

# Pricing Transparency: Panacea Opinion on the CMS Proposed 2019 IPPS Rules

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On April 24, the Center for Medicare & Medicaid Services (CMS) released the proposed 2019 Inpatient Prospective Payment System (IPPS) rules. These proposed rules include “requirements for hospitals to make public a list of their standard charges via the internet,” further underscoring the ongoing CMS initiative for healthcare price transparency.

## A Quick History of Healthcare Price Transparency

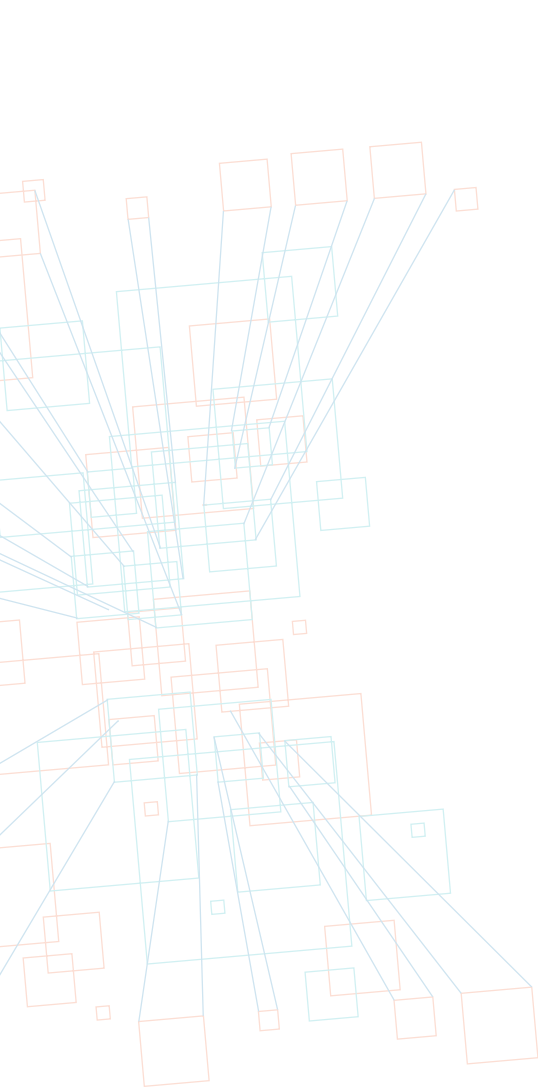
Discussions surrounding price transparency in healthcare actually began over 15 years ago. The push picked up steam in 2006 when President Bush signed an executive order that required four federal agencies to begin pulling charge and payment data, among other things, with the goal of making it all available for consumers.

Next, section 2718(e) of the Public Health Service Act (part of the Affordable Care Act) required hospitals to either publish and update their charges on an annual basis or have policies in place to make those charges available via inquiry. CMS encouraged hospitals



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to proactively provide consumer-friendly communication of their charges with the goal of helping patients understand their potential financial liability for services obtained at the hospital as well as enable them to compare charges for similar services across hospitals.

Most recently, Alex M. Azar II, Secretary of the Department of Health and Human Services, said, “The administration is calling on not just doctors and hospitals, but also drug companies and pharmacies, to become more transparent about pricing and outcomes of their services and products. And if that doesn’t happen, we have plenty of levers to pull that would help drive this change.”

The 2019 proposed rule on pricing transparency is the CMS’s logical next step, referencing the potential enforcement for noncompliance for the first time in the history of the discussions surrounding healthcare pricing transparency.

## Industry Concerns with Pricing Transparency

Many valid arguments can be made around the imperfect nature of the proposed CMS pricing transparency rule:

- ❑ Standard prices in the chargemaster can be confusing to patients due to the different levels of patient acuity and/or bundling of services.
- ❑ Though providers already comply with the ACA requirements, consumers are simply not utilizing the processes in place to ascertain their cost information.
- ❑ It would simply be better for the information to come from health plans, leaving hospitals to only focus on the uninsured and out-of-network patient costs.

Unfortunately, there is no crystal ball that can tell us what the final 2019 rule will be, or even if the issue will get kicked down the road to 2020 or beyond. However, it is our recommendation that forward-thinking hospitals and health systems create a plan around their pricing processes, so their response is strategic rather than reactionary.

