

## The Growing Hospital Price Transparency Movement

If current trends continue, the hospital industry may develop a similar history to the automobile industry in the U.S. Few may be aware that not until the Automobile Information Disclosure Act of 1958 (more than 50 years after Henry Ford sold his first car) were automakers required to publish the sticker price on the windshield for all new vehicles, as well as list information such as the price for optional equipment included in the vehicle, and the cost of transportation from the manufacturer to the dealer, among other items.

While the healthcare industry would greatly benefit from greater transparency by several constituents including the Government, Payers, or Providers, growing public and private pressure seems focused on the Provider industry. Whether profit or non-profit, hospitals are generally viewed as stewards of the public health and expected to act as much in the interest of society as well as their bottom line. Hospitals are being pushed to publish what their prices are, how they price, why specific prices are established and maintained, and when price increases are justified.

President Bush, Health and Human Services Secretary Michael Leavitt, and members of U.S. Congress are asking tough questions about the prices hospitals charge. An increasing number of states continue to make chargemaster (billed charge or retail price) information available online. Rising deductibles and coinsurance requirements, as well as the proliferation of “consumer-driven plans” are creating an incentive for consumers to compare prices. Over the last five years, consumers have been able to access data about quality of outcomes, frequency of various procedures, mortality and other metrics. Now they increasingly expect (and are receiving) cost information from employers, insurers, and data organizations. The hospital industry is not silent on this issue. “Patient-friendly billing initiatives” are emerging at the facility level as well as the organizational level. Finally, the plight of the insured has fueled the demand for price transparency by consumer advocates.

*Continued on page 2...*

## So What About Quality?



Across the U.S., healthcare payers, providers, and state and local governments continue initiatives to improve healthcare quality and make quality information readily available to healthcare consumers.

Recent noteworthy efforts include:

- Florida became the first state to disclose data on infections and complications for each of its 207 hospitals.

*Continued on page 3...*

## In this Issue...



Free Publication Offer!  
Page 11

<b>HYGEIA NEWS:</b>	Hygeia Hosts Case Management Educational Summit for Clients .....	page 5
	Hygeia is Two-Time Winner of Prestigious Technology Award .....	page 6
<b>PROVIDER SPOTLIGHT:</b>	The Cleveland Clinic .....	page 6
<b>MARKET WATCH:</b>	Moving Toward Radical Change in Healthcare .....	page 8
	Avian Flu Preparations .....	page 9
	About 40% of Malpractice Suits Are Groundless .....	page 10
<b>STAFF RECOMMENDATIONS:</b>	Conferences, Publications, Websites .....	page 11
<b>EXCERPT:</b>	Case Management: Practical Steps to a Win-Win Relationship .....	page 12
	Between Case Managers and Physicians	

**SUMMER**  
SUMMER 2006



*The Growing Hospital Price Transparency Movement* Continued from page 1...

Here is an overview of what is happening among the key constituents in this growing debate:

• • • WHAT THE GOVERNMENT IS DOING



**Federal Branches**

As the single largest purchaser of healthcare, more than 40% of Medicare's total payments go to hospitals for inpatient services. The growth in Medicare hospital spending per beneficiary has grown by almost three times the overall rate of inflation since 2000. According to the Social Security and Medicare trustees annual report, Medicare is projected to be insolvent in 2018, based on current cost and population trends, two years earlier than predicted last year.

Within this context, demands from The White House and U.S. Congress for hospital pricing transparency escalated into Congressional hearings in March 2006. Bill Thomas (R-Calif), chairman of the House's Committee on Ways and Means wrote a highly publicized letter to HHS Secretary Leavitt. Thomas called for the finalization of a pending rule that would penalize providers who bill an excessive level of charges by ousting them from Medicare and Medicaid programs.

By June, the government made the first step in its price transparency campaign, dubbed "payer power" by Secretary Leavitt when the amount Medicare pays for hip replacements, cardiac surgery and 28 other procedures in each of the nation's counties went online at [www.cms.hhs.gov](http://www.cms.hhs.gov). Cost and quality data from Medicaid, the Defense Department and the Federal Employee Health Benefits Program may likely follow.

**Federal Agencies**

In April 2006, the Centers For Medicare and Medicaid Services (CMS) issued a proposed rule that would significantly change the inpatient prospective payment system. The payments for specific DRGs would no longer be based on the hospital's reported billed charges; instead they would be based on actual hospital costs (adjusted for patient severity.) The changes are proposed for fiscal year 2007, and are designed to eliminate variations in hospital markups.

