

PRICING TRANSPARENCY

Understanding Your Pricing Structure

Presented By

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HFMA'S WINTER SEMINARS

Chicago, IL: December 4-7

Phoenix, AZ: January 22-25

Charlotte, NC: February 12-15

Presentation Agenda

- Learning Objectives
- Understanding Current Pricing
- Creating Defensible Pricing – The 3-legged stool example
 - Cost
 - Market
 - Contracts
- Fit With Strategic Pricing
- Impact on Pricing Transparency
- Consider Implications
- 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

Reality Reminder

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? If so, does it address direct and indirect costs by procedure?**
- **If no cost accounting system, 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**



Contract Matrix – Understanding Impact of Pricing

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	
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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.

Strategic Pricing Impact (continued)

		CHARGES			PAYMENTS		
		Initial	Final	Change	Initial	Final	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: **\$ 3,045,484**

Impact on Transparent Pricing

- **Once you have a good understanding of your current pricing structure and methodology, you are much more prepared to be “transparent” with your charges (put on website, reporting to state agencies, CMS, etc.) as these charges are now methodical and defensible.**
- **This process is step 1 as it only addresses the gross charge for the provided service. The next phase of the Transparent Pricing initiative will need to drill down further and address what amount the patient will actually pay.**

The Reality

We realize current transparency initiatives are addressing the gross price only and is not necessarily reflective of what the patient pays.

For example: The hospital with the highest price as the lowest reimbursement (and lowest co-insurance)

	<u>Charge</u>	<u>Reimbursement</u>	<u>20% Co-insurance</u>
Hospital A	\$ 1,961	Fee Schedule \$ 1,600	\$320
Hospital B	\$ 2,843	45% \$ 1,280	\$256

Historically the chargemaster is the avenue to increase price (typical annual increases by department) to optimize percent of charge reimbursement therefore inflating the visible charge of the procedure.

- **Data-driven approach (including cost, market and contract factors)**
- **Senior level interest and involvement**
- **Scenario planning to profile impact**
- **Organizational communication**
- **Ensure pricing is part of the overarching strategy**

Questions/Discussion



For Further Information Please Contact Us

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