



SPRING SUMMIT: ADDRESSING PRICE TRANSPARENCY'S KEY QUESTIONS

**Session Three:
How can hospitals defend their position?**

Spring Summit Agenda



Addressing Price Transparency's Key Questions:

- 1) How are hospitals complying?
- 2) How is the disclosed data being used?
- 3) How can hospitals defend their position?**
- 4) How can hospitals prepare for the future?

Session Three Overview: In the wake of the release of the transparency information, hospitals have been challenged to educate and defend their standard charge position. This session will present strategies to help clearly communicate this position to internal and external stakeholders.



How can hospitals defend their position?

Why defend your position?

Reasons to review price/payment defensibility



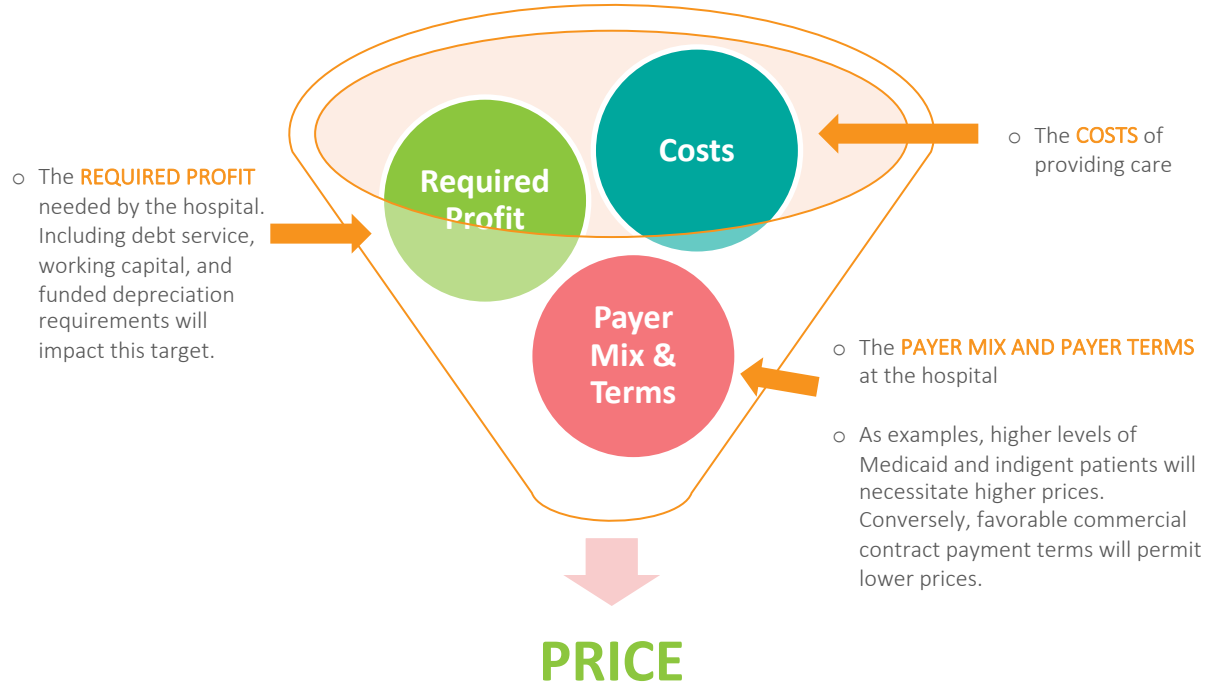
- The data is being reviewed by the public, payers and government so you need to be ready for questions and challenges that may arise
- Board and Finance Committee may need education and talking points
- To set internal policy of guiding principles for maintaining defensibility
- To explain why differences may exist compared to peers
- To prepare for potential contract negotiations with payers



How can hospitals defend their position?

What are the key reasons for differences?

Pricing/Payment Factors





How can hospitals defend their position?

What are the primary methods for defensibility?

Two ways to Defend Pricing/Payment Position



The ROI model is useful for defending both Gross Price and Net Payment

ROI Model

Relate your pricing to Return On Investment (ROI)

We will examine a model used in setting rates for public utilities.

Peer Position

Relate your pricing/payment to those of peer hospitals

Facility level
Department level
Inpatient case level
Outpatient case level
CPT®/procedure level

Within the peer position defense, we will utilize different metrics for measuring gross price (e.g. HCI) vs net payment (e.g. Net Patient Revenue per Equivalent Discharge)



① Relating pricing to ROI – the public-utility approach

Public utilities have used a Return on Investment (ROI) model to justify price increases to rate regulatory boards. The approach isolates the price/payment variable from the ROI formula (below) and “tests” the remaining elements. If it can be proved that ROI, Cost, and Investment are not excessive, then price/payment must also not be excessive.

