ARTICLE

Price Transparency Efforts Yielding Disappointing Results

As part of the federal government's efforts to promote price transparency, facilitate informed decision-making and increase market competition in healthcare, the Centers for Medicare & Medicaid Services (CMS) introduced the Price Transparency of Hospital Standard Charges regulation, effective January 1, 2021.[1]

Effectively, through this rule, CMS has mandated that hospitals and health systems publish not only standard charges (prices), but also various other pricing information, including gross charges, payer-specific negotiated charges (including minimum and maximum rates) and the discounted cash price. CMS mandates 70 of the 300 services that require pricing data; 230 services can vary from hospital to hospital.[2] Prices must be specific to an insurance health plan. Price information must also be made available in a "machine-readable" (downloadable) file. Failure to comply will result in a nominal $300/day fine. CMS recently stated that, "hospitals that do not provide their median negotiated rates could be denied Medicare payments."[2]

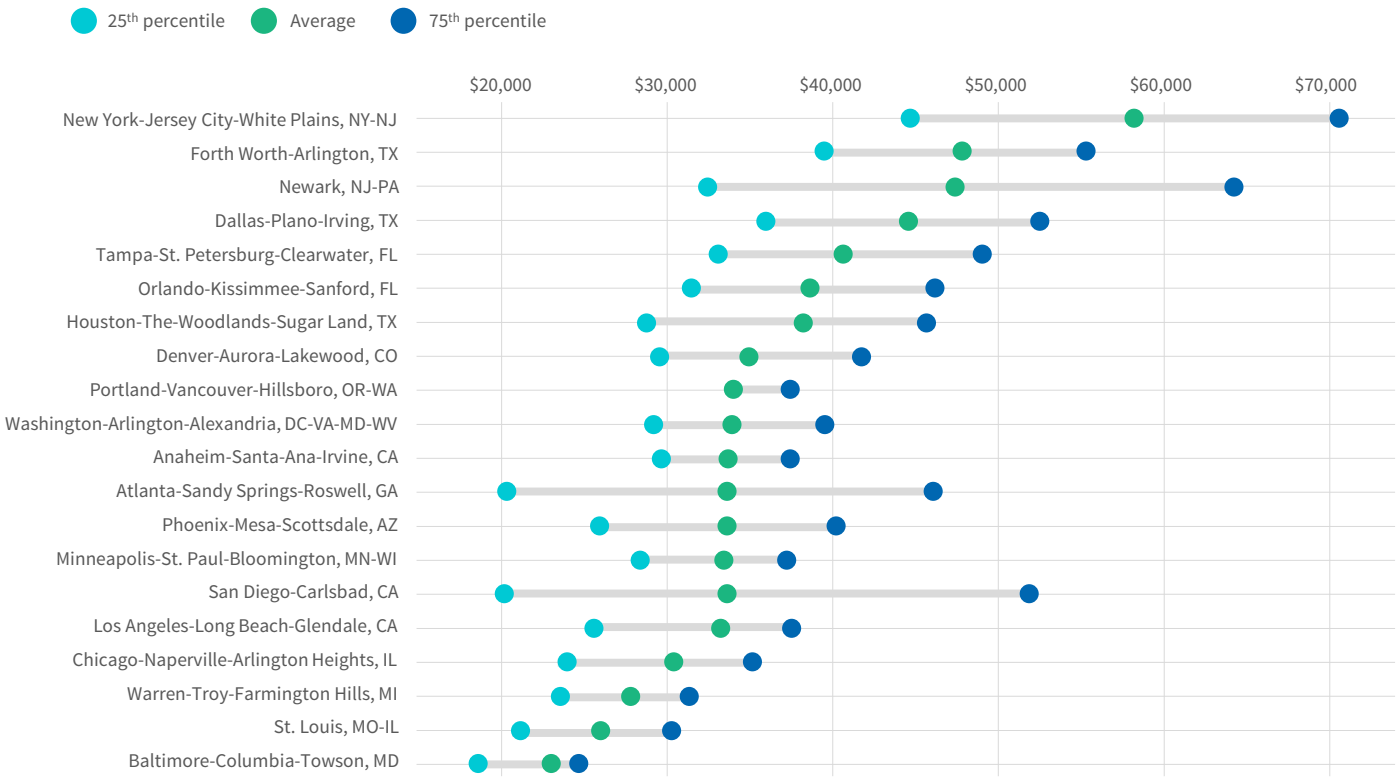
Although CMS announced on April 27 that hospitals need not submit on their Medicare cost reports payer-provider negotiated rates for Medicare Advantage plans, it does not eliminate the requirement for public disclosure.