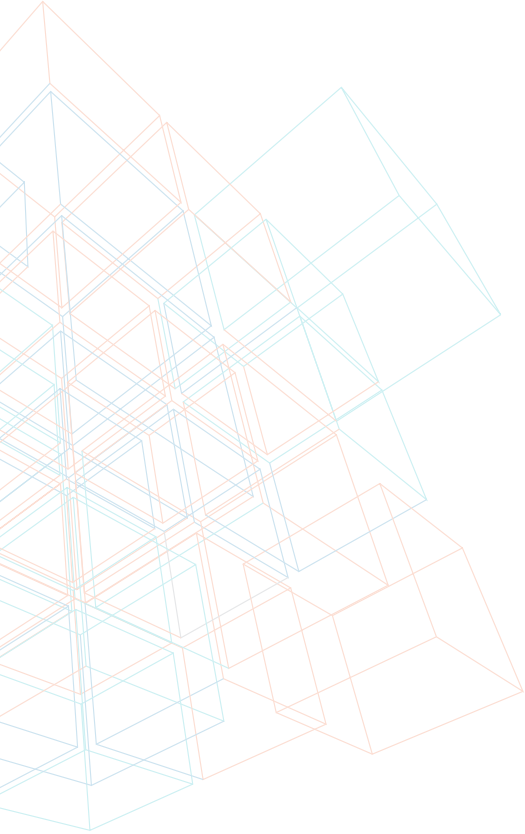
## Strategic Pricing Transparency

At the very least hospitals and health systems should be taking several simple steps to begin preparing for the requirements and demands of increased pricing transparency.

### 1. Ask Questions

First, sit down with the team responsible for your pricing and ask them six simple questions:

1. Do you know the basis for your current line item prices?
2. Are your line item prices rational compared to other prices in your CDM and across your health system?

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3. Are your line item prices rational compared to other hospitals that you consider peers?
  4. Can you, at a minimum, defend your line item prices based on market data, payer fee schedules, or a reasonable operating margin plus cost mark-up to cover shortfalls (i.e. Medicare, Medicaid, charity care, bad debt, or unreimbursed or under-reimbursed costs such as teaching program costs), or a hybrid thereof?
  5. Can your organization's leadership articulate the rationale behind these prices if they are all made public?

If you're not comfortable with the answers to all of these questions, then a thorough strategic pricing analysis may be necessary to ensure the defensibility of your organization's pricing.

## 2. Consider Technology

Consider using specific software technology to develop and maintain your defensible chargemaster prices as unit costs, market data, payer contract terms, case-mix and volume, and financial and strategic objectives change each year.

## 3. Plan Communications

Develop both an internal and external communication plan to articulate your pricing strategy and policies. The inability to articulate a clear, concise explanation on how a price is derived can sometimes cause a larger public relations headache than a negative patient outcome.

## 4. Focus on Relationships

Establish trusting relationships with your patients. Publishing chargemaster prices alone will not provide patients with an upfront estimate of their responsibility nor an explanation of their uncovered balance. However, should hospitals be required under regulation to publish chargemaster prices online, consumers may inquire about specific charges or form decisions and conclusions regarding the financial risk associated with choosing your hospital for care or in assessing the reasonableness of their balance due. You must be prepared to address these inquiries.

## 5. Educate Your Staff

An important part of building relationships with patients is educating your staff to effectively communicate during the patient price inquiry process. Make sure your staff know your patient demographics as well as your average charge and payment by service category and by payer. Being able to provide your patients with an anticipated payment level or range based on average charges and typical discount rates for in-network payers and separately for out-of-network payers provides them with a springboard and embraces transparency. However, be sure that such estimates provide adequate disclaimers and legal protection since estimates can be far different than the final claim an insurer or patient receive due to incomplete diagnosis and procedure information at the time of the estimate, unexpected complications during the procedure, and other reasons.

## 6. Decide on Transparency Level

Determine the level of transparency your organization is comfortable with. Is posting your chargemaster enough to give patients the information they need? If your answer is no, then your hospital or health system may want to consider one or more of the following:

- Post CDM along with approximate average discount for different payer classifications. For example, you could include in-network and out-of-network IP and OP by Medicare, Medicaid, commercial, managed care, HSA, self-pay, etc.
- Post average charges and payments by MS-DRG, APC, ASC, private outpatient HCPCS, ED all-inclusive and broken-out between in-network and out-of-network and by payer category.
- Perform product-line profitability analysis and other analytics to help determine reasonable discounts to offer self-pay patients, those with health savings accounts, and those with out-of-network insurance who are responsible for large balances due, and any case where patients do not qualify for other financial assistance. Understanding the profitability of your current payment levels at the procedure and payer levels is imperative before deploying a discount program.

## 7. Automate Publication

Establish an easy-to-use and automated mechanism to initially publish online and continuously update your web-site. This will make it easy to publish changes during the year as your organization updates your chargemaster and prices and add any additional information you decide to (or are required to) share with consumers. In today's data hungry world, people are accustomed to having information at their fingertips through an easy-to-use website or, more commonly, a smartphone app. Be sure to include proper disclaimers to educate consumers on the need for them to understand their insurance plan benefits and their in-network versus out-of-network status and how that could drastically impact their own out-of-pocket expense.

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## Conclusion

To summarize, we recognize that this CMS initiative may not be the answer to pricing transparency. However, it should be viewed as an opportunity to proactively enhance the public's confidence in your healthcare delivery. It provides us the opportunity to collaboratively work with patients to establish goodwill and consumer loyalty in the marketplace.

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