ROI Formula

ROI =

$$\frac{(\text{volume} \times \text{price}) - (\text{volume} \times \text{cost})}{\text{investment}}$$

Tests

1. Is ROI excessive?
2. Is cost excessive?
3. Is investment excessive?

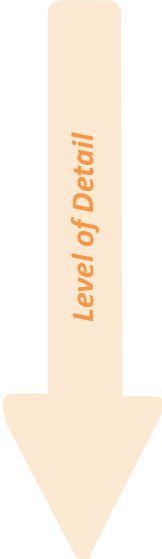


*If “no” to all three,
Gross Price and Net payment are not
excessive.*



2 Peer Position

The second method used to assess the defensibility of your pricing is direct comparison with peers. Data at these levels is useful:



Level of Comparison	Gross Price Metrics	Net Payment Metrics
FACILITY	Hospital Charge Index®	Net Rev. per Equivalent Discharge
	Medicare Charge per Discharge (CMI/WI adj)	
	Medicare Charge per Visit (RW/WI adj)	
DEPARTMENT	BETOS Analysis	
INPATIENT CASE	Charge by MS-DRG	Net Payment by MS-DRG
OUTPATIENT CASE	Charge by APC	Net Payment by APC
PROCEDURE	Price by CPT®/HCPCS Code	
Key point: comparison can change at each level!		

 **Bundling**

 **Bundling**

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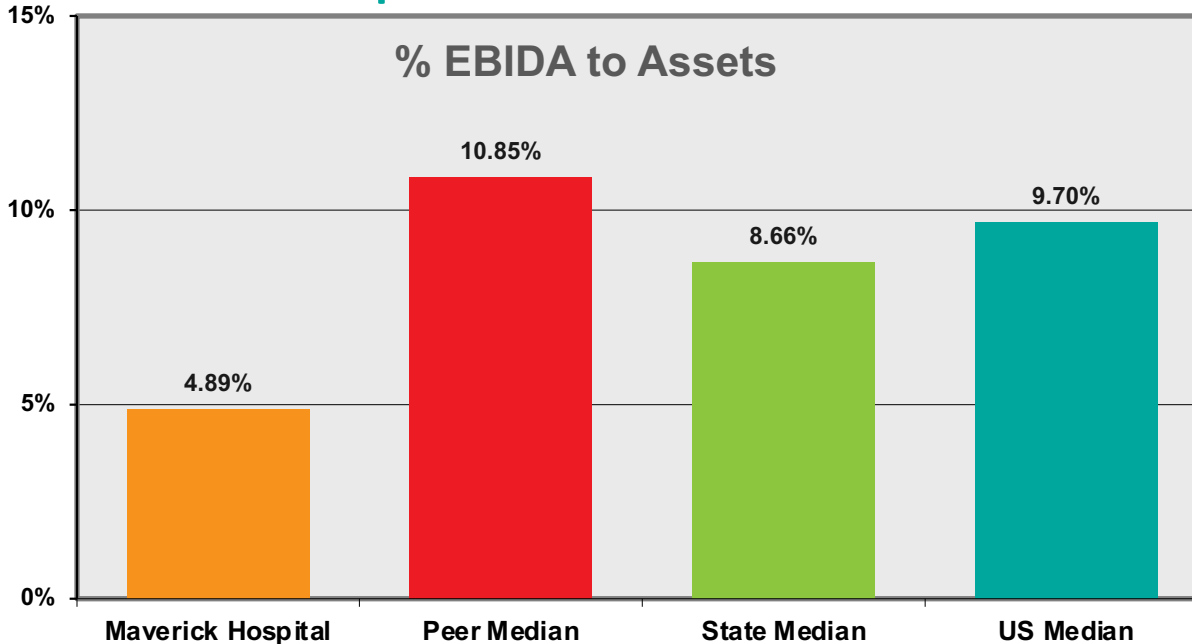


① ROI Case Study: Maverick Hospital

ROI Test: is ROI Excessive?



Maverick Hospital



EBIDA to Assets is a measure of ROI; while a higher ROI is better from a financial perspective, from a defensibility perspective a higher ROI *could* point to excessive gross and/or net prices

Maverick Hospital's ROI is lower than the peer, State, and US medians, so ROI is not excessive



Facility-Level cost measure



Hospital Cost Index[®]



Inpatient Costs

Inpatient Cost Index

Formula:

Your Medicare Cost
per Discharge (CMI/WI adj)
US Median Medicare Cost per
Discharge (CMI/WI adj)

Outpatient Costs

Outpatient Cost Index

Formula:

