

The Strategic Pricing Imperative

The Leadership Institute

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BOSTON | CHICAGO | HOUSTON | MIAMI | SAN FRANCISCO | WASHINGTON, DC

Today's Discussion

Strategic Pricing



Understanding Changes In The Environment



Developing A Strategic Pricing Framework



Executing A Strategic Pricing Strategy

Changes in the health care landscape make pricing decisions more important than ever before.

Key Market Drivers for Strategic Pricing



Legislative and
Regulatory
Trends



Employer
Benefit
Design Trends



High
Performance
Networks



Disruptive
Innovation in
Care Delivery



Shift to
Value Based
Payment

With these market forces in play, providers have an imperative to be increasingly strategic about pricing decisions in order to maintain/grow market share and optimize revenues.

The new Price Transparency rule requires hospitals and health plans to provide an unprecedented level of pricing information to the public effective January 1, 2021.



Hospital Price Transparency (Hospitals) Final Rule

Transparency In Insurance Coverage (Health Plans) Proposed Rule

1 Publicly disclose all 'standard charges'

- For all services and items (e.g. charge master level), provide all 'standard charges':
 - Gross charges,
 - **Payer-specific negotiated charges**,
 - Discounted cash prices, and
 - Minimum and maximum negotiated charges

2 Publicly display pricing for 300 shoppable services

- All 'standard charges' for 300 shoppable services including ancillary services
- 70 of the 300 are specified by CMS and the remaining 230 are left to the provider's discretion

1 Information for participants, beneficiaries and enrollees

- **Patient's out-of-pocket expense**, including deductibles, coinsurance, and copayments
- Accumulated amounts toward deductible and/or out of pocket limits
- **Negotiated rate** (if it impacts the patient's cost sharing liability)
- **Out of network allowed amount**
- Notice of prerequisites to coverage (concurrent review, prior auth)

2 Publicly disclose health insurance coverage information

Required to provide:

- Name or identifier of the health plan
- Billing codes
- **Negotiated in-network rates**
- **Out-of-network allowed amount**

A group of hospital associations and select hospitals have filed a lawsuit against HHS and requested a summary judgement on the price transparency rule.

Price Transparency rules have important implications for key stakeholders



Key Implications Across Stakeholders

Patients

- Patient out-of-pocket responsibility is actionable price information
 - Hospital rule does not provide patient out-of-pocket information
 - Health plan rule requires patient out-of-pocket expense
- Increased consumerism / steerage as health plans pursue MLR rebate exemption

Providers

- Unit rate compression
- Shifts in commercial market share
- Public relations impacts
- Center of excellence strategies
- Need for strategic pricing

