

# NAHRI

JULY 2019 | Vol. 3 No. 3

## JOURNAL

# SEE THE BIGGER PICTURE MAKE THE CONNECTIONS





# Transparent pricing may be closer to opaque for hospitals

by Caroline Rader Znaniec, MBA, MS-HCA

Beginning in January 2019, CMS mandated that hospitals publish their standard charges. CMS provided nebulous guidelines, and the results from hospitals were varied.

A quick internet search on hospital pricing reveals many different approaches to CMS' mandate. Searching for "hospital price transparency" provides articles, opinions, and links to individual hospitals that have published their standard charges on their hospital webpage.

The results from hospitals are inconsistent, which is not too much of a surprise given the nature of the instructions CMS published. As someone in the revenue integrity profession, I can appreciate details and specifics—qualities that

CMS' guidelines unfortunately lacked. Revenue integrity professionals are deeply familiar with the intricacy of the charge description master (CDM) and charging, and CMS' mandate raised many questions the agency has yet to answer, including the following:

- Are procedure, supply, and pharmaceutical codes required?
- Is the revenue code required?
- What about the unique CDM identifier, National Drug Code units, and supply model numbers?
- Should there be any cost and markup detail?



The list of questions goes on and on. Faced with a lack of specifics, hospitals interpreted the guidance in the following ways:

- Some did not provide their standard charges—at all
- Some did not provide their standard charges in a machine-readable format
- Some provided limited information such as description and price only
- Some provided their statistical and zero-dollar line items, while others did not

## Mixed messages

In performing my search, I viewed the standard charges published by various hospitals and the accompanying messages to consumers explaining the nature and purpose of the information. For those not in the industry, much of what is provided on the hospitals' webpages is confusing. The jargon, acronyms, and explanations of why the charges don't really represent costs rarely clear things up for the average consumer. And the passive-aggressive tone of some messages could make consumers think that the hospital is providing price information solely to comply with CMS' mandate and is uninterested in helping the patients it serves.

Early this calendar year, many hospital leaders felt strongly that this mandate did not help the general public. Some believed that the mandate was a ploy to increase, if not create, price competition in many markets and for consultants to influence the industry's approach to pricing. Some speculate that payers were also using the information to question hospitals' contractual compliance with annual price increase attestations. Others saw the mandate as a baby step to additional transparency requirements within the healthcare industry.

The government understands the nationwide discrepancies in pricing. Studies have shown that employer-sponsored insurance programs are paying

many times more than CMS' rates. For many of us in the revenue integrity profession, this is not news. Most hospitals use CMS' rates as a starting point or base for their markup strategy. Hospitals have done this for years because their contracts will often reference back to CMS. Perhaps they are paid a percentage over CMS' rates, or the fee schedule provided is clearly a reflection of a consistent markup over CMS. The studies are now getting attention (again) with CMS' help. In 2013, *TIME*<sup>®</sup> *Magazine* published an article about hospital pricing titled "[Bitter Pill: Why Medical Bills Are Killing Us](#)." Although that article sparked some awareness of pricing concerns, it did not result in any immediate action in the industry or from CMS.



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## Ask the right questions

As things stand now, there is more work to be done. In looking at a hospital's standard charges, revenue integrity professionals should ask themselves the following questions:

- Can charges be related to costs? Are costs known? As the *TIME* article pointed out, prices have been set years prior at many hospitals, and they were set at a markup over CMS' current-day payment rate. Since that time, the payment rates have changed, the reimbursement structure has changed (think composite rates), and annual across-the-board increases have compounded the issue.

Prices have lost their relationship to costs and in many cases to CMS' payment rates.

- Do the charges make reasonable sense? Are there varying charges for the same CPT®? It's arguable that charges may differ by cost center/department, but do they differ enough to have a variance in charging? Charges are already often set higher than expected reimbursement—likely 200% over. Consider a patient who requires an EKG. Does that EKG really cost more to perform if the patient presents to the emergency room versus as a scheduled outpatient? Is it really more costly to perform when the patient was admitted that same day?
- Has the cost of providing the service or procedure been evaluated for cost savings? Too often in pricing, hospitals concentrate on the gross charge of an item, service, or procedure while the reimbursement may change. A more thorough review of pricing to include charge capture workflow may indicate

inefficiencies and other cost-saving opportunities to increase the profit margin.

- Do the charges reflect the intensity of the service provided? As CMS has packaged payment for items, services, and procedures over the last 20 years, the relationship to intensity of a service by procedural code has lessened. For example, in most instances, under the outpatient prospective payment system, CT with contrast is paid the same as CT with and without contrast. If a hospital uses a direct markup over the CMS payment rate, the intensity of the service may be lost.
- Is the hospital charging for routine items and services? In my review of the published rates, I saw several items with a charge that many (including payers) would consider routine. And while the CMS guidance is a bit gray in this area for hospitals, an industry standard has developed saying that, at the least, gloves, gowns, masks, and the like can't be charged to the patient.

## PRICE COMPARISONS

While there is a requirement to publish standard charges, there is no CMS mandate to standardize charging practices (with the exception of my home state of Maryland). Therefore, it's not reasonable to expect to compare pricing across hospitals for the same service by CDM line item.

### Here is a scenario to consider:

Three hospitals within the same city limits offer similar services. A patient requires a diagnostic colonoscopy. The patient has a high deductible and is shopping around for the best rate. Hospital A has an all-inclusive flat rate, Hospital B bases its charge on time and materials, and Hospital C has a combination of flat rate, time, and materials. The patient's review of the online CDM standard charges does not reveal these variances. The patient chooses Hospital C, not realizing it is actually the most expensive option.

Hospital	Procedure	Supplies	Pharmaceutical	Anesthesia	Total
Hospital A	\$750	Included	Included	Included	\$750
Hospital B	\$250/15 minutes	\$50	\$25	Included	\$575
Hospital C	\$700	\$100	\$50	\$50/30 minutes	\$900

- Are common items egregiously priced? Should the patient shop at the big-box stores first? Closely related to charging for routine items and services is charging for items that could be purchased at a local big-box store. As transparency becomes more prevalent, sensitivity to the patient's experience will become more critical. You may need to have conversations with patients to explain why an elastic bandage that costs \$5 at a local store is \$25 at the hospital.

The Trump administration has indicated that more is to come regarding pricing transparency for hospitals. Until that time, hospitals should continue to evolve in their charging practices.

To understand more on this topic and other revenue integrity topics, join us at the Revenue Integrity



Symposium, October 15–16 in Orlando. I'll be discussing price transparency requirements and the strategies utilized nationally, digging into the pros and cons to the various approaches, at the session "Seeing Through Pricing Transparency." View the full agenda [here](#). **NJ**

**Note:** Revenue integrity professionals wishing to earn support from program administrators to attend the 2019 Revenue Integrity Symposium may adapt NAHRI's justification proposal letter. Click [here](#) to view and download the letter template.

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