Discussion of Hospital Charges and GMCB authority/efforts to address them

Senate Health & Welfare and House Health Care Committees
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Why the increased interest in hospital charges?

- TIME magazine, March 12, on “chargemasters”
- Explored the causes of high health care spending in the U.S.
- Conclusions:
  - Americans pay very high prices for health care
  - There is tremendous variation in hospital “sticker prices”
  - Few pay the sticker prices (essentially only the uninsured) – all “payers” negotiate a discount
  - Our payment systems encourage over-treatment and over-use of services
- The article largely ignores the influence of volume and intensity (better technology) on costs

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What is a chargemaster?

- **The chargemaster is a list of all the items and services a hospital provides, and the amount the hospital charges for those items and services – like a “sticker price”**
  - Hospitals maintain chargemasters in order to ensure they are in compliance with Federal rules that prohibit differential billing
  - Could be over 600 pages and 12,000- 45,000 charges
  - All patients, regardless of coverage, are charged the same for the same service
  - But almost all payers negotiate or establish a “discount off charges” or other alternative to the full charge
  - Uninsured patients are charged the full “charge,” though hospitals often reduce charges if patients can not pay
  - Charge has little or no relationship to cost

Relationship between the chargemaster and hospital budget process

- **GMCB approves annual rate of increase in both hospital net patient revenue (NPR) and hospital rates**
- **Chargemasters are adjusted (marked-up) on an annual basis in conjunction with the hospital budget review process**
  - Mark-ups cannot exceed the overall rate approved by the GMCB, but % mark-ups may vary by service category to get "the biggest bang for the buck"
  - Some prices are derived from actual costs
    - Pharmaceuticals, supplies, implants, etc.

Most payers don't pay charges

Payment Type	Inpatient		Outpatient	
	6 Prospective Payment Hospitals (PPS)	**8 Critical Access Hospitals (CAH)**	**6 PPS Hospitals**	**8 CAH Hospitals**
DRG Medicare	X			
DRG Medicaid (%Medicare)	X	X		
Commercial Discount off Charges/Per Diem/DRG	X	X		
Commercial Discount off Charges/Fee Schedule			X	X
Medicare Cost		X		X
Medicare Fee Schedule			X	
Medicaid Fee Schedule			X	X

What do we know about hospital charges and payments in Vermont?

- GMCB has contracted for a study of price and payment variation across payers and providers
- Study being conducted by VAHHS-NSO under special no-cost agreement – results will be transparent and in accordance with contract
- Final results of study are due this month. Preliminary results:
  - Medicaid and Medicare are highly standardized
  - Medicaid pays lowest rate for everything
  - Commercial payments vary greatly across providers and services
- Additional research (RFP has been released) will identify policy approaches that could reduce variation and support fair payment across payers and providers

GMCB activities

- Data analysis commissioned
- Looking at equalizing provider payment through the Exchange, will expand over time but we want to be cautious
- Implementing payment reform models that make it easier to reduce variation in prices

Chargemaster example: target total revenue of $255,000 on chest x-rays

- Current system

Income				
Payer	% Total	Volume	Paid @	Tot Paid
Other	5%	50	$396.82	$19,840
Comm. (90% charge)	25%	250	$357.14	$89,285
Medicaid (75% cost)	20%	200	$187.50	$37,500
Medicare (85% cost)	50%	500	$216.75	$108,375
Tot. Inc.				$255,000
Cost		Volume	Cost@	Tot. Cost
Chest X-Ray		1000	$250.00	$250,000
Profit (2%)				$5,000

A potential solution, used by Medicare and in Maryland* and authorized in VT: all-payer rates

- All-payer example, reduces prices from from $397 to $255

Income				
Payer	% Total	Volume	Paid @	Tot Paid
Other	5%	50	$255.00	$12,750
Comm. (90% charge)	25%	250	$255.00	$63,750
Medicaid (75% cost)	20%	200	$255.00	$51,000
Medicare (85% cost)	50%	500	$255.00	$127,500
Tot. Inc.				$255,000
Cost		Volume	Cost@	Tot. Cost
Chest X-Ray		1000	$250.00	$250,000
Profit (2%)				$5,000

* Both Medicare and Maryland allow for variation in charges across hospital categories, but all payers pay the same rate within a category

What can you conclude?

