



Pricing Transparency: Lessons Learned

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- **Overview of Market Forces**
- **Reality of Pricing Transparency**
- **Creating Defensible Pricing – The 3-legged stool example**
 - **Cost**
 - **Market**
 - **Contracts**
- **Fit With Strategic Pricing**
- **Impact on Pricing Transparency**
- **Case Study in Leadership**
- **Conclusion/Discussion**



Learning Objectives

- **Understanding the key components of your current pricing structure**
- **Effectively determining and documenting an organization's pricing structure**
- **How to Create Defensible Pricing**
- **Difference between Defensible and Strategic Pricing**
- **Understanding Current Pricing Impact on Demand for Pricing Transparency**

The Reality of Pricing Transparency

- ***The Background and the Basics***
 - ***Why it Happened***
 - ***Who is Driving the Initiative***
 - ***What Mean for Healthcare Organizations***
 - ***How to Respond***
- ***What Some Organizations are Doing***
- ***Practical Applications***
- ***What Does it Really Signify 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 Happened 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***
- ***Keep in mind that illusive concept of “value”***

Who is Driving 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***
- ***State Associations (i.e. THA, MHA, etc.)***

Humana in Milwaukee

An Early 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/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***
- ***Internet proves democratization and commoditization of healthcare services***
- ***Publicity on hospital prices increases interest, awareness and concern (i.e. CBS 60 Minutes)***
- ***Have we reached an inflection point for consumer empowerment?***

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 – recent drive by Michael Leavitt, HHS***
- ***AHA, THA, HCA—All the acronyms are in sync and aligned***

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”***

Increasing pressure
to become more
TRANSPARENT
in pricing

How can we become
more *transparent* in our
pricing if we don't even
UNDERSTAND our
pricing ourselves?

What To Do?

- **With so many different options and pricing definitions, what are we to do?**



Understanding the Pricing Configuration

- **Get a clear understanding of the current pricing structure and impact**
- **Create Defensible Pricing**
- **Consider a three-tiered approach**
- **Review the options and the ramifications**
- **Outline the opportunities for additional strategic pricing**
- **Profile how the shift would align competitively**

Understanding Current Pricing Structure

- **Where did current prices come from?**
- **What methodology was used?**
- **When was the last comprehensive pricing review?**
- **How does our price compare to our cost?**
- **On which activity-based measures do we price services?**
 - ✓ Per Case
 - ✓ Per procedure
 - ✓ Per minute
- **How do we compare with our market?**

Creating Defensible Pricing

- **If someone off the street asked you to explain your current prices, could you do so in a “defensible” manner?**
- **Defensible - are prices based on our costs, market rates and/or contracted payment amounts?**
- **Front page readiness –**
 - ✓ **If the local newspaper reporter asked why a diagnostic procedure charge is \$XXX, could we reasonably explain and defend our pricing methodology?**



Defensible Pricing – A Three-Tiered Approach



Cost Based Approach

- **Do we know exactly how much it costs to perform any given procedure, lab service, drug, etc.?**
- **People want to know how the price of the service compares to the cost of providing the service.**
- **Is there a cost accounting system in place? Does it address direct and indirect costs by procedure?**
- **If not do we have direct costs by service line and/or department?**
- **Can we determine a reasonable allocation of overhead expenses?**

Cost Based Methodology – Example

	<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>
TOTAL COST	\$ 14,584,774
January-December 2005 Minutes	769,980
Cost per Minute	\$ 18.94
Charge per Minute	\$19.21
Cost to Charge Ratio	0.99
Benchmark Cost to Charge (Revenue Code 360)	0.38
- Charge per benchmark	\$ 49.85

Cost Based Approach

- **Without understanding the cost for any given product or service we provide, we cannot determine whether or not we are making or losing money**
- **Once we understand the cost structure for any given product or service, we can then begin to determine our methodology and overall strategy for how much to charge**
- **Once we understand our cost and overall methodology for pricing our products and services, we then can explain and/or “defend” our pricing**