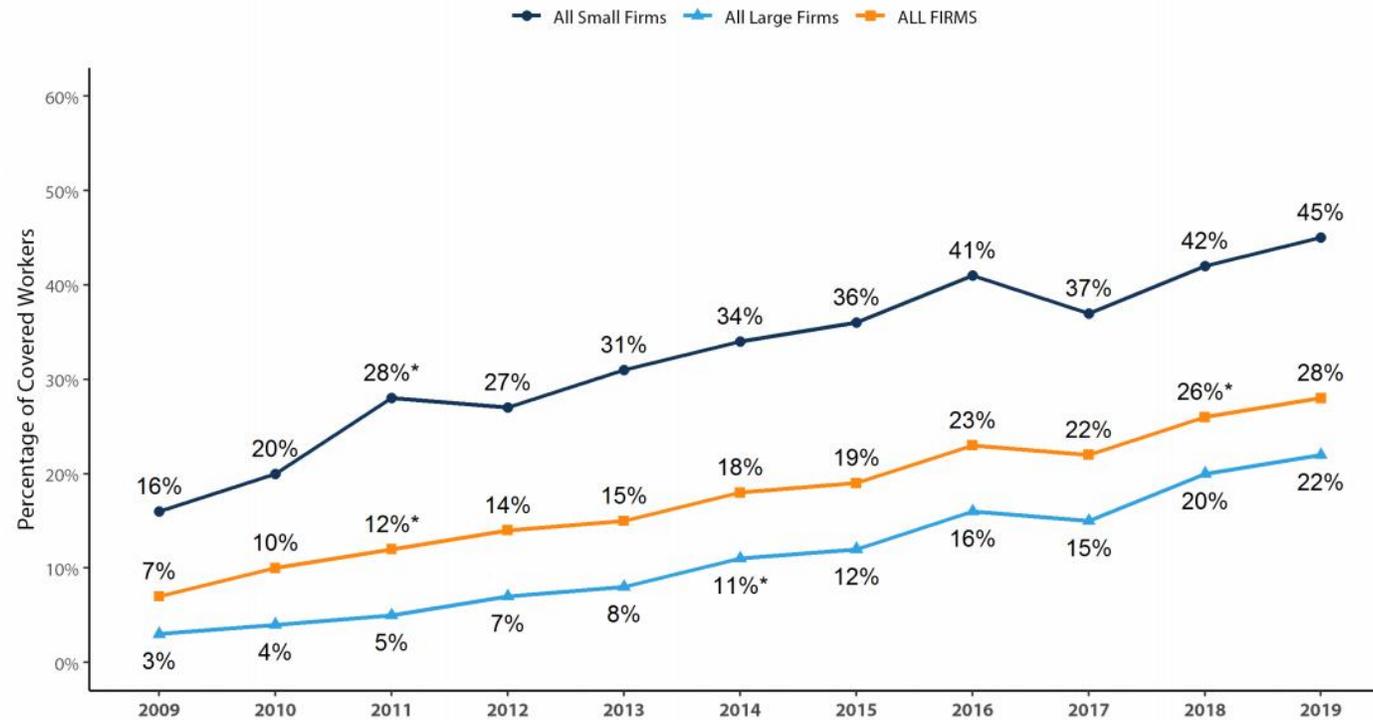
Health Plans

- Employer discontent with price variability
- Opportunity to compress provider rates
- Public relations impacts
- Elevated importance of reference pricing
- MLR rebate exemption opportunity
- Alternative sites of care strategies
- Need for strategic pricing

Employers have influenced pricing dynamics through increased penetration of high deductible health plans, which increase consumer responsibility for healthcare costs.



Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of \$2,000 or More for Single Coverage, by Firm Size (2009-2019)



Patients are learning to shop for routine outpatient services and are choosing lower price, convenient options.

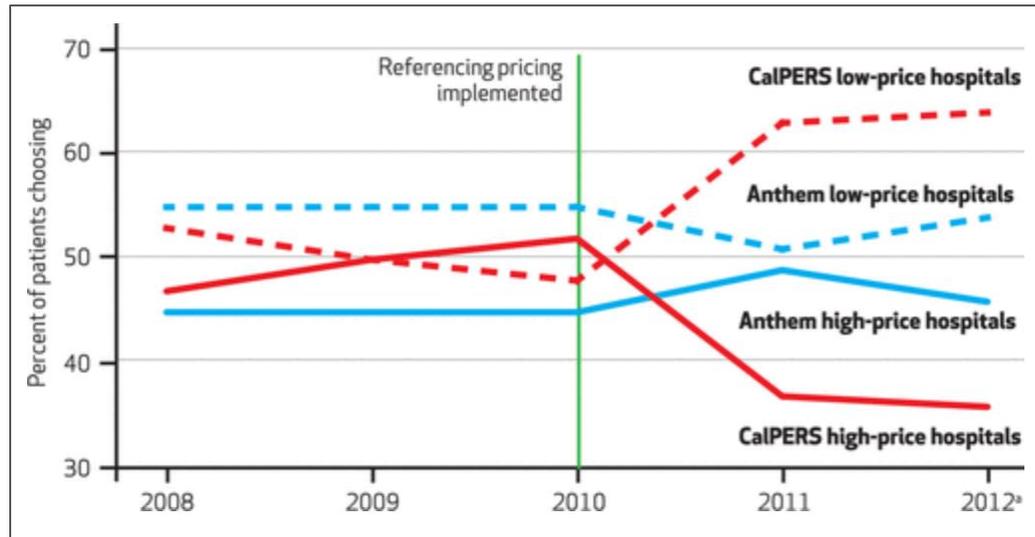
Note: Small firms have 3-199 workers, larger firms have 200+ workers. These estimates include workers enrolled in HDHP/SOs and other plan types.
Source: The Kaiser Family Foundation Employee Health Benefits Survey 2018-2019.

Reference-based pricing is another potential game changing tool for employers and health plans to control healthcare costs.

