



Price Variation

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Presentation to the Senate Finance Committee
March 19, 2015

Analysis of Price Variation: Summary

- There is substantial variation in price for both professional and hospital services.
- Contributors to variation include payer size, payer type (public or private), provider size, provider type (e.g. private practice, FQHC, hospital-owned practice), specific product, payment mechanism (discount or PPS) and site of care.
- The relative influence of these factors varies by type of service.

Analysis of Price Variation: Summary

- Payers and hospitals typically negotiate an aggregate rate increase. Most physician groups are “price takers.”
- The way that a price is calculated can contribute to price variation. For example, some rates are set as a percentage discount from charges, while others are based on fee schedules.
- For CPT Code 99214 (Evaluation and Management Office Visit, 25 Minutes) for one payer, payments vary from \$63.00 per visit to \$150.00 per visit

Analysis of Price Variation: Findings

There are many factors that explain why some health care providers are paid more than others for the same services:

Payer-Related Factors	Provider-Related Factors
Payer	Provider Size
Health Plan Product	Provider Region
Payment Method	Provider Type
Negotiating Leverage	Site of Service (Facility or Office)

Analysis of Price Variation: Findings

There is no consistency in the share of variation explained by each factor across services. Factors explain different shares of variation for different services. Examples include:

- Health Plan Product (e.g. HMO, PPO, POS) explains approximately half the variation in prices paid for an Evaluation & Management office visit for a patient age 40-64
- Provider Type (e.g. primary care or specialty physician) explains 22% of the variation in prices paid for a joint injection
- Payment Method (e.g. fee schedule, charge, other) explains 20% of the variation in prices paid for a psychotherapy visit

Analysis of Price Variation: Findings

Unexplained price variation might include:

- a unique payment adjustment negotiated between a payer and a provider
- an individual provider's historical method for setting charges
- a special circumstance that the payer did not report in the claims data for the specific service provided, for example a clinical condition that required far more resources than an average patient

Payment Principles

Payments To Providers Should Be:

- Fair
- Reasonable
- Transparent
- Logical
- Related to Cost (when possible)
- Not necessarily equal

Possible Next Steps

1. Develop a set of principles for establishing payment methods and rates in alignment with statutory requirements, with input from advisory committees, stakeholders, and the public. This should include principles for value based payment.
2. Develop regulatory rules for those providers continuing to be paid under FFS reimbursement
3. Develop draft payment methods and rates based on the principles.
4. Model the impact of implementing consistent statewide payment methods and rates on individual health care providers, payers, consumers, and state government.
5. Continue efforts to improve the accuracy and utility of VHCURES data.



Questions?