CMS' Information Transparency Initiative, expected to be launched later this year, would focus on high cost regions. Among the options being considered are:

- Publishing Medicare Payments
- Making it a condition of participation in Medicare to post prices
- Publishing public Medicare's payments for an episode of care by provider type

**A COST COMPARISON**

How much Medicare pays for hip or knee replacement surgery in these states:

Missouri	\$9,610 - \$10,774
Florida	\$9,705 - \$10,651
New Jersey	\$11,525 - \$13,686
California	\$11,693 - \$14,747
All states	\$9,992 - \$12,173

*Source: Department of Health and Human Services through the Centers for Medicare & Medicaid Services*

**CURRENTLY IN COMMITTEE – Hospital Price Reporting and Disclosure Act of 2005 (S 1827) and its House companion bill (HR 3139).**

*Receiving bipartisan support, the legislation aims to support the development of efficient purchasing of healthcare services as it becomes increasingly consumer driven.*

- Hospitals would report price information to Secretary of HHS twice a year
- Reports would include average and median pricing for 25 most frequently performed in patient procedures, 25 outpatient procedures and 25 drugs administered in hospital inpatient setting
- HHS would post data on website to promote price comparison
- Hospitals must disclose prices prior to any adjustment for rates negotiated with a third party giving consumers access to chargemaster prices rather than market prices.

**State Governments**

In 2005, North Carolina, California and Arizona were among the first states to mandate that hospitals make chargemaster information (retail price lists) available. Since then, several other states including Florida, Oregon, New Hampshire, New York Utah and New Mexico have launched similar web services.

2006 is ushering in the next phase of price transparency. Oregon's Insurance Division is currently driving three new initiatives that may start national trends. The first initiative is likely to result in a mandatory call for hospital inpatient cost data from the state's largest health insurers., as the Division is legally permitted to do. The data would be turned over to the Office for Oregon Health Policy and Research, which would aggregate the information and report the cost of commercially insured inpatient hospital procedures. The information would then be made public. As reported in the Portland Business Journal, industry experts commented that this initiative (along with two companion programs), stand an excellent change of becoming policy next year.

*Continued on page 3...*



*The Growing Hospital Price Transparency Movement* Continued from page 2...

• • • WHAT HOSPITALS AND HOSPITAL ASSOCIATIONS ARE DOING



*So What About Quality?* Continued from page 1...

- The American Medical Association signed a pact with Congress promising to develop more than 100 standard measures of performance, which doctors will report to the federal government in an effort to improve the quality of care. The performance measures should focus on diagnostic tests and treatments known to produce better outcomes for patients – longer lives, improved quality of life and fewer complications. The agreement says doctors “should receive” some additional payment to offset the costs of collecting and reporting the data.
- More than 3,000 hospitals have joined the Institute for Healthcare Improvement's campaign to prevent 100,000 deaths by adopting six changes in patient care. The six interventions espoused by the IHI are:
  - Prevent Adverse Drug Events: Medication Reconciliation
  - Deploy Rapid Response Teams
  - Improve Care for Acute Myocardial Infarction
  - Prevent Surgical Site Infections
  - Prevent Central Line Infections
  - Prevent Ventilator-Associated PneumoniaMore details at [www.ihl.org](http://www.ihl.org)
- Care Focused Purchasing, a nonprofit group formed by some of the largest U.S. companies, will begin pooling health claims data from more than 15 million people, including the employees at CFP member companies and members of several big health plans that have joined the initiative. The information will be analyzed to identify how health care providers stack up on a wide range of performance measurements.
- In an effort to make baseline health care quality statistics more widely available to health care facilities, the Agency for Healthcare Research and Quality, a division of the Department of Health and Human Services, recently launched an interactive online tool. The State Snapshot tool provides information on a variety of variables for each individual state, including:
  - A ranking of 15 representative measures of state health care quality.
  - Summary measures of the quality of types of care for each state.
  - Comparisons of each state's summary measures to regional and national performance.
  - Performance meters that show a state's performance relative to the region or nation.More details at [www.qualitytools.ahrq.gov/qualityreport/2005/state](http://www.qualitytools.ahrq.gov/qualityreport/2005/state)

A small but growing group of hospital CFOs has begun investing in “patient friendly billing” initiatives. One forward thinking organization is the Mayo Clinic in Florida. The web-based CarePricer technology, being phased in throughout Mayo's Florida operations, made its debut where the need was most urgent: the emergency department. CarePricer uses the hospital's chargemaster, managed care contracts and claims history to produce a statistically reliable “prediction” of what a patient's final bill would be. In another example, in New Hampshire, the Dartmouth-Hitchcock Medical Center posted the charges for 75 of its most common medical services online. At Washoe Health System, a four-hospital system in Reno, Nevada, price transparency activities serve a more internal purpose. They use Comparative Rate Modeling software to monitor and evaluate where their pricing is compared to other hospitals nationally to make sure their prices are competitive.

