

# 61% of hospitals say future compliance with price transparency will impact financial processes: HFMA poll

An HFMA-Strata survey found three in five hospitals and health systems are revamping financial processes in light of price transparency.



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**A**ctions organizations are taking to revamp their financial processes include more closely tracking patient financial responsibility, total cost of care and negotiated rates, and rethinking commodity-service prices. These results were identified in a March 2021 survey of 275 healthcare finance executives, sponsored by Strata Decision Technology, which also found:

- 60% of respondents are working more closely with operations to impact the total cost of care.
- 20% of respondents said their approach to pricing has changed, with 17% citing plans to overhaul their chargemaster in the future.
- 35% of respondents plan to negotiate rates above current levels for all or certain payers.
- 60% of respondents are working more closely with operations to impact the total cost of care.

These results appear against the backdrop of CMS's proposal to increase the penalty for some hospitals that do not comply with the Hospital Price Transparency final rule.<sup>a</sup> Specifically,

a. CMS, CMS proposes rule to increase price transparency, access to care, safety & health equity, Press release, July 19, 2021.

CMS proposes to set a minimum civil monetary penalty of \$300 per day for hospitals with a bed count of 30 or fewer and \$10 per bed per day for hospitals with a bed count greater than 30, not to exceed a maximum daily dollar amount of \$5,500.

What does this mean for a full calendar year of noncompliance? The minimum total penalty amount would be \$109,500 per hospital, and the maximum total penalty amount would be \$2,007,500 per hospital.

Even without these financial implications, there are compliance-associated challenges.

“Price transparency really brought to light a number of issues in terms of being able to provide patients with good, trusted, market-sensitive pricing for procedures or services they want to receive,” said Elizabeth Kirk, senior vice president of Strategic Services at Strata Decision Technology. “What we’ve found in working with numerous clients is that there are a number of problems that need to be addressed before health systems are even ready to post prices publicly.”

## ADDRESSING PRICE TRANSPARENCY CHALLENGES

Perhaps the biggest challenge is that most chargemasters are not designed for user-friendly price lookups. That’s because a number

of different charges must come together for a single procedure or service. A knee replacement, for example, must include charges for pharmaceuticals, supplies, staffing cost and physician services. A single line item in a chargemaster doesn't provide an accurate picture of total charges a patient would incur, she added.

Applying payer rates is also a challenge for many organizations. "You can't just take charges for a group of services and multiply them by a payer's reimbursement rate," Kirk said. "There are a number of complicated payer rules. It may be that drugs and implants are paid differently from medical services, for example." To provide an estimated price for one procedure for one patient, it is often necessary to apply multiple payer rules. The complexity of doing this for many different types of procedures and payers is a barrier for many health systems.

In addition, the chargemaster doesn't take patient-specific circumstances into account. "The biggest challenge is coming up with a good number," said Tim Cashman, CFO at Estes Park Health, a 23-bed critical access hospital (CAH) in Estes Park, Colorado. "It really depends on the patient's specific needs. Every bill is going to be different."

Although Estes Park Health is in a rural area, Cashman said nearly 4.8 million people come through the community annually, mostly in the summer, to go hiking in Rocky Mountain National Park. His organization sees its fair share of hiking-related injuries as well as high-altitude pulmonary edema — neither one is easy to predict from a cost perspective.

To meet the price transparency requirement, Estes Park Health partnered with a vendor to make its chargemaster available to the public. However, Cashman admitted it's not an ideal solution because the prices that patients see are estimates — not fixed quotes.

At Truman Medical Center in Kansas City, Missouri, internal teams worked together to launch a price transparency tool that includes payer-specific estimates. "This is a major step toward getting consumers the information

## How to work with operations to manage the total cost of care

As organizations think about price transparency, they're also focused on the total cost of care, said Alina Henderson, senior director of Advisory Services at Strata Decision Technology.

"To really understand true total cost of care, especially as we're seeing volumes shift from inpatient to outpatient, you need to understand the combined inpatient and outpatient cost of care," Henderson said. "You need to be able to bring together provider billing and hospital billing data."

Henderson says many organizations are shifting toward a horizontal, encounter-level view while also putting more onus on operational leaders to control and reduce costs.

"Operational leaders are increasingly being held responsible for managing not just labor expenses for their departments but also the utilization of resources for specific types of services," she said. "To that end, operational leaders are engaging with clinical teams and finance to better understand and affect the cost of care."