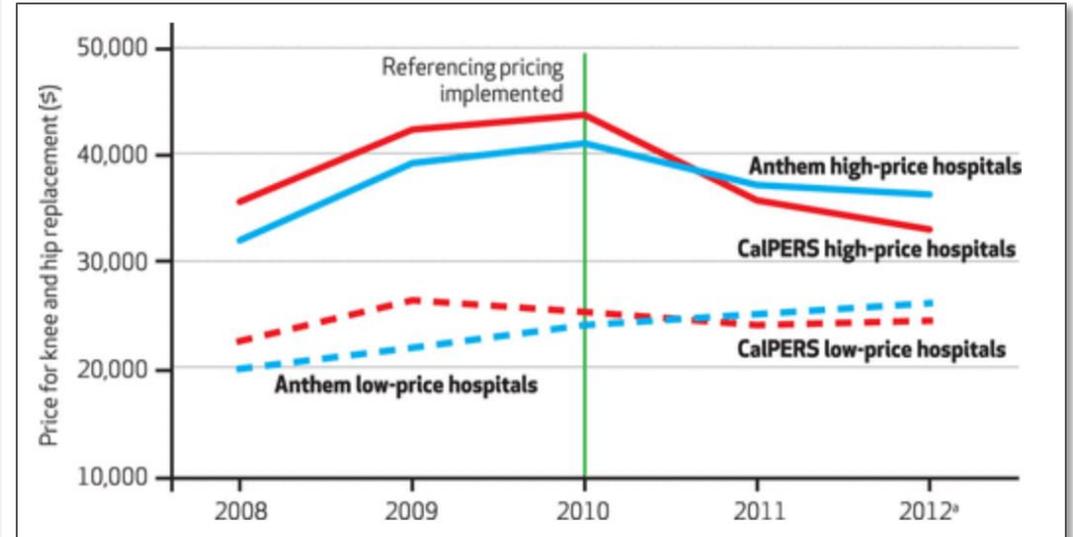


Example of Reference Pricing Impacts on CalPERS Population

Patients Choosing High-Price or Low-Price California Hospitals for Knee or Hip Replacement Surgery, 2008-2012



Prices Paid for Knee or Hip Replacement Surgery in High-Price and Low-Price California Hospitals, 2008-2012





Large employers such as Walmart are spurring innovation, driving change and cutting costs through direct contracting with Centers of Excellence and narrow network ACO plans.

Centers of Excellence Overview

- Enter into value-based agreements with Centers of Excellence (COE) for specific surgeries or diagnoses
- Available for employees enrolled in certain health plans including HRA, HSA plans and select network plans
- Select diagnoses are only covered at Walmart designated COE
- All travel expenses covered for patient and care giver by Walmart

Current Walmart-Provider Partnerships Offerings



Narrow Network Accountable Care Plans Overview

- In 2018, Walmart offered over 10 Accountable Care Plans (ACP) across the country, which are comprehensive narrow network plans managed by one large provider system
- ACP option offered alongside more traditional health plans for employees

Source: Walmart Smart Guide, 2018 Benefits Materials.



Purchasers in the individual and commercial 'price sensitive' segments are more inclined to tradeoff broad provider network access for lower monthly premiums.

Commercial Market Segments				
Market Segment	Comm. Individual Exchange	Commercial Price Sensitive	Commercial Innovative	Commercial Traditional Group
Description	Individuals and employers purchasing coverage on exchange.	Often includes small (<99 employees) and some mid-size (100-500 employees) employers focused on affordability.	Employers interested in and able to implement innovative models. Often with a more sophisticated HR function.	Employers who are less willing to innovate given traditional benefit offerings and large employee base.
Interest in Innovative Models	Large percentage willing to trade price for more limited / tiered network options.	Often willing to trade price for network.	Highly interested in capabilities to implement innovative models.	Low interest potentially due to high switching costs, employee distribution, lower sophistication, etc.
Buying Criteria	Premium price & cost share, brand, network	Premium price, followed by network	Broad network, network discounts, admin simplicity	Premium price, brand, network (inclusion of existing MDs), access