Market Comparison – How Do We Compare With Our Peers

- **What do other competitors in our market charge?**
- **How does that compare throughout the country?**
- **Does our pricing methodology make sense given our market position and market tolerances?**
- **Where do we want to position ourselves within our market?**



Market Comparison – Example

Below peer average

APC/Fee Amount	HCPSCS	Definition	Facility Volume	Charge	Peer Group (Peer Minus Avg Charge	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

- **State-required charge databases (i.e., Pricepoint databases)**
- **Top 30 DRG's at CMS website**
- **Ingenix and/or other data service providers**
- **Local competitor websites**
- **Other**

Contracts – Understanding How We Get Paid

- **Determine your current contracting structure (case rates, per diems, DRGs, etc.)**
- **Determine whether any pricing impact exists**
- **Determine the structure you want in place**



Defensible versus Strategic Pricing

- **Understanding your pricing charges based on your costs, market and contracts allows you to not only have defensible pricing, but begin to be strategic in your pricing methodologies.**
- **Also, understanding the way in which you are reimbursed will allow you to determine whether any pricing impact exists, and perhaps how much to mark-up and/or mark-down prices**



Strategic Pricing – a.k.a. cost shifting

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 Pricing “patient visible items” and cost shifting elective and price sensitive procedures.

How to Respond *A Plan for All Reasons*

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

ProHealth Care: Case Study-Being Proactive

- Two hospital system; Oconomowoc Memorial and Waukesha Memorial
- Low-cost leader in SE Wisconsin—no competitive benefit
- **2002**—Published the competitive costs in the market (Milwaukee region) for top-12 DRGs in a document called “The High Cost of Health Care”
- Story and info was picked up by NBC Nightly News, labeled as “historic”
- 2003--Incorporated cost/quality value proposition in new brand advertising focused on consumer, “ProCommunity,” “ProActive,” “ProYou”
- Updated the ‘High Cost of Health Care’ to again tout preferred pricing position in the region

ProHealth Care (con): Subsequent Years

- **2004**—Decided to test internal cost data base starting with “most often queried” charges
- From that foundation, developed cost data base and began using call center to answer consumer pricing queries — 420 calls in the first quarter with minimal promotion
- Expanded “High Cost of Health Care” to include quality data as well as pricing differential
- Started distributing newsletter on cost and quality to area (top 500) employers
- 2005--Offered pricing and quality data on re-designed website www.economowocmemorial.org : 2,147 hits in two-month period

ProHealth Care (con): Impact

- **Value proposition promoted to local employers through targeted publications; to consumers through direct mail Employers have registered approval with adoption of ideas and encouragement of employees to use ProHealth**
- **Opened up a dialogue with key audience (employers) that did not exist before**
- **Public has been very responsive, interactive and supportive of pioneering effort in pricing**
- **Wanted to be ahead of the curve in Wisconsin and “determine and design their own destiny” in terms of state-wide programs or employer mandates**

Pricing Pioneers: Others to Watch

- **Beth Israel-- CEOs blog seeking solutions and requesting ideas: transparency is the goal**
- **Froedtert Memorial—Another Wisconsin example**
- **Oregon Health Sciences University—Leading the charge among the academic centers with relative comparisons and media initiative**
- **Centura in Colorado—Major system in a highly visible market**
- **HCA – the entire corporation eventually**

What it Signifies on a Broader Scale

What's This Really About?

- ***A move toward price transparency is only the beginning***
- ***Now just charges (who knows, who cares?)***
- ***Commodity versus proprietary pricing***
- ***This represents a possible sea change in healthcare – the inflection point?***
- ***To follow—quality/value transparency, retail orientation, extreme competition***
- ***What is the best time to begin the transformation to value-based pricing***

Lessons Learned And What to do About It

- ***Myriad entities and market forces are pushing price transparency because it needs to happen (right thing, right time)***
- ***For the present, that translates into (largely) charges – so what?***
- ***This movement is part of a larger transition, call it an inflection point***
- ***Is your organization preparing for that?***
- ***Enterprises should know cost structure, be transparent and communicative***
- ***Differentiate – compliant vs. salient***



Questions/Discussion

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