Pricing Transparency

HFMA Lone Star Spring Conference

May 13, 2016
Today’s Agenda and Objectives

**Pricing Transparency:**
- Definition
- Sample Regulatory and Non-Regulatory Activity
- Texas Specific Activity

**Impact to Patient Volumes and Net Patient Revenue:**
- Complex Concept for the Uninformed (e.g. patients)
- Evolving Benefit Plan Designs
- Patient Self Steerage (case studies)

**Mitigation Strategies:**
- Strategic Pricing: “v2.0”
- Value Based Reimbursement
“Readily available information on the price of healthcare services that, together with other information, helps define the value of those services and enables patients and other care purchasers to identify, compare, and choose providers that offer the desired level of value.”¹

**Key Concepts:**

— Charges

— Payments

— Costs

— Benefit Plan Design

— Out-Of-Pocket Payments (copays, coinsurance, deductibles, etc.)

— Value

¹ HFMA, 2015
Federal:
— 2013: CMS releases Charge Description Master (CDM) data for 100 most common Medicare DRGs*
— Demonstrated wide variation among providers even within the same market

State:
— 17 States in various stages of implementing a publically available database allowing patients to compare prices for the most common IP and OP procedures
— However, the Supreme Court ruled 6-2 that ERISA (self-insured) plans do not have to comply with VT’s VHCURES claims database requirements

Other:
— Critical Access Hospitals: 20% copay for Medicare beneficiaries based on hospital’s charges
— Impact of 501(r): Limitation on Charges provision

* DRG- Diagnosis Related Group
Commercial Pricing Transparency Databases:
- Patient out-of-pocket costs based on:
  - Benefit plan design
  - Medical condition
  - Provider chosen
- Examples Include:
  - Aetna “Member Payment Estimator”
  - Geisinger “MyEstimate®”
  - Wisconsin “PricePoint” (Wisconsin Hospital Association)
  - Main “HealthCost” (maintained by State agency)

Watchdog Groups:
- The Catalyst for Payment Reform and the Health Care Incentives Improvement Institute
  - Only 5 States received a passing grade
Texas - F

- Texas received an "F"

Colorado - B

Maine - B

Vermont - C

New Hampshire - A

Virginia - C

© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.
**Pricing Transparency**

**Sample Non-Regulatory Activity**

---

**Pricing Transparency Laws and Regulations**

- What is the source of pricing information disclosed to consumers?
- How is pricing information disclosed to consumers?
- What pricing information must be available?
- What services are covered?
- Which providers are included?

---

**Legislated Price Transparency Websites**

- Utility (estimate consumer out-of-pocket expenses, provider comparisons, etc.)
- Consumer Experience (clear language and easy navigation/layout)
- Scope (large number of services and providers, and includes paid amounts)
- Accuracy/Data Source

---

*Catalyst for Payment Reform and Health Care Incentives Improvement Institute: Report Card on State Transparency Laws, July 2015*
Pricing Transparency

Texas Specific Activity

Legislative

— SB 1731, 80th Legislature sought to increase price transparency in health care services and directed Texas Department of Insurance (TDI) to:

  ▪ Collect data from issuers on the reimbursement rates that health plans pay to providers; and

  ▪ Publish information online that does not reveal individual insurers or providers

— TDI adopted rules in December 2010

— Data collection began in 2011

— A beta website launched in February 2012

— Following stakeholder feedback, the current version of the website launched in February 2013

— TDI, in partnership with UT received a grant to support health price transparency in October 2013

* Informal Rule Proposal Presentation: Reimbursement Rate Data, April 30, 2015, Texas Department of Insurance
Comparative analyses from the TDI website can reveal cost differentials across regions within Texas and in/out of-network procedures

* Texas Department of Insurance
Impact to Patient Volumes and Net Patient Revenue

Complex Concept for the Uninformed

Not Always an “Apples to Apples” Discussion:
— Case Mix
— Indigent Care Facilities
— Regional Variations in Cost

Disconnect Between “Standard Prices” and “Actual Payment Rates”
Impact to Patient Volumes and Net Patient Revenue

Evolving Benefit Plan Designs

Out-of-Pocket Expenses are on the Rise:
— Deductibles more than tripled from $303 in 2006 to $1,077 today¹

Why?
— Higher out of pocket costs are correlated with lower utilization
— Evidence suggests that “Cadillac Tax” also encourages employers to shift cost to employees²

Pressure on Patients to Price Shop

Out-of-Network Participation Strategy becomes Less Viable

¹ Kaiser Family Foundation, 2015
² Bloomberg, 2015
Impact to Patient Volumes and Net Patient Revenue

Patient Self-Steerage

Anecdotal Evidence of Patient Self-Steerage (especially for OP services)

Case Study 1 (Large NE Hospital):
— Evidence of patient self-steerage to area competitors

Case Study 2 (Large NC Community Hospital):
— Evidence of patient self-steerage to area competitors, especially free standing ASCs
— State pricing transparency requirements contributing to the steerage

Case Study 3 (Multi-State Provider of OP Spine Procedures):
— Business model redesign
— Moving “in-network”
Mitigation Strategies
Strategic Pricing “v2.0”

**Strategic Pricing** - a “re-balancing” of the CDM that aligns prices with patient volume trends and area demographics. Well designed studies include:

- An understanding of the enterprise-wide strategic growth plan
- A trend analysis of historical utilization over a multi-year period
- An analysis of local area demographics
- An analysis of 3rd party payer contract terms and their impact on pricing

**v2.0 Has to Include:**

- An understanding of the forces impacting pricing transparency
- Comparative pricing data (BHI, Truven, Optum, etc.)

**Challenges:**

- Lack of Activity Based Costing
- Pressure to reduce % of charge payments
Mitigation Strategies
Value Based Reimbursement (VBR)

Moving from concept to reality
As % of VBR payments increases, there is the possibility that pricing transparency has less an impact. However:
— VBR contract arrangements vary from payer to payer, ACO* to ACO, CIN** to CIN

Managing utilization and outcomes becomes critical
Medicare (and sometimes Medicaid) provide clues as to what the commercial market might do

* Accountable Care Organization
** Clinically Integrated Network
Questions
Contact Information

Patrick Spoletini – Managing Director
Phone: 678-662-9350
Email: pspoletini@kpmg.com

Rathish Moorthy – Director
Phone: 312-665-1428
Email: rmoorthy@kpmg.com

Robert Brown – Director
Phone: 404-558-6967
Email: rwbrown@kpmg.com
Thank you
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.