

3 Ways to Use Hospital Price Transparency Data for Competitive Advantage

John Harris, Director

Clare O'Mara, Senior Associate

Shifting a \$1 trillion dollar industry from confidential contracts to publicly published pricing is a massive transformation. In the middle of recovering from the COVID-19 crisis, hospitals are responding to this transformation.

BACKGROUND:

The [hospital price transparency rules](#) require consumer-friendly tools to help individuals shop for hospital services based on price. They also require hospitals to post a machine-readable file of payer-negotiated rates for all services. While the consumer-friendly tools get more attention, the machine-readable files are likely to have the greater transformational impact on the industry.

[Two-thirds of hospitals have not posted any payer-specific rates](#) in machine-readable files as required, but [CMS has warned](#) non-compliant hospitals they must comply. In certain markets, most organizations are sharing information; in others, moves toward transparency are uneven or slow.

Making sense of the data that has been released is a laborious process. Much of the data is messy, as hospitals had no incentive to make it easy to access their data. Variations in the datasets include: exclusion of some codes, inclusion/exclusion of outliers in rates, required calculations to derive rates, or limitations on how much data can be downloaded at a time.

Despite the data challenges, hospitals and health systems are excited to dive into this new competitive information.



Here are three ways to use the price transparency data:

Payer Negotiations

Payers are already using the data in negotiations by reviewing a hospital's rates with other payers and arguing, "Why are we paying you more than that other payer?" To counter these arguments, hospitals need to see what that same payer is paying other hospitals. That requires obtaining the data for that payer from other hospitals' posted rates.

Veralon has obtained, scrubbed and loaded the data from available machine-readable files for the Philadelphia region. This table illustrates how much each hospital's average commercial inpatient rate varies from the regional average.

Percent Above or Below Average Regional Commercial Inpatient Rate						
Commercial Payer	Hosp 1	Hosp 2	Hosp 3	Hosp 4	Hosp 5	Hosp 6
Blue Cross	4%	15%	0%	-7%	-38%	-28%
Aetna	19%	39%	3%	29%	29%	-21%
Cigna	28%			-2%	-2%	-30%
United Healthcare	18%		15%	-11%	-25%	-5%

This type of summary view is just the beginning of a more detailed analysis including a closer look by payer product (e.g., HMO, PPO, and tiered network products), differences in specific codes and services, as well as a comparison of outpatient rates.

Value-based Care

The impact of transparency may have its greatest long-term impact on value-based contracting in which providers are at risk for the total cost of care for a population or for an illness episode. In value-based contracting, much attention is paid to managing the utilization of services. However, for commercial contracts in which prices can vary significantly among providers, the price of each service can have a tremendous impact on total cost.

As clinically integrated networks (CINs) or value-oriented physician groups gain insight into prices, they will work hard to steer patients to lower cost hospitals and settings. The new visibility into hospital pricing will empower these value-oriented providers who benefit from keeping total cost down. The new transparency will be an advantage for low-priced hospitals and a disadvantage for high-priced hospitals.

Pricing Strategy

In this new transparent market, hospitals need to reconsider their pricing strategy. As value-oriented providers and some consumers (especially those in high deductible health plans) consider prices more closely as they choose where to receive care, hospitals also

face the [elimination of the inpatient-only list](#). As a result, the price competition for hospitals is not just with other hospitals, but also with freestanding facilities. Is your pricing competitive at entry points where you face consumer scrutiny? Does your pricing position your hospital/health system for success in value-based contracting?

CONCLUDING THOUGHTS

The shift to a transparent market, where contracts between payers and hospitals are no longer confidential, will have a profound effect on hospital competitive strategy. At Veralon, we are helping hospitals and health systems address the challenges of the current datasets to uncover meaningful insights and position them for strategic success. ●