- Knowledge of price variation is useful, but without authority to do anything about it, so what?
- Authority to set prices is useful but has to be used carefully
- Prices are only part of the cost problem

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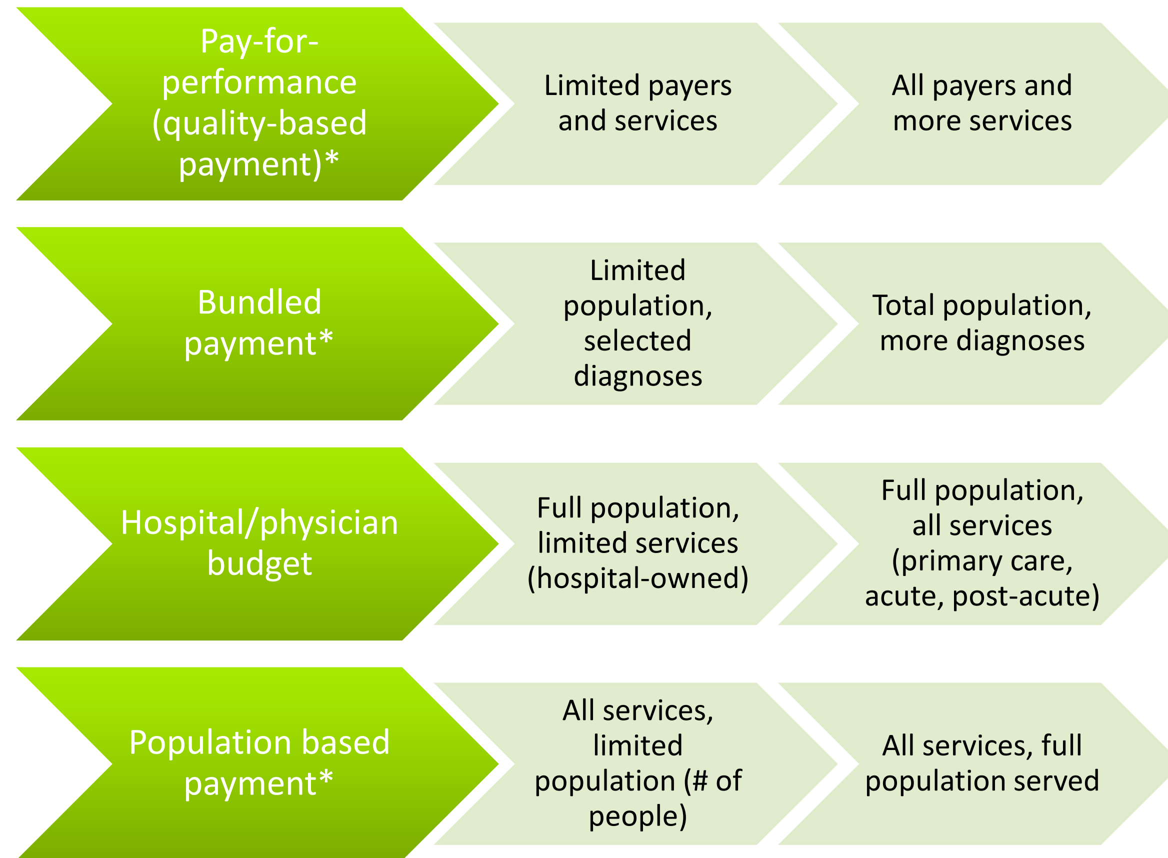
GMCB activities: payment reform



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