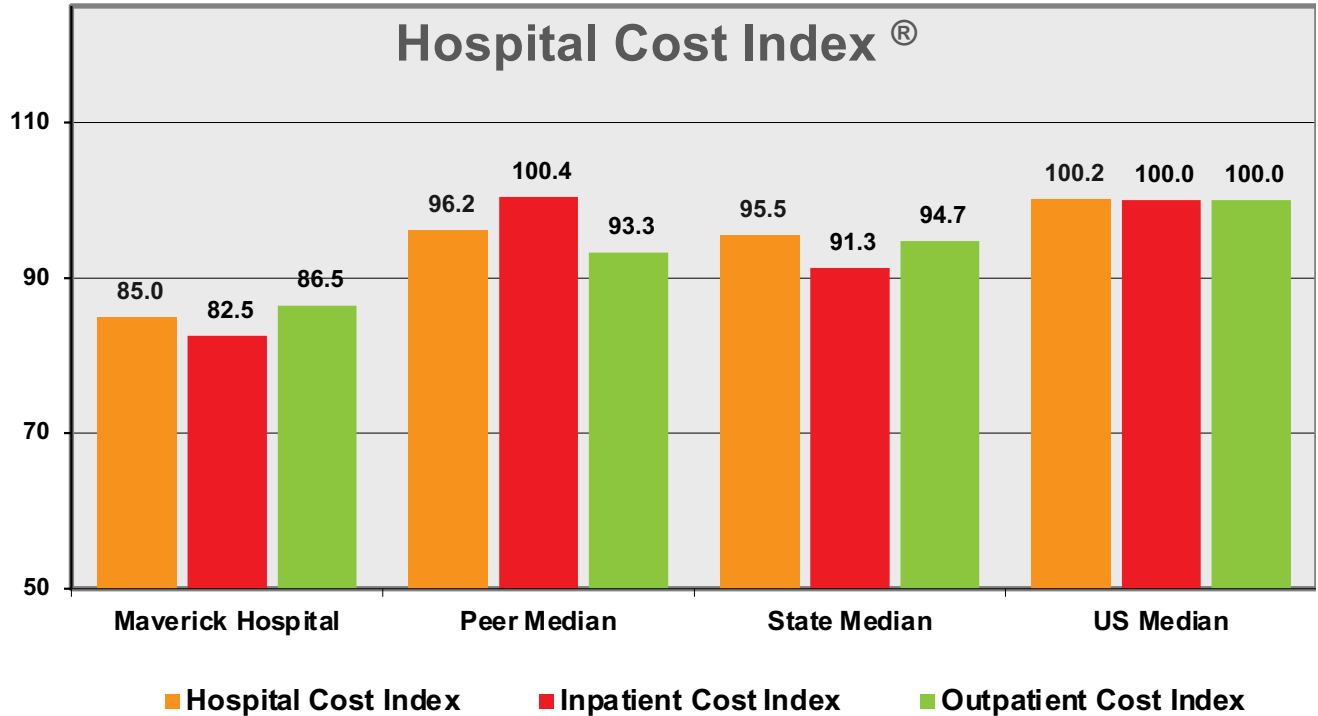
Your Medicare Cost
per Visit (RW/WI adj)
US Median Medicare Cost per
Visit (RW/WI adj)

The Hospital Cost Index[®], developed by Cleverley + Associates, compares the Medicare Cost per discharge and Medicare cost per visit at the hospital (both adjusted for case complexity and wage index differences) to the US median value for each measure. The result is the most objective overall cost comparison available. A high index score indicates a higher relative cost position.

ROI Test – is cost excessive?



Maverick Hospital



Maverick Hospital's Hospital Cost Index[®] is below their peer average, the state average and the US average. The same is true for both the Inpatient and Outpatient Cost Index.

Cost at Maverick Hospital is reasonable.



ROI Test: is Investment Excessive?

Maverick Hospital

	<i>Revenue to Net Fixed Assets (FAT)</i>	<i>Accumulated Depreciation %</i>
Maverick Hospital	3.02	72.30
PEER MEDIAN	1.80	57.15
STATE MEDIAN	2.38	58.20
US MEDIAN	2.60	55.85

High Revenue to Net Fixed Assets implies a facility is *not* over investing

Maverick Hospital's FAT ratio is higher than the peer, state and US median, signaling investments are not excessive.



② Peer Positioning Gross Prices Case Study: Maverick Hospital



Facility-Level Gross charge measure



Hospital Charge Index[®]



Inpatient Charges

Inpatient Charge Index

Formula:

Your Medicare Charge
per Discharge (CMI/WI adj)
US Median Medicare Charge per
Discharge (CMI/WI adj)

Outpatient Charges

Outpatient Charge Index

Formula:

