the potential to change the communication dynamic within a hospital or health system. Pricing promotion and publication is no small thing—just ask other industries that have experienced a sudden dramatic transformation from a highly regulated pricing and market structure to a retail orientation. This type of transformation looms inevitably for health care, and is a sea change that will either galvanize senior executives into action or lead to another kind of upheaval—a "C" change within the executive suites of organizations that cannot adapt.

Carpe Diem

In sum, as with so many movements and forces on the horizon, transparent pricing offers not only substantial challenges, but also market opportunity. Organizations that are well prepared for greater pricing transparency are more likely to realize this market opportunity by using it as yet one more means of market differentiation. ●

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