The Oregon Association of Hospitals and Health Systems was one of the first to launch an online tool, the Oregon Price Point Web site in April 2005, [www.orpricepoint.org](http://www.orpricepoint.org). This move was followed by several other hospital associations including New Hampshire and Wisconsin. Ohio State Medical Association is in the process of helping physicians begin to measure quality criteria and determine how to provide the best care at the lowest cost, along with sharing that information with consumers.

At their June 2006 conference, the Healthcare Financial Management Association (HFMA) launched its Patient Friendly Billing™ project designed to encourage the provider industry to “engage consumers in their health and medical decisions while potentially controlling rising costs”, according to Richard L. Clarke, HFMA's President and CEO. The key objectives of the project include: price transparency, simplified charge and payment structures, and agreement on payment expectations and terms between providers and patients. HFMA is the nation's leading membership organization for healthcare financial management executives and leaders. Initiative sponsors include Baptist Health South Florida, Catholic Healthcare West, Centegra Health System, Geisinger Health System, Health Alliance, Henry Ford Health System, HCA, Iowa Health System, Lee Memorial Health System, Mayo Clinic, Partners Healthcare System, Rush University Medical Center and Spectrum Health.



*The Growing Hospital Price Transparency Movement* Continued from page 3...

### ••• WHAT BUSINESS/CONSUMER GROUPS AND DATA ORGANIZATIONS ARE DOING

Last month, the New York State Health Accountability Foundation released its "report card" on the quality and costs of hospitals (and HMOs) in the state. The Foundation is private-public organization (a partnership of The New York Business Group on Health, a coalition of employers and a non-profit organization dedicated to assessing and improving health care services), and was created with a grant from the state's Department of Health. The Texas Hospital Checkup, [www.tbgh.org/checkup](http://www.tbgh.org/checkup), an online hospital report card launched by the Texas Business Group offers free information on the quality and cost performance of Texas hospitals for certain procedures. Focused on helping the uninsured, the advocacy group Consejo de Latinos Unidos is vocal about hospitals charging uninsured patients three and four times the price paid by insured patients. Among its examples is a Miami woman who called for assistance with a \$22,000 bill for a routine appendectomy. Medicare pays \$4,500 for the same surgery, and private insurance companies pay about \$5,000.

Private data provider HealthGrades.com sells medical-cost reports to consumers that give detailed information on the average cost of 55 procedures, from ear-tube placements to bone-marrow transplants. According to HealthGrades.com their reports are tailored to individual patients based on their age, gender, location and insurance co-payments and deductibles.



### ••• WHAT THE FUTURE HOLDS FOR PAYERS

Government officials, industry experts and pundits believe that increased awareness of pricing will heighten accountability on the part of both providers and consumers. Hospitals will likely continue to face considerable pressure to justify price setting practices and account for variations in the prices of a given procedure within a market. In general, the expectation is that the more public prices become, the greater the accountability. And it is likely that the information we are seeing today will increase as the price transparency momentum continues.

How can payers capitalize on the wealth of information available now, and in the future?

From our online hospital charge analysis tool to our customized DRG hospital cost comparison reports by region, Hygeia has been giving clients access to information designed to help them identify the lowest net costs on their medical claims.

However, the real power comes not just from having access to the information. It's critical to have the three key competencies to get the lowest net costs:

1. The tools and expertise to analyze the data against your individual plans, or entire claim portfolio, so you can proactively take a holistic approach to your cost containment program, looking collectively at areas such as plan design, policy pricing, benefits, underwriting as well as proactive case management, strong discounts, bill reviews, etc
2. The technology infrastructure to make analysis fast and cost-efficient
3. The relationships to get secure discounts that are free from balance billing and reversal

**Learn how Hygeia's market expertise, net cost strategy, analysis tools, technology leadership and provider relationships can help you to predict and lower your U.S. medical claim costs.**

**Contact your Account Manager or [payerpartner@hygeia.net](mailto:payerpartner@hygeia.net)**