HEALTH CARE EXECUTIVE GUIDE

Health care pricing strategy: Where to begin

The pressure on your health system to reassess your pricing strategies has increased dramatically – and there's no turning back.

Health care reform has created a whole new breed of consumers whose medical decisions are heavily influenced by how much services cost and why. The Affordable Care Act (ACA) and some states' requirements to publish price lists have added significant regulatory burdens. In an era of rising costs and falling reimbursements, your health system may be struggling to reach your revenue targets. What your health system needs now is solid pricing strategies and the tools and expertise to implement them so you can remain competitive, compliant and profitable.

Begin your pricing assessment today.

Provide for defensible pricing and net revenue improvement.

Barriers to progress

The U.S. health care pricing and reimbursement system is inarguably complex – and hospitals and other health care providers are now expected to do their part to fix it. The task of creating new pricing strategies for health systems can be daunting for many financial executives to tackle on their own. A Healthcare Financial Management Association (HFMA) survey of hospital and health system financial leaders from a few years ago spotlighted the major challenges. Respondents said the most significant barriers to development of new pricing strategies were Medicare charge structures (83 percent), followed by private payor contracts (76 percent), community response/public relations (67 percent), uncompensated care (66 percent), technological capabilities (57 percent), staffing/resource constraints (47 percent) and lack of market data (46 percent).[1]

Since the survey, other issues have arisen that make new pricing strategies an even more pressing need. Consumer demand for health care price transparency is prompting some health systems to lower prices for services such as radiology, lab tests and other commodities that are easy to shop. As an example, Swedish Health Services in Seattle cut prices of nine in 10 outpatient services by 35 percent in one year, prompting the local media to ask why other area hospitals couldn't do the same.[2] In January 2014, Miami Children's Hospital announced a 30 percent price reduction and planned to develop packaged pricing for some high-volume services.[3] These moves compel competing health systems to respond by quickly lowering prices or to be prepared to defend the status quo.

Health systems with complicated managed care contracts also grapple with the inability to model price changes across all contract provisions, including stop loss and case rates. "Lessor of" contract language is another landmine that can significantly impact net revenue and must be factored into revised pricing strategies.

Pricing strategy objectives

Every health care provider must address pricing, both to optimize revenue, maintain margins and comply with increasing regulations related to price transparency. The first step is to clearly articulate a pricing strategy's purpose. Here are some key questions:

- What are our financial goals?
- Where on the pricing spectrum (e.g., high volume/low price) do we want to be positioned?
- Once established, how will we monitor, evaluate and update our pricing strategy to remain competitive?

With objectives defined, your health system can assess solutions to address your specific needs and determine how these changes will impact revenue and profitability. This often begins with a strategic pricing review to take a look at current pricing and analysis of pricing structures and decisions.

What to look for in a pricing strategy partner

Pricing is a strategic business pillar that can deliver immediate and sustained net revenue improvement. Pricing strategies should take into account market data, organizational priorities and sustainable processes to drive and maintain market position. Devoting the time and resources to such an arduous task can often be quite daunting for many health systems, thus a major reason for turning to outside partners for the heavy lifting. Here are partner attributes that should be considered:

Experienced, dedicated team

CDM pricing and pricing reviews require highly specialized skills. nThrive* has offered these services for more than 20 years, and a number of our consultants have worked on price consulting projects for more than a decade.

Current data

Most publicly available pricing data is out of date, a critical shortcoming given the increasingly competitive health care market. nThrive proprietary benchmark data is based on actual CDM level prices derived from more than 600 chargemasters for a near real-time view into current market prices adhering to Department of Justice compliance mandates.

Customizable solutions

Across-the-board price increases and other one-size solutions are not always appropriate. nThrive uses your parameters, revenue targets and local benchmarks to devise optimal pricing schedules for your health system.

Comprehensive services

The complexity and impact of a new pricing strategy call for a comprehensive solution. nThrive's combination of consulting services, innovative technology and advanced analytics support sound pricing practices to address current pressures and lay a solid foundation for the future.

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nThrive strategic pricing solutions

nThrive standardized strategic pricing solution, Comparative Rate Modeling (CRM), uses three main inputs:

- Contract reimbursement rates
- Proprietary pricing benchmarks
- Health system-specific parameters

These data points, along with charge description master (CDM) and revenue and usage data, are used to generate an initial price model, price list and summary reports to quantify how the proposed changes will affect gross and net revenue. nThrive proprietary benchmarks provide current, comparative hospital price data at a regional level and across your health system's entire CDM, not just line items with Healthcare Common Procedure Coding System (HCPCS) matches.

Two optional add-on solutions are available with nThrive CRM. CRM Plus extends the new price schedule to actual claims at or near outlier thresholds to examine the effects of new prices on stop loss/outlier revenue. Defensible Price Modeling (DPM) helps defend charges by realigning the existing price structure to a more defensible cost markup schedule based on market comparisons and the relationship between charges and costs.

A modeling option for smaller facilities is nThrive's Market Price Modeling, which uses the same approach employed in CRM but depends on Centers for Medicare & Medicaid Services (CMS) benchmark information to inform the model.

If your health system has distinct service charges priced under "lesser of" provisions in commercial payor contracts and/or other case-specific reimbursement qualifiers, it may be beneficial to model prices through claims and across all types of reimbursement. One solution is nThrive's Dynamic Comparative Rate Modeling (DCRM), which realigns and ties the price structure to the market while simultaneously considering gross and net revenue impacts and examining net revenue lost to "lessor of" contract provisions. DCRM sets prices at the strike point where net revenue is optimized among payor reimbursement terms defined at the CDM line item and case-specific levels.

1. Patient Friendly Billing Survey, HFMA, March 2007
2. "Seattle Hospital System Cuts Prices 35% Can California Follow?" http://www.pbgh.org/news-and-publications/pbgh-in-the-news/270-seattle-hospital-system-cuts-prices-35-can-others-follow, accessed May 12, 2015
3. "Miami Children's Hospital Reduces Charges by 30 Percent to Promote Greater Consumer Understanding and Transparency," http://www.mch.com/press/EN/430/Miami-Childrens-Hospital-Reduces-Charges-by-30-Percent-to-Promote-Greater-Consumer-Understanding-an.aspx, January 14, 2014

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*Disclaimer: References to nThrive in these instances refer specifically to experiences with the legacy MedAssets, Inc. organization, also previously known as MedAssets Net Revenue Systems, LLC and-Precyse Solutions LLC collectively, "MedAssets-Precyse."