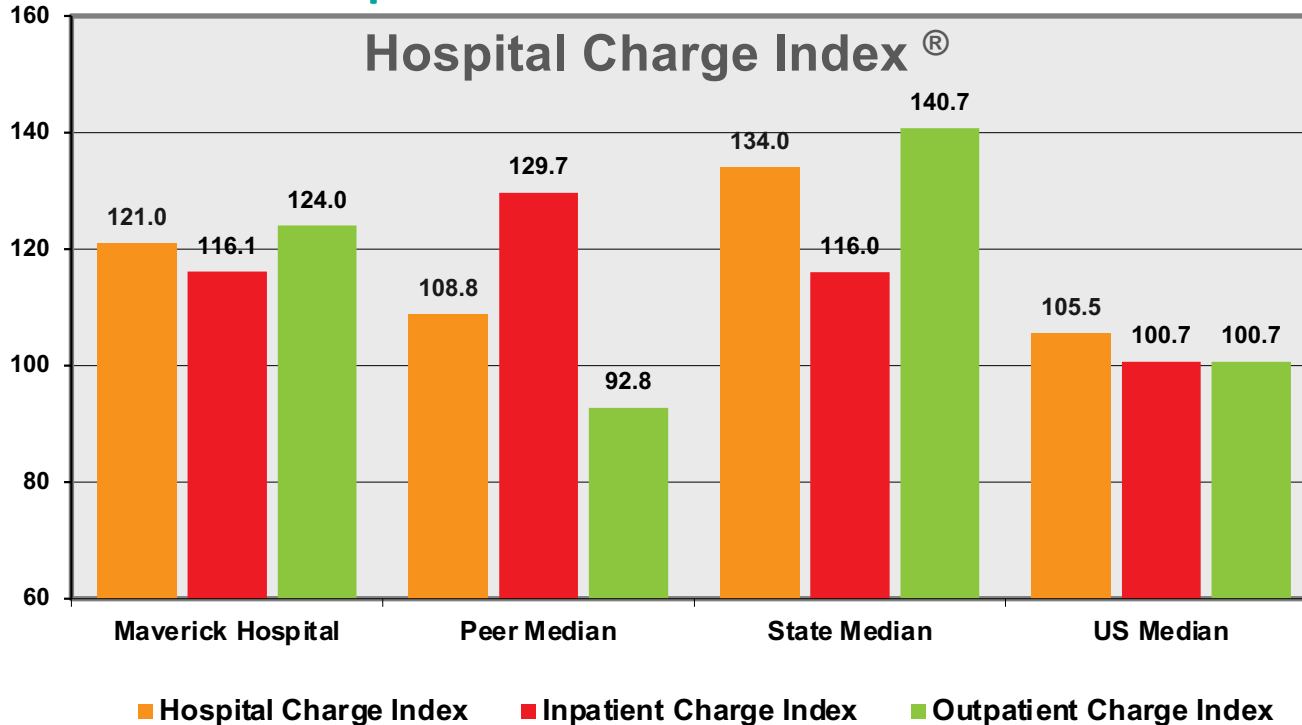
Your Medicare Charge
per Visit (RW/WI adj)
US Median Medicare Charge
per Visit (RW/WI adj)

The Hospital Charge Index[®], developed by Cleverley + Associates, compares the Medicare Charge per discharge and Medicare charge per visit at the hospital (both adjusted for case complexity and wage index differences) to the US median value for each measure. The result is the most objective overall charge comparison available. A high index score indicates a higher relative charge position.

Facility-Level Gross Charge Measure



Maverick Hospital



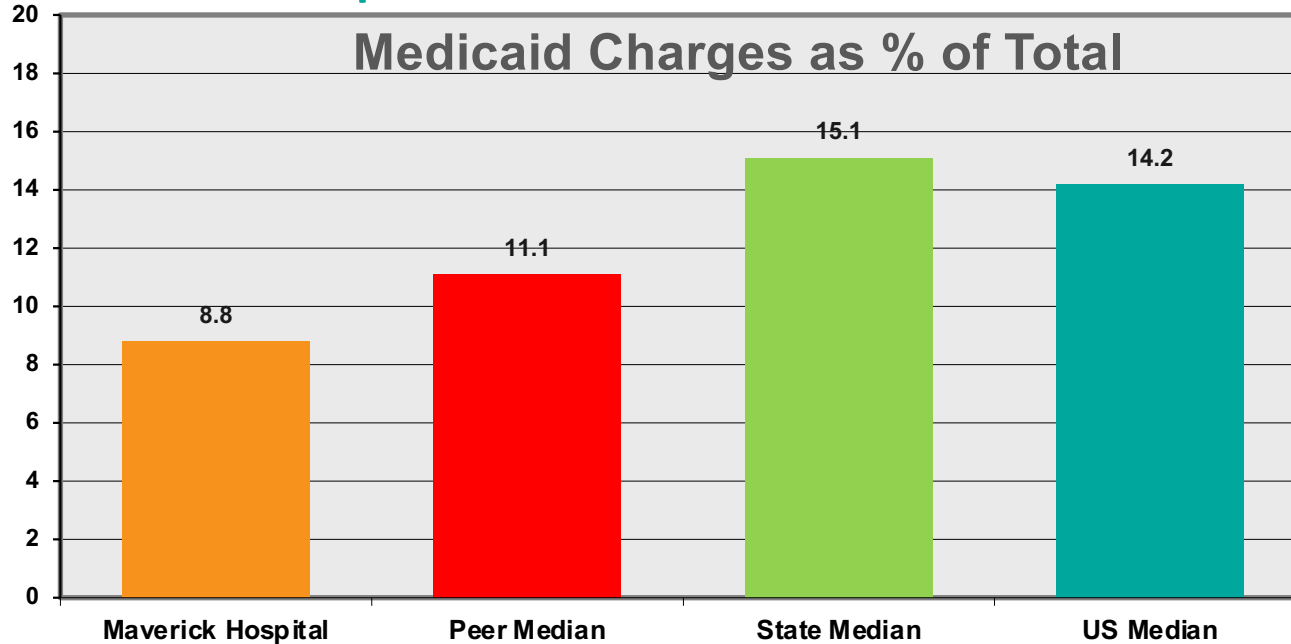
Maverick Hospital's Hospital Charge Index[®] is higher than their peer median, below the state median and above the US median. Their Inpatient Charge Index is below their peer median, while their outpatient charge index is above their peer average.