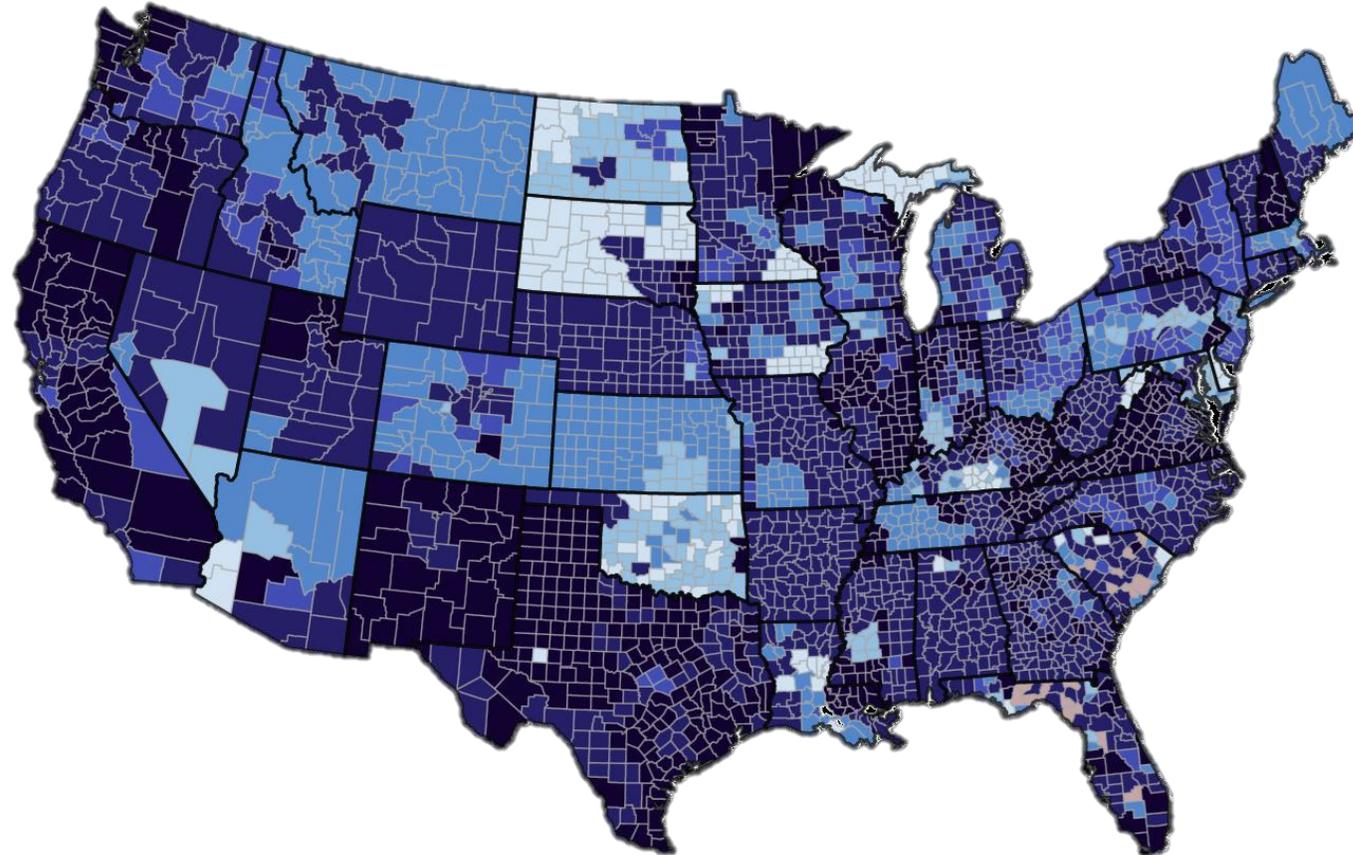
High performance narrow networks are continuing to expand at the expense of broad networks and provider prices drive network inclusion decisions.



