

# BoardBrief

Prepared for Colorado Hospital Association Trustees

## Price Transparency: The Board Sets the Tone

Most trustees have heard about price transparency. You have likely seen media reports and personal stories about a lack of hospital price transparency, problems with hospital prices and charges, and negative patient billing experiences. As the governing body that drives the direction and sets the tone for the entire organization, boards must proactively take accountability and ownership in addressing consumer demands in today's transforming health care environment.

**T**ransparency in price and quality is increasingly important to consumers, and ideally are linked together to give consumers a better picture of overall value. Health care is no longer centered around inpatient hospital stays paid for by insurance companies while patients are sheltered from the cost. Growth in consumerism, changes in consumer health plans and shifts in reimbursement approaches mean big changes for hospitals in the way health care is provided, how it is paid for and the information consumers demand.

Although price transparency is increasing in some ways (for example, websites that post hospital charges), hospital trustees should be evaluating the information available and asking critical questions like: How useful and meaningful is the information currently available to everyday consumers? What do consumers care about, and should hospitals pay attention to that? How can patients get information about actual costs in advance of receiving care, and where should those patients get that information? Would the hospital earn value by being patients' source of price information?

### Responding to a Changing Market

Historically hospitals have not catered to consumers like many other industries have. As medical tourism, retail-based clinics, outpatient surgical centers, internet resources, and other forms of non-traditional health care grow, hospitals that will be successful in the long-term are considering a changes to their business model. In today's transforming environment, the ability to remain mission-focused may require a deep analysis of the organization's core purpose, vision and strategies.

**Patients as Consumers.** Patients today are consumers, increasingly vested in comparing cost and quality before making decisions; but confusing and conflicting information or lack of information altogether, leaves consumers feeling frustrated and often unable to determine actual value for what they are paying for. Consumers want to know what their cost will be in advance. They don't want to know the "charges" that will be negotiated and evolve, but the actual cost they will pay out of pocket. They want to know what they are getting for that cost and they don't want to see itemized charges for the everyday over-the-counter medications and toiletries they can purchase for a fraction of the price at their local drugstore.

**Hospital Pricing is Complex.** Displaying hospital price information is no simple task. The American Hospital Association (AHA) observes that sharing meaningful cost information in advance is difficult because there is so much variation. For example, one patient procedure may be simple while another may involve complications. In addition, hospital prices do not include physician and other professional costs, which can be misleading to patients seeking the total cost of care. Even when prices are estimated, those estimates don't take into account amounts the patient's insurance company may pay for.

**Many Hospitals Don't Know Their Prices.** For many hospitals the challenge is deeper than figuring out how to share prices with consumers. Some hospitals don't even know what their prices are, or how they compare to their competitors.<sup>1</sup> For example, in a 2013 study published in the Journal of American Medical Association (JAMA), researchers reported that only 3

out of 20 hospitals could tell an uninsured patient how much they would charge for a basic electrocardiogram.<sup>5,7</sup>

Prices must become more transparent in the future. For hospitals that are just figuring out their actual prices for the first time, there may be significant questions for boards to consider. Can we maintain our market share at the current rate as prices become more transparent? Can we offer the same service and value for a lower price and still make money, or do we need to modify our strategies? For some hospitals, this may require a significant shift in patient care approaches or changes to the depth and range of services offered.

### Organizations Taking the Lead

Price information is emerging in a variety of ways. It's not just insurance companies, and patients—employers also want to compare prices among organizations, and to incentivize patients to use the best cost-to-value option. For large employers, including many hospitals and health systems, the cost savings have the potential to be significant.

**Emerging Web Sources.** According to the AHA, 42 states publically report information in some format on hospital charges or payment rates. In addition, in 2013 the Centers for Medicare & Medicaid Services (CMS) released a list of charges for 100 types of hospital care, by facility. While the information isn't easily useable for average consumers, it has gathered media attention, and highlighted the significant differential in average costs and reimbursement between facilities.

As information has become more readily available, consumer-friendly websites are emerging. Nerd Wallet and ReferMe help patients synthesize information, recommending the best hospital for a particular procedure based on price combined with other indicators, such as patient satisfaction. ReferMe also advertises that it can help compare existing bills against what others are paid to assist in negotiating a hospital bill.

Websites like Castlight Health, Change Healthcare, and HealthSparq provide out-of-pocket cost estimates, often taking insurance into account. Castlight Health also incorporates outcome information. By encouraging employees to select lower-cost options with positive outcomes, the company claims to help reduce costs for corporate customers by as much as 10 percent a year.<sup>1</sup>

**Employer Efforts.** Employers participating in the Employers Centers of Excellence Network (ECEN) offer particular procedures, such as a hip or knee replacement, free to employees using an approved provider. Employees utilizing in-

network facilities have no out-of-pocket costs for care or travel expenses.<sup>2</sup>

Other employers are implementing "reference pricing." The most well-known example is the California Public Employees' Retirement System (CalPERS), which capped what it would pay for hip or knee replacements at \$30,000 in 2011. If employees go to a facility that charges more than \$30,000, they have to pay the difference out of pocket. At the time, CalPERS reported that hospital prices for the same surgery varied from \$15,000 to \$100,000 with no discernable difference in quality.<sup>3</sup>

### Opportunities for Boards of Trustees

In a recent interview with *Hospitals & Health Networks*, Jamie Orlikoff discussed the importance of hospitals taking the lead on transparency, noting that when a patient can get information from their employer or their insurance company but not from the hospital, it marginalizes the hospital. In a consumer-driven market "the source of information is a very powerful market force, and hospitals should want to be the source of information. Otherwise, they run a great risk of being dictated to as opposed to taking control over their pricing."

At a time when public confidence is eroded by rising health care cost, and scrutiny of hospital billing and collection practices is at an all-time high, hospitals have an opportunity to take the lead on price transparency and simultaneously earn community trust. Some hospitals are doing this through individual efforts, such as telephone price estimates, offering information request forms online, or developing cost

#### Price Transparency: Questions for Boards to Consider

- Does your organization's leadership view patients as customers?
- Do you know what your actual prices are?
- Do you know how your prices compare to competitors?
- How do patients typically find out about your prices?
- Does the community trust you to provide fair, honest prices?
- Have you seen a recent hospital bill from your facility? How would you perceive it from a patient perspective?
- Do you have a process in place to help patients understand their anticipated cost before receiving care?
- Has your board reviewed the recommendations from the American Hospital Association's task force on price transparency in health care, spearheaded by the Healthcare Financial Management Association?

estimators on their public website.<sup>2</sup> Others are revamping their billing process and looking for better ways to communicate with patients.

The approach each organization takes should be unique to its market and customer base; however, doing nothing has serious implications for hospitals' long-term survival. One starting point for boards should be reviewing the results of the recent industry-wide taskforce on price transparency, spearheaded by the Healthcare Financial Management Association (HFMA). The report clarifies common definitions

and sets guiding principles and recommendations for price transparency for insured patients, uninsured and out-of-network patients, employers, and referring clinicians. While the taskforce acknowledged the "unintended consequences" of too much data being public and the potential impact on negotiated rates, the market direction is becoming increasingly clear. Taskforce recommendations include providing patients with the total estimated price of the service, estimated out-of-pocket costs, and other relevant information such as patient safety scores and clinical outcomes.<sup>2,5,6</sup>

## Sources and Additional Information

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