Gross charges at Maverick Hospital appear higher.

Facility-Level Gross Charge Measure



Maverick Hospital



Maverick Hospital's Medicaid Charges as a % of Total are lower. Proportion of Medicaid business does not appear to be driving prices higher.

Outpatient Case Level – Gross Charge Measure



Maverick Hospital

Medicare Charge per Outpatient Case – Top 10 Total Charge APCs

		Maverick Hospital		Competitor
APC	Description	Volume	Average Gross Charge	Avg Gross Charge
5024	Level 4 Type A ED Visits	14,212	4,636	4,474
5572	Level 2 Imaging with Contrast	6,041	6,951	5,911
5025	Level 5 Type A ED Visits	4,753	8,538	5,938
5115	Level 5 Musculoskeletal Procedures	477	56,938	51,289
5522	Level 2 Imaging without Contrast	20,345	1,301	1,273
5114	Level 4 Musculoskeletal Procedures	689	31,332	26,533
5593	Level 3 Nuclear Medicine and Related Services	1,852	11,486	9,020
5361	Level 1 Laparoscopy and Related Services	832	25,498	18,984
5523	Level 3 Imaging without Contrast	6,840	3,007	2,809
5613	Level 3 Therapeutic Radiation Treatment Preparation	201	83,605	45,501

Maverick Hospital's Average Charge per APC is priced *above* the peer Average in all of their top 10 APCs by gross charges.

Consistent with the HCl, Outpatient charges appear to be higher than peers.



Inpatient Case Level – Gross Charge Measure

Maverick Hospital

Medicare Charge per Inpatient Case – Top 10 Total Charge MS-DRGs

MS-DRG	Description	Maverick Hospital		Competitor
		Volume	Avg Gross Charge	Avg Gross Charge
177	Respiratory Infections And Inflammations With Mcc	626	54,892	50,037
871	Septicemia Or Severe Sepsis Without Mv >96 Hours With Mcc	508	56,678	51,093
853	Infectious And Parasitic Diseases With O.R. Procedures With Mcc	105	129,543	118,656
291	Heart Failure And Shock With Mcc	348	36,135	35,891
207	Respiratory System Diagnosis With Ventilator Support >96 Hours	49	236,432	172,037
247	Percutaneous Cardiovascular Procedures With Drug-Eluting Stent Without Mcc	146	64,356	78,975
870	Septicemia Or Severe Sepsis With Mv >96 Hours	36	219,480	186,105
329	Major Small And Large Bowel Procedures With Mcc	56	136,306	116,947
193	Simple Pneumonia And Pleurisy With Mcc	224	33,170	37,462
208	Respiratory System Diagnosis With Ventilator Support <=96 Hours	92	77,665	84,807

Maverick Hospital's Average Charge per MS-DRG is priced *above* the peer average in 7 of their top 10 total charge MS-DRGs

Maverick Hospital's Inpatient charges appear to be higher than peers



Inpatient Case Level – Gross Charge Measure

Maverick Hospital

Medicare Charge by CPT® - Highest 10 Total Charge Codes

		Maverick Hospital		Competitor
CPT	Description	Volume	Avg Gross Charge	Avg Gross Charge
80053	Comprehen metabolic panel	20,221	263	294
97110	Therapeutic exercises	35,791	133	140
78452	Ht muscle image spect mult	823	4,877	4,307
74177	Ct abd & pelv w/contrast	831	4,734	4,512
74176	Ct abd & pelvis w/o contrast	774	4,424	4,539
93306	Tte w/doppler complete	1,393	2,114	2,204
70450	Ct head/brain w/o dye	1,452	1,863	1,746
99284	Emergency dept visit	2,555	996	1,037
85025	Complete cbc w/auto diff wbc	21,674	114	123
95811	Polysom 6/>yrs cpap 4/> parm	303	6,717	7,122

Maverick Hospital's Average Charge per CPT is priced *below* the peer average in 7 of their top 10 total charge CPTs, though almost all are within 10% of the peer average.