Change in Availability of Broad Networks, 2014 – 2019

Legend

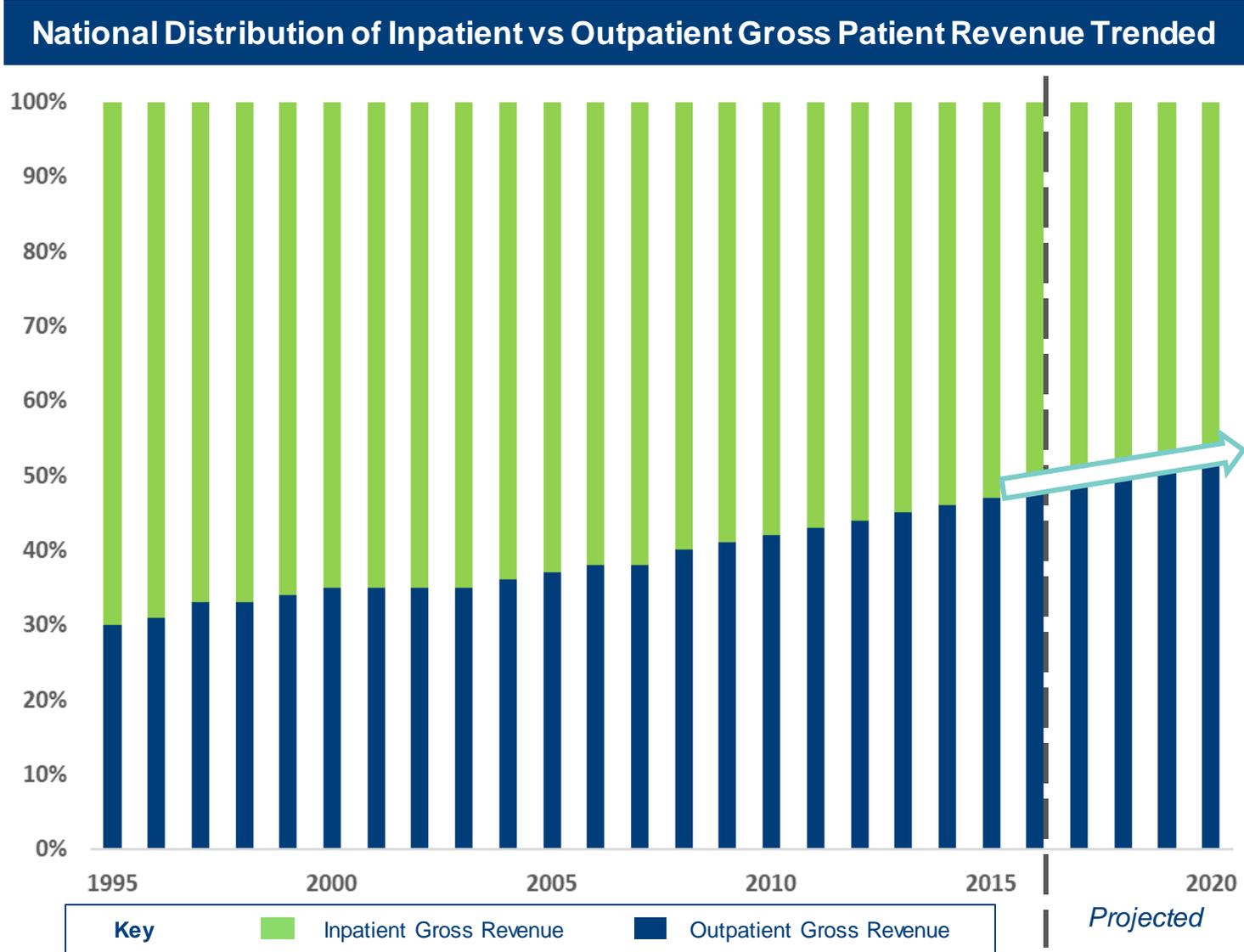
- > 15% reduction in broad networks
- 1-15% reduction in broad networks
- 0-14% increase in broad networks
- 15-29% increase in broad networks
- 30-45% increase in broad networks
- > 45% increase in broad networks
- Data unavailable



In addition to net expansion, the average premium differential between broad and narrow networks for comparable benefits has averaged 15-19% between 2014 and 2019, indicating that narrow networks will likely continue to grow.



Health systems have shifted revenues and profit pools to outpatient services, which have experienced tremendous growth in the past decade but are now in jeopardy with the growth of lower cost alternatives.



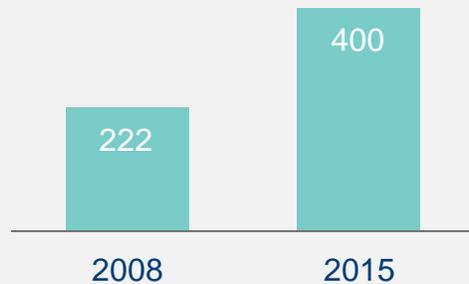


The shift to value has created a proliferation of alternative, lower cost sites of service.

Increase in U.S. Outpatient Sites of Service



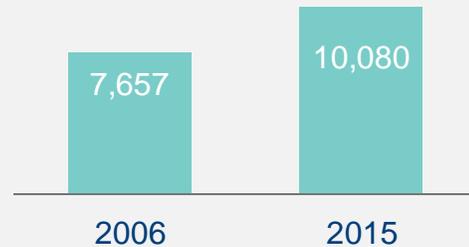
Freestanding EDs



80%
Increase



Urgent Care Locations



32%
Increase



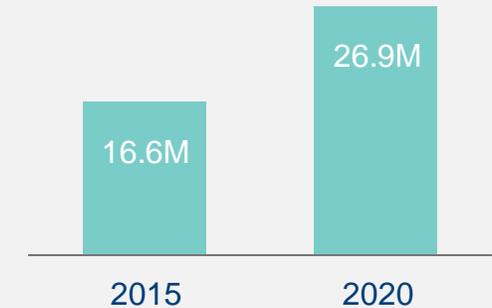
Retail Clinic Locations



445%
Increase



Virtual Consults