We do not expect the Biden administration to "walk back" more substantive measures intended to promote price transparency.

The importance of price transparency cannot be overstated, as a wide disparity in procedural prices exists among hospitals located within a metropolitan statistical area (MSAs), as well as within the same hospital among different payers and within a specific payer, by plan.

In terms of price variation across MSAs, the New York MSA has the highest average prices for joint replacement surgery at $58,193, more than double the price in St. Louis and Baltimore. The range of prices [for joint replacements] in the New York MSA is exceedingly broad, ranging from $44,597 to $70,610, thereby highlighting the importance of price transparency and the potential for "shopping around," assuming no difference in the quality of outcomes.[3]

Exhibit 1 - AVERAGE ALLOWED CHARGES FOR IN-NETWORK JOINT REPLACEMENTS IN LARGE EMPLOYER PLANS BY MSA

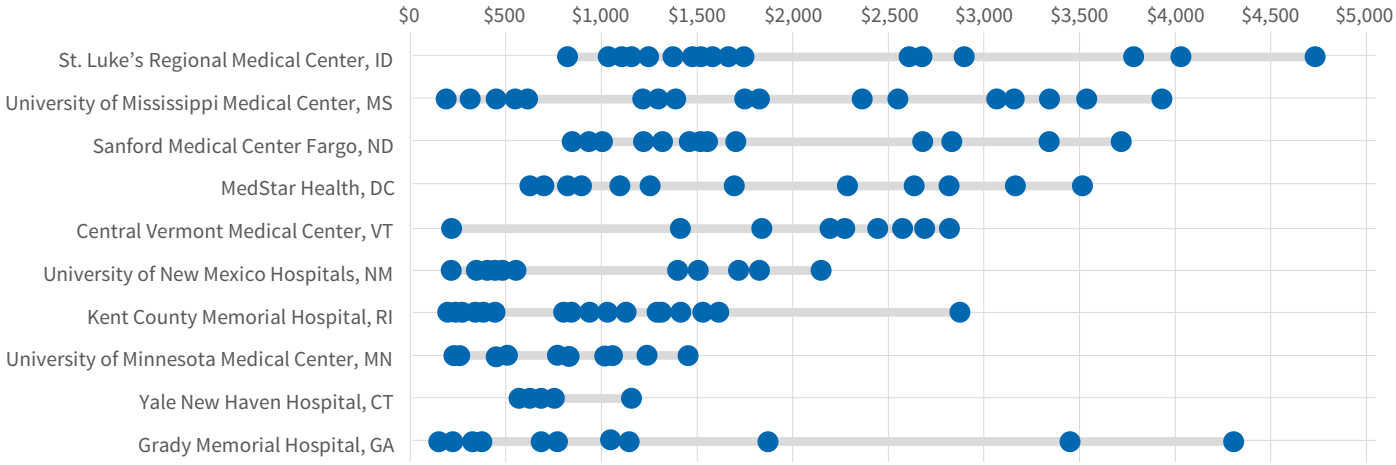


Note: Results shown for 20 largest MSAs, by populaytion, with available data.
Source: https://www.healthsystemtracker.org/brief/price-transparency-and-variation-in-u-s-health-services/

In terms of price distribution within a hospital, at St. Luke's Regional Medical Center in Idaho, an MRI of the lower spine is priced from $825 to $4,740, with most contracts between $1,039 and $1,752. This contrasts with Yale New Haven, priced between $556 to $1,158, with most contracts between $556 and $753. In general, Medicare Advantage rates are lowest, followed by Managed Medicaid and private insurance, the latter with a broad range of pricing based on negotiated prices by insurance carriers and health plans.[4]