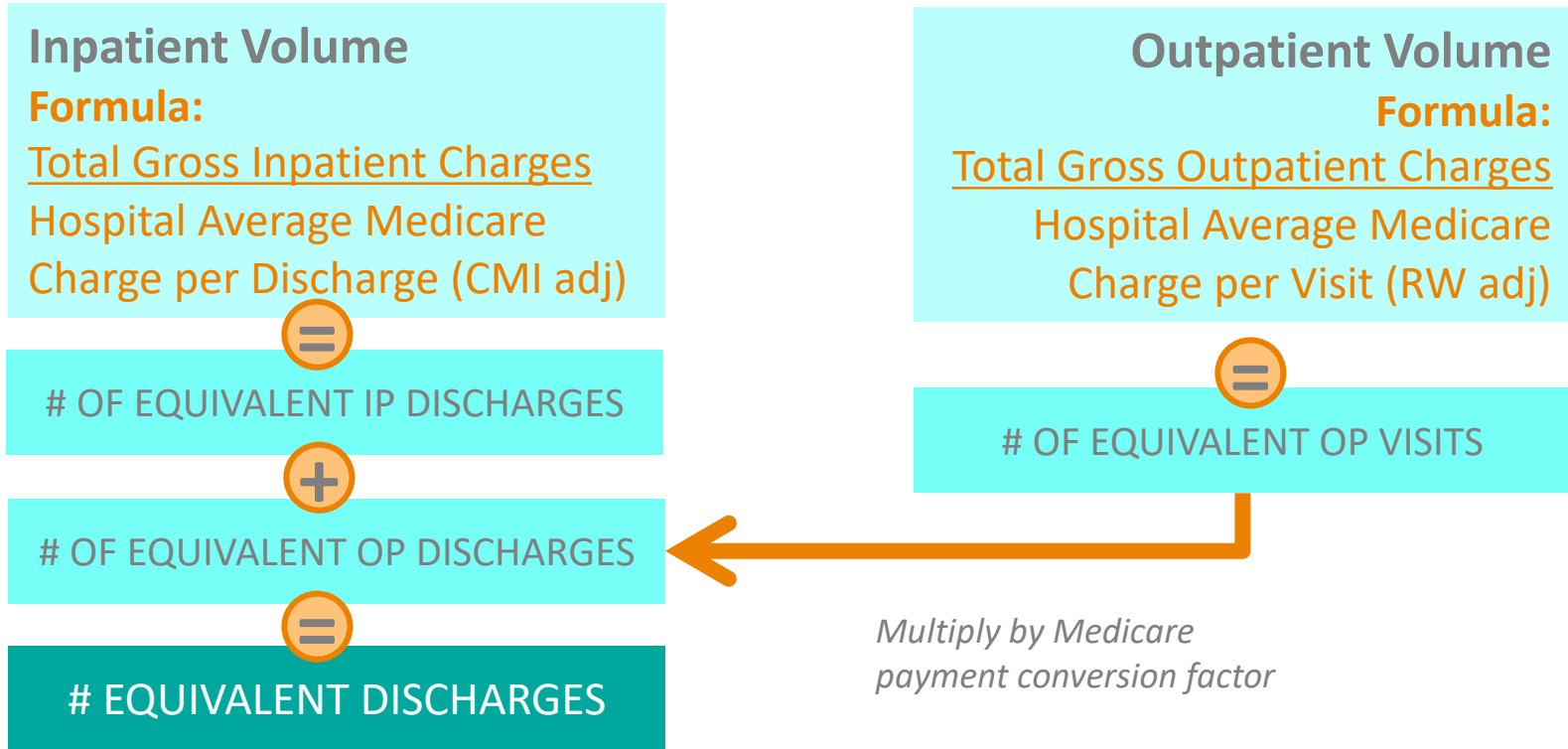
Maverick Hospital's outpatient charges appear to be closely aligned with peers based on CPT



② Peer Positioning Net Payment Case Study: Maverick Hospital



Equivalent Discharges (EQD) – Overview





EQD as a superior metric: Hospital Volume

Problems with Traditional “Adjusted” Metrics

1 Pricing adjustments can impact Adjusted Patient Days Metric significantly

	Patient Days	Gross OP Rev (000)	Gross IP Rev (000)	Adj Pt Days
Data prior to rate increase	12,000	70,000	60,000	26,000
10% OP rate increase	12,000	77,000	60,000	27,400

Adjusted Patient Days Formula:

IP Patient Days X [1+(Gross OP Rev/Gross IP Rev)]

