HEALTH CARE | November - December 2013

Charge Master

Why do some hospitals in the same city or state charge thousands of dollars more for the same procedure? As one doctor argues, big insurance, big hospitals, and big pharma firms have been making backroom deals that drive up medical costs. BY ILENE WOLFF

ILLUSTRATION BY TONWEN JONES

A t a recent medical conference in Ann Arbor, the co-founder of an Oklahoma surgery center told the assembled doctors about a daring move he made a few years ago: He started a price war by making the center's surgery prices all-inclusive, then boldly posted them online and charged patients for orthopedic spine hardware at cost instead of marking the price up.

"Why can't we do that in Michigan?" asked someone in the audience.

That prompted a dispiriting story from another doctor, whose medical group tried to set up its own surgery center in Michigan and, as in Oklahoma, make its prices transparent.

But a nearby hospital was having none of it. It hired a "high-priced law firm" to fight every request the group filed with the state for certificates of need — approvals required to open a surgery center, buy high-priced equipment, or add more hospital beds. The hospital even sent letters with veiled threats of repercussions to doctors if they made referrals to the planned center.

The hospital and its lawyers won the battle; the entrepreneurial doctors had to scrap their plans for new operating rooms. But the heavy-handed hospital did not exactly win the war against competition and transparency, as some parts of its list of charges are now available for public scrutiny.

That's because in May the U.S. federal agency Centers for Medicare and Medicaid Services, known as CMS, posted online charges from more than 3,000 hospitals nationwide for the 100 most common inpatient procedures and 30 common outpatient procedures paid for by Medicare. The amounts were culled from each hospital's "charge master" — a comprehensive, legally required list detailing what the institutions charge for everything from aspirin to an artificial hip.

Almost no one ever pays the charges listed on a hospital's charge master. Washington basically ignores charge masters and tells hospitals how much it will pay for people insured through Medicare and Medicaid; insurance companies routinely negotiate payments that are less than the listed charges — and many hospitals offer discounts to individual patients who pay directly for services.

Although media coverage about the CMS-posted data focused on how high the charges were, and on the disparity among charges at hospitals in the same state or even the same city, the pricing situation is even murkier than that. The fact is, charges can vary widely even among hospitals within the same system.

For example, the average charge for treating a Medicare patient with a heart attack at Henry Ford Hospital in Detroit is $14,725.67, according to CMS data. However, Medicare heart attack patients treated at Henry Ford Health System's Wyandotte Hospital save about $5,000 because Wyandotte's average price is $9,722.51. Henry Ford's management declined to talk
about the price discrepancy or its charge master for this article.

Experts say there are some legitimate, market-based reasons for varying charges, including patient volume, average length of stay, the cost of ancillary services and overhead, supply chain costs, bad debt, and government payment shortfalls.

But if hardly anyone pays the amounts listed on a hospital's charge master, why did the Patient Protection and Affordable Care Act require CMS to publish the data?

At the very least, CMS' charge master disclosures, which have been downloaded more than 300,000 times, will help whittle away at the opaque health care marketplace that's been in place for 50 years, says Dr. Matt McCord, an Ann Arbor anesthesiologist. McCord is the secretary of the Michigan chapter of Docs4PatientCare.org, a national physician advocacy group that was formed because it opposed passage of the Affordable Care Act.

Look at the food stamp program, McCord argues. He says food stamps work without pushing up food costs because they're used in an open market where prices are transparent and consumers can shop for the best buy.

America's health industry, on the other hand, takes the opposite approach. "The way health care has operated is with big insurance, big hospitals, and big pharmaceutical companies making backroom deals that drive up the cost for everyone," he says.

LOWER COSTS MEAN BETTER QUALITY

Dr. Katherine Hempstead, senior program officer at the Robert Wood Johnson Foundation in Princeton, N.J., a national philanthropic organization devoted to public health, was glad to see CMS publish the charge master list. She says the report has people talking not only about price, but also about quality. "I think a lot of people sort of want to know, when there's this huge disparity in hospital charges, and some more questions come from patients about the price discrepancy or its charge master --" she called around to health care executives she knows in search of an explanation — but she had no luck. She says one told her, "To tell you the truth, I don't even understand our charge master." Adds Mitchell: "I threw up my hands at one point."