However, this shift requires a different operating model, said Henderson. "This is where organizations are really leaning in," she said. "If you don't set expectations and create a model where people feel empowered and supported to collaborate and make decisions that will reduce the cost of care, then you're not going to see sustainable change. You're going to see ad hoc improvements."

Henderson provided several questions to consider as organizations make this shift:

- How will the organization coordinate efforts between service line leaders at multiple hospitals within the single system?
- To what financial metrics will operational leaders and service line leaders be held accountable?
- What type of data analytics will operational leaders need to monitor these metrics?
- Will operational leaders own the profit and loss statement for their service line? Will they participate in clinical strategy discussions? Or both?

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they need to make proper decisions,” said Seth Katz, vice president of HIM and revenue cycle at Truman. “It’s not the final step. We want to keep refining it to some extent — to include more than the required 300 shoppable services and give consumers a more interactive experience.”

Katz says the organization’s philosophy is that price transparency is what’s best for patients and the marketplace, which is why it has complied with the regulation since day one. “Consumers expect this, and we should accommodate [them],” he said. “They want to know what they’re getting for their money just like they do in any other service industry.”

#### **BECOMING MORE STRATEGIC WITH PRICING**

Despite these challenges, organizations are forging ahead with a more strategic approach. That’s exactly what Truman Medical Center is doing. For example, Katz said the organization is looking at high-utilization services such as mammograms and trying to be more strategic with its pricing.

“Being able to see what other hospitals are charging is important. As long as we can cover costs and make a profit, there will be more of an effort to come in under the competition,” Katz said.

Being able to market the organization as a low-cost provider where patients can save money is paramount. “We want to be able to say, ‘Come here to get high-quality care, and you’re not going to get price gouged for it,’” Katz said.

However, in order for price transparency to foster competition, most or all hospitals must comply and make their data available, said Katz. “It’s unfortunate that price transparency came along at the same time as COVID-19 because the pandemic has obviously taken much of the attention away from the effort,” he added.

Truman Medical Center is also paying attention to Medicaid charges in light of the state’s recent Medicaid expansion. “We need to adjust our charges to make sure we’re going to maximize revenue for these patients who are finally going to have healthcare coverage,” Katz said.

Health systems are also starting to look at how they can clean up their chargemaster, says Strata’s Kirk. “They’re looking at how they can bundle charges together, so the information is more patient-friendly.” Organizations are also partnering with technology vendors to estimate the negotiated reimbursement by payer at the line-item level so patients can see any specific out-of-pocket expenses they might incur, she added.

Kirk’s advice for organizations that are overhauling the chargemaster is to look at high-volume shoppable procedures for which there are varying prices across the health system. For example, is an unplanned X-ray in the ED the same price as a scheduled X-ray? Is the same procedure priced higher in a facility that is in an economically disadvantaged neighborhood when compared to facilities in more affluent neighborhoods? “These are the things that don’t reflect favorably on an organization when prices are published,” she said.

She also says to look at cost versus price versus reimbursement. “If the price is ten times your cost of what you’re reimbursed, that’s a signal that you can bring down the cost without having a lot of financial impact,” she said.

#### **NEGOTIATING MORE FAVORABLE PAYER CONTRACTS**

Organizations are also using price transparency as a bargaining tool to negotiate more favorable contracts with payers. For example, if an organization’s prices are lower than those of other

# 275

The number of healthcare finance executives who took part in the HFMA survey sponsored by Strata Decision Technology

providers in the local marketplace, but its quality metrics are equally as good or better, it makes sense to advocate for higher payments using data to support the argument, Kirk said.

That's what Truman Medical Center is doing. As a safety net hospital, the organization treats everyone regardless of their ability to pay, and commercial payers represent less than 20% of its total payer mix. Katz said price transparency will help the hospital understand payer variances within the Kansas City marketplace and gain leverage with payers. "If we can see that commercial payers are paying neighboring hospitals at a much higher rate — and we have the data to back that up — that might assist us in improving our rates and growing that line of business," Katz said.

## CONCLUSION

As organizations strive to comply with price transparency requirements and reduce the total cost of care, they'll need to involve operational leaders, engage in strategic pricing strategies and negotiate more favorable payer contracts. All of this requires a data-driven approach and industrial-strength analytics tools. Price transparency has accelerated the need for advanced analytical and reporting tools to better prepare providers for the short- and long-term. ■

About the author

**Lisa Eramo**, is a freelance healthcare journalist.