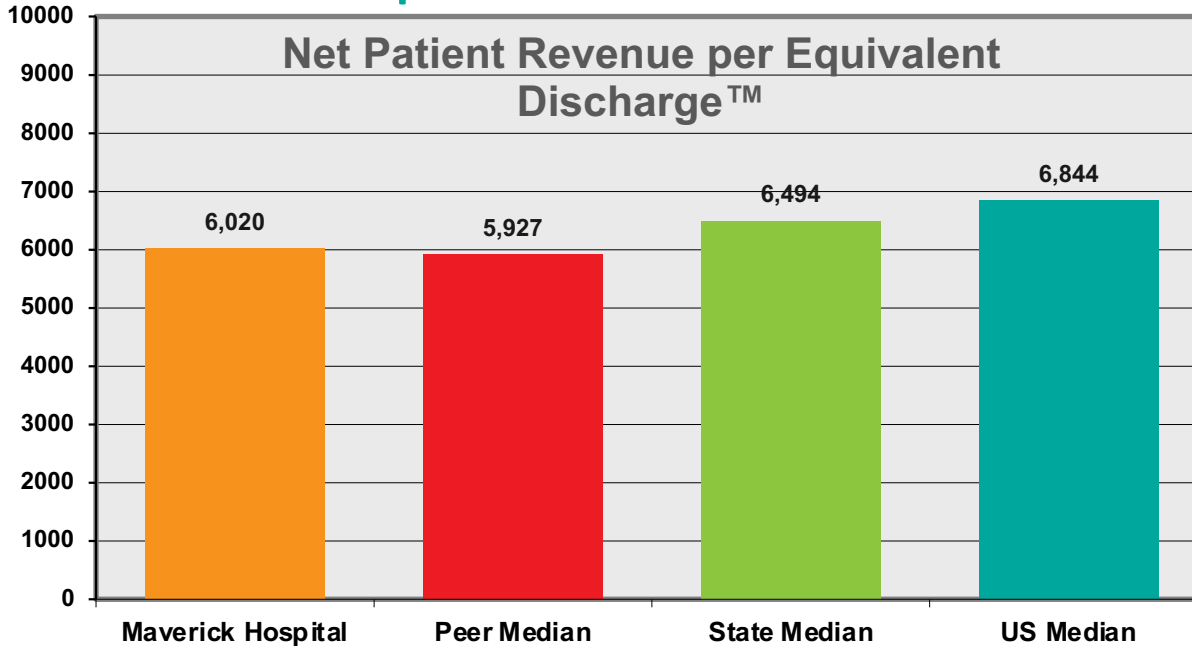
2 Case intensity complications

Adjusting using CMI assumes inpatient case intensity is equivalent to outpatient intensity which is not true for most hospitals



Net Payment Revenue per EQD: Facility-Level Net Payment Measure

Maverick Hospital



Maverick Hospital's Net Patient Revenue per EQD is similar to peers, and below state and US medians.

Note: State and US Median are wage index-adjusted to the primary hospital.



Payment Is Key in Hospital Pricing

Average Cost per Patient = \$100

Payer	Number of Patients	Net Payment per Patient	Total Payment	Total Cost
Medicare	50	\$92.50	\$4,625	\$5,000
Medicaid	10	\$75.00	\$750	\$1,000
Uninsured	5	\$5.00	\$25	\$500
Managed Care	30	\$125.00	\$3,750	\$3,000
Other	5		???	\$500
Totals	100		\$9,150	\$10,000
		<i>less Total Cost</i>	\$10,000	
		<i>less Required Profit</i>	\$500	
		Balance Remaining	(\$1,350)	

Required Payment from Five Remaining Patients = \$270 ($\$1,350/5$)

Outpatient Case Level – Commercial Payer Net Payment Measure



Maverick Hospital

Payment per Outpatient Case – Top 10 Total Payment APCs

		Maverick Hospital		C&A Regional Average
APC	Description	Volume	Average Payment	Avg Payment
5024	Level 4 Type A ED Visits	5,934	2,364	2,125
5572	Level 2 Imaging with Contrast	2,509	2,364	2,535
5025	Level 5 Type A ED Visits	1,675	2,688	3,378
5522	Level 2 Imaging without Contrast	7,257	520	596
5361	Level 1 Laparoscopy and Related Services	488	6,455	11,042
5023	Level 3 Type A ED Visits	3,593	944	1,194
5523	Level 3 Imaging without Contrast	2,460	1,320	1,400
5114	Level 4 Musculoskeletal Procedures	332	8,263	14,406
5115	Level 5 Musculoskeletal Procedures	193	15,155	24,239
5521	Level 1 Imaging without Contrast	9,173	295	380

Maverick Hospital's Average Payment per APC is priced *below* the C+A Regional Average in 9/10 of their top 10 APCs, signaling that Net Payment is reasonable.