An analysis by The Peterson-KFF found weak compliance with the hospital transparency rule. Most hospitals do not provide readily available, payer-specific negotiated rates. Partial (incomplete) reporting was common. Uncertainty exists on whether the price includes or excludes physician fees, and whether the calculation assumes an inpatient or outpatient procedure. Machine-readable files were also a concern, either unavailable, incomplete or non-specific (regarding type of plan).[4]

Exhibit 2 - DISTRIBUTION OF PAYER-SPECIFIC RATES FOR MRI OF LOWER SPINE WITHIN A SPECIFIC HOSPITAL



Note: Dot indicates payer-specific negotiated rates for MRIs of the lower spine
Peterson KFF Health System Tracker. Early results from federal price transparency rule show difficulty in estimating the cost of care; April 9, 2021

A "consumer-friendly" approach is required, but there are challenges finding the price transparency sites, and if found, challenges regarding ease of use and comprehension. For hundreds of hospitals, a Google web search for the specific pricing site was blocked (via embedded code).[5]

Implications

Hospitals are required to comply with the law. Price transparency will require price leaders to justify their premium prices, whereas those with moderate prices can potentially use their pricing strategy for competitive advantage, assuming equal quality. Evidence of a relationship between cost and quality is small to moderate, irrespective of direction.[6] Future mandates will require a determination of out-of-pocket costs, effective sometime between 2022 and 2024.[7] Average out-of-pocket costs for a family with employer coverage was $3,020 in 2018.[8] Higher out-of-pocket costs combined with rising consumerism increase the likelihood that patients will make cost comparisons.

Bottom Line

Compliance matters at multiple levels, particularly given the recent bipartisan push in Washington, D.C., for the Biden administration to begin enforcement. While it may be true that the daily fine amount is not monumentally punitive, the unquantified public and community relations risks also need to be considered, as well as the competitive advantages or disadvantages associated with an organization's compliance with price transparency regulations.

For these reasons, hospitals and health systems must complete work to conform with these new regulations. FTI Healthcare can support hospital and health system leaders with both a strategic and a tactical approach to price transparency. And make no mistake, these regulations are but a preliminary step in a longer journey towards healthcare consumerism, with personalized price estimators very likely to become a reality, enabling anyone to calculate their out-of-pocket expenses for health care services.

Endnotes

1. Medicare and Medicaid Programs: CY 2020 Hospital Outpatient PPS Policy Changes and Payment Rates and Ambulatory Surgical Center Payment System Policy Changes and Payment Rates. Price Transparency Requirements for Hospitals To Make Standard Charges Public. A rule by the HHS; 11/27/2019 https://www.federalregister.gov/documents/2019/11/27/2019-24931/medicare-and-medicaid-programs-cy-2020-hospital-outpatient-pps-policy-changes-and-payment-rates-and
2. Your Prices Are Public. Now What? Make Price Transparency Your Differentiator. Sutherland; February 21, 2021 https://www.sutherlandglobal.com/our-thinking/are-you-ready-for-your-prices-to-be-public
3. Price Transparency and Variation in U.S. Health Services. Peterson-KFF Health System Tracker; January 13, 2021 https://www.healthsystemtracker.org/brief/price-transparency-and-variation-in-u-s-health-services/
4. Early results from federal price transparency rule shows difficulty in estimating the cost of care. Peterson-KFF Health System Tracker; April 9, 2021 https://www.healthsystemtracker.org/brief/early-results-from-federal-price-transparency-rule-show-difficultly-in-estimating-the-cost-of-care/?mkt_tok=ODUwLVRBQS01MTEAAAF8ai-DVWxbfgM4A_xGGEWDDaTd1LGomnG4MNh0I9Y4cSxsg1kL9BMI5KFodIneygYIoMsyLNTqAT7KOM47XRTZnC9tjjrNXN9DDBRYJHux1ElS
5. How hospitals hide pricing data from web search results: WSJ. Becker's Health IT; March 22, 2021 https://www.beckershospitalreview.com/consumerism/how-hospitals-hide-pricing-data-from-web-search-results-wsj.html
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8. Tracking the Rise in Premium Contributions and Cost Sharing for Families with Large Employer Coverage. Peterson-KFF Health System Tracker; August 14, 2019 https://www.healthsystemtracker.org/brief/tracking-the-rise-in-premium-contributions-and-cost-sharing-for-families-with-large-employer-coverage/

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