Others downplay the importance of a charge master. "I don't think hospitals pay a lot of attention to the charge master; they pay more attention to insurance contracts," says Dan Babb, CEO of Oakland Regional Hospital in Southfield. "Charges are secondary."

Even rating charges "secondary" may be giving them too much weight when it comes to negotiating with insurance companies. "Nobody starts with the charge master," echoes Nick Vitale, CFO at Beaumont Health System in Royal Oak. "They couldn't care less."

In general, health care people understand that they are not part of a regular market. After all, the need for health care is nondiscretionary and, until now, pricing has been almost entirely opaque.

But even when health care acts somewhat like a regular market, the vagaries of an individual's underlying health and his particular needs make it nearly impossible to accurately predict what the bill will be until after services are rendered. "It's like walking into a restaurant and asking, 'What's the bill going to be?' and you haven't eaten yet," Babb says.

THE BIG SWITCH: RATE-SETTING BECOMES COST-SHIFTING

A dive into recent Michigan health care industry history offers an additional explanation. At one time, some auto and health insurance companies paid what a hospital charged with-out negotiating a discount. Or, in the case of the federal government or Blue Cross Blue Shield of Michigan, they simply told the hospital what they would pay. Historically, Blue Cross insured so many autoworkers and others in the state that its clout was seemingly on par with the federal government.

Even today, with the diminished numbers of autoworkers, Blue Cross has enough power to tell hospitals what it will pay. "They're 25 percent of our business and they just do that," says Vitale, of Beaumont. That practice has, over the years, helped restrain rising prices in Michigan.
HEALTH CARE

TRANSPARENCY

• Some savvy health care and information technology gurus who saw health care price transparency looming and know how to crunch Big Data have spun off a new business based, in part, on the response to consumer-driven health plans. Such plans come with high deductibles that encourage consumers to shop around to find the best health care value, which means consumers need to know a lot more about prices and quality. That’s where so-called transparency vendors come in. Healthcare Blue Book, which borrows its name and concept from the longtime Kelley Blue Book for vehicles, is among the new group of vendors adept at transforming data into information consumers can use to shop for health care. Some of the others include Compass Healthcare Advisors, Castlight Health, and Change Healthcare. Among these vendors, Healthcare Blue Book is the only one that offers free online information. It upgrades the services for

Different hospital, Different price

WHILE MICHIGAN has a long way to go when it comes to price transparency, some health care providers are partnering with companies like Healthcare Blue Book to help patients compare prices for many procedures and surgeries. Here are samples of some typical procedures and pricing from several hospitals around the state. Amounts are average covered charges for Medicare patients.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Hospital</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHRONIC OBSTRUCTIVE PULMONARY DISEASE WITH/ WITHOUT COMPLICATIONS</td>
<td>TAWAS ST. JOSEPH HOSPITAL, Tawas</td>
<td>$4,739.57</td>
</tr>
<tr>
<td>CARCINOMA CATHETERIZATION WITH/ WITHOUT STENT WITH/ WITHOUT COMPLICATIONS</td>
<td>LAKELAND HOSPITAL, St. Joseph</td>
<td>$29,570.11</td>
</tr>
<tr>
<td>HEART ATTACK MEDICAL CENTER, Clare</td>
<td>MID-MICHIGAN ST. MARY MERCY MEDICAL CENTER, Livonia</td>
<td>$7,482.00</td>
</tr>
<tr>
<td>PNEUMONIA HURLEY MEDICAL CENTER, Flint</td>
<td>ST. MARY MERCY MEDICAL CENTER, West Bloomfield</td>
<td>$11,697.83</td>
</tr>
</tbody>
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They repeatedly increased their charges so that paying customers unwittingly made up for under-reimbursement from government and some insurance companies, and for deficits created by those who didn’t pay their bills at all, Babb says.

In 1983, Medicare touched off even more cost-shifting when it started paying hospitals a flat rate based on a patient’s diagnosis. That meant a possible loss of revenue if a hospital operated inefficiently, or if it treated sicker patients who required a higher level of care, stayed longer than predicted, or had to be readmitted repeatedly.

That approach seemed to work through the 1960s, but in the ’70s and ’80s, it started to fall short as hospitals developed a new approach to rate-setting, called cost-shifting.

"BCBSM does not have the ability to control hospital charges, as these decisions are left to hospital administrators to determine based on their operations," the Blues said in an email from a representative. "BCBSM’s contracts with hospitals are based on cost and provide the hospital a fair margin, using volume to ensure our members receive the best possible rate."
Babb says: "By the early 2000s, the damage was done."

**COST MARRIED TO QUALITY**

Even though some downplay the charge master's importance, Kathryn Hickner-Cruz, an attorney at The Health Law Partners in Southfield, says: "Obviously I like the idea of transparency. I'm just not sure how useful it is."

Still, she has an idea to make the CMS data more relevant. "With the movement toward paying for value, how do we mesh the rankings of who's the cheapest and who's the best?" she asks. "How do we measure the best value?"

"That's the goal. I don't think anyone knows. That's what the Robert Wood Johnson Foundation and Health 2.0 are trying to find out."

The organizations are co-sponsoring the Hospital Price Transparency Challenge to make medical data more understandable and usable. "The challenge encourages applicants to combine hospital charges with data about their quality to make pricing information more accessible."

"The challenge asks technology-developers to transform these data into intuitive, actionable tools," Hempstead says. "We hope this will spark discussion and innovation that will help further progress toward increased price transparency in health care."

"Exactly how useful is all that new information? Marianne Udow-Phillips, director of the Center for Healthcare Research, a nonprofit partnership between the University of Michigan and Blue Cross, says: "There's actually quite a bit of concern right now at the national level regarding how to make this data more useful."

That's why, Udow-Phillips says, the Institute of Medicine, CMS, the National Quality Forum, and Consumers Union are trying to work out a system for making sure that when patients start checking into cost and quality, they can actually understand what they see online.

"Michigan has a long way to go when it comes to price transparency. In fact, the state got an "F" for its overall legislative effort in the "2013 Report Card ...""

In response to community need, Garden City Hospital posts prices on its website that represent a 40 percent to 80 percent discount from charge master amounts for patients with no insurance who qualify for its Community Assistance Program. Doctor fees are additional, except for emergency visits. Visits to the hospital's emergency center top out at $200, which includes all fees.

"The unusual price list actually has something of a market basis to it."

In 2010, after the hospital noticed a drop in volume, it found, was from a portion of its patients who were let go by the Big Three and subsequently lost insurance coverage, says Terri Kalinski, director of the hospital's revenue cycle.

"This is a patient population that had been insured their whole lives," Kalinski says. "They have the ability to pay; they just want a reasonable price."

The 323-bed hospital's CAP program is growing. It recorded 1,643 patient visits under...
the CAP in fiscal year 2012 (ending Sept. 30). In FY 2013, CAP patients had already made 2,122 visits by the beginning of August.

Even with discounted prices, Garden City is making money — $144 million in fiscal year 2012 — and reducing bad debt, which fell from $16 million in FY 2011 to $15 million in FY 2012.

**HEALTH ‘BLUEBOOKS’ CAN HELP**

While insured people with high-deductible plans have joined the uninsured in shopping around for the best value — something their insurance plans and employers encourage them to do — they retain a crucial advantage. Unlike their uninsured counterparts, they are given tools like the Healthcare Blue Book (see related sidebar) to help their research.

"I'm not a Nobel Prize-winning economist," Hughes says. "But when people are using their own money, the Great American Consumer comes out."

Some people insured by Priority Health had the chance to become Great American Consumers in August, when the insurer became the first company in Michigan to partner with Healthcare Blue Book. The shopping tool is available to Priority-insured people with "significant cost-sharing" in groups numbering 50 categories like MRI, endoscopy, etc. We have had employer reductions of 4 percent of total medical spending."

Under the Priority plan, high-deductible insured people will log on to a special portal for access to price information on more than 200

"With ever-increasing cost-sharing with patients, they have a right and a need to know what they're paying for health care." — DR. JOHN FOX