Inpatient Case Level – Comm. Payer Net Payment

Maverick Hospital

Payment per Inpatient Case – Top 10 Total Payment MSDRGs

		Maverick Hospital		C+A Regional
MS-DRG	Description	Volume	Average Payment	Average Payment
177	Respiratory Infections And Inflammations With Mcc	149	12,691	26,243
247	Percutaneous Cardiovascular Procedures With Drug-Eluting Stent Without Mcc	82	17,636	36,686
621	O.R. Procedures For Obesity Without Cc/Mcc	74	13,104	24,287
871	Septicemia Or Severe Sepsis Without Mv >96 Hours With Mcc	89	19,166	33,302
807	Vaginal Delivery Without Sterilization Or D&C Without Cc/Mcc	132	4,128	7,687
455	Combined Anterior And Posterior Spinal Fusion Without Cc/Mcc	11	82,718	99,619
806	Vaginal Delivery Without Sterilization Or D&C With Cc	115	3,840	9,437
853	Infectious And Parasitic Diseases With O.R. Procedures With Mcc	23	25,067	90,422
207	Respiratory System Diagnosis With Ventilator Support >96 Hours	11	36,619	136,927
330	Major Small And Large Bowel Procedures With Cc	21	23,025	39,818

Maverick Hospital's Average Payment per MS-DRG is priced *well below* the C+A Regional Average in all of their top 10 total payment MS-DRGs, signaling that net payment is reasonable

Outpatient Case Level – BCBS Net Payment Measure



Maverick Hospital

Payment per Outpatient Case – Top 10 Total Payment APCs

		Maverick Hospital		C&A BCBS Regional
APC	Description	Volume	Average Payment	Average Payment
5024	Level 4 Type A ED Visits	2,354	2,327	2,251
5025	Level 5 Type A ED Visits	662	3,525	3,262
5572	Level 2 Imaging with Contrast	1,294	1,742	2,292
5522	Level 2 Imaging without Contrast	4,336	382	457
5361	Level 1 Laparoscopy and Related Services	275	4,515	11,380
5023	Level 3 Type A ED Visits	1,160	1,001	1,310
5523	Level 3 Imaging without Contrast	1,593	683	1,235
5724	Level 4 Diagnostic Tests and Related Services	522	1,987	3,256
5613	Level 3 Therapeutic Radiation Treatment Preparation	27	35,996	16,636
5114	Level 4 Musculoskeletal Procedures	170	5,557	16,781

Maverick Hospital's BCBS Average Payment per APC is priced *below* the BCBS C+A Regional Average in 7/10 of their top 10 APCs, signaling that Net Payment is reasonable.



Inpatient Case Level – BCBS Net Payment Measure

Maverick Hospital

Payment per Inpatient Case – Top 10 Total Payment MSDRGs

		Maverick Hospital		C+A BCBS Regional
MS-DRG	Description	Volume	Average Payment	Average Payment
247	Percutaneous Cardiovascular Procedures With Drug-Eluting Stent Without Mcc	42	36,323	39,765
177	Respiratory Infections And Inflammations With Mcc	86	15,297	29,777
621	O.R. Procedures For Obesity Without Cc/Mcc	54	19,267	23,984
807	Vaginal Delivery Without Sterilization Or D&C Without Cc/Mcc	81	6,899	9,713
871	Septicemia Or Severe Sepsis Without Mv >96 Hours With Mcc	43	11,828	35,845
853	Infectious And Parasitic Diseases With O.R. Procedures With Mcc	16	31,479	113,095
806	Vaginal Delivery Without Sterilization Or D&C With Cc	61	7,837	11,570
326	Stomach, Esophageal And Duodenal Procedures With Mcc	8	46,420	155,098
455	Combined Anterior And Posterior Spinal Fusion Without Cc/Mcc	6	54,409	106,321
788	Cesarean Section Without Sterilization Without Cc/Mcc	33	9,613	14,670

Maverick Hospital's BCBS Average Payment per MS-DRG is priced *well below* the BCBS C+A Regional Average in all of their top 10 total payment MS-DRGs, signaling that net payment is reasonable

Maverick Hospital Price Defensibility Summary



- **Below are our observations of Maverick Hospital compared to local market hospitals and regional benchmarks:**
 - ✓ **The ROI model illustrates that Maverick Hospital is not excessive in profit, cost or investment areas, signaling that both prices and payments are reasonable.**
 - ✓ **Current prices are higher than the peer median via the Hospital Charge Index[®].**
 - ✓ **Current payment position appears to be reasonable based on Net Patient Revenue per EQD.**
 - ✓ **Current payment position also appears reasonable based on a sampling of the highest charge inpatient and outpatient procedure codes relative to the regional average.**
 - ✓ **Payment is at or below peers, charges are at or above peers, payer mix is more favorable indicating an opportunity on contract terms and rates**

Spring Summit Agenda



Addressing Price Transparency's Key Questions:

- 1) How are hospitals complying?
- 2) How is the disclosed data being used?
- 3) How can hospitals defend their position?
- 4) How can hospitals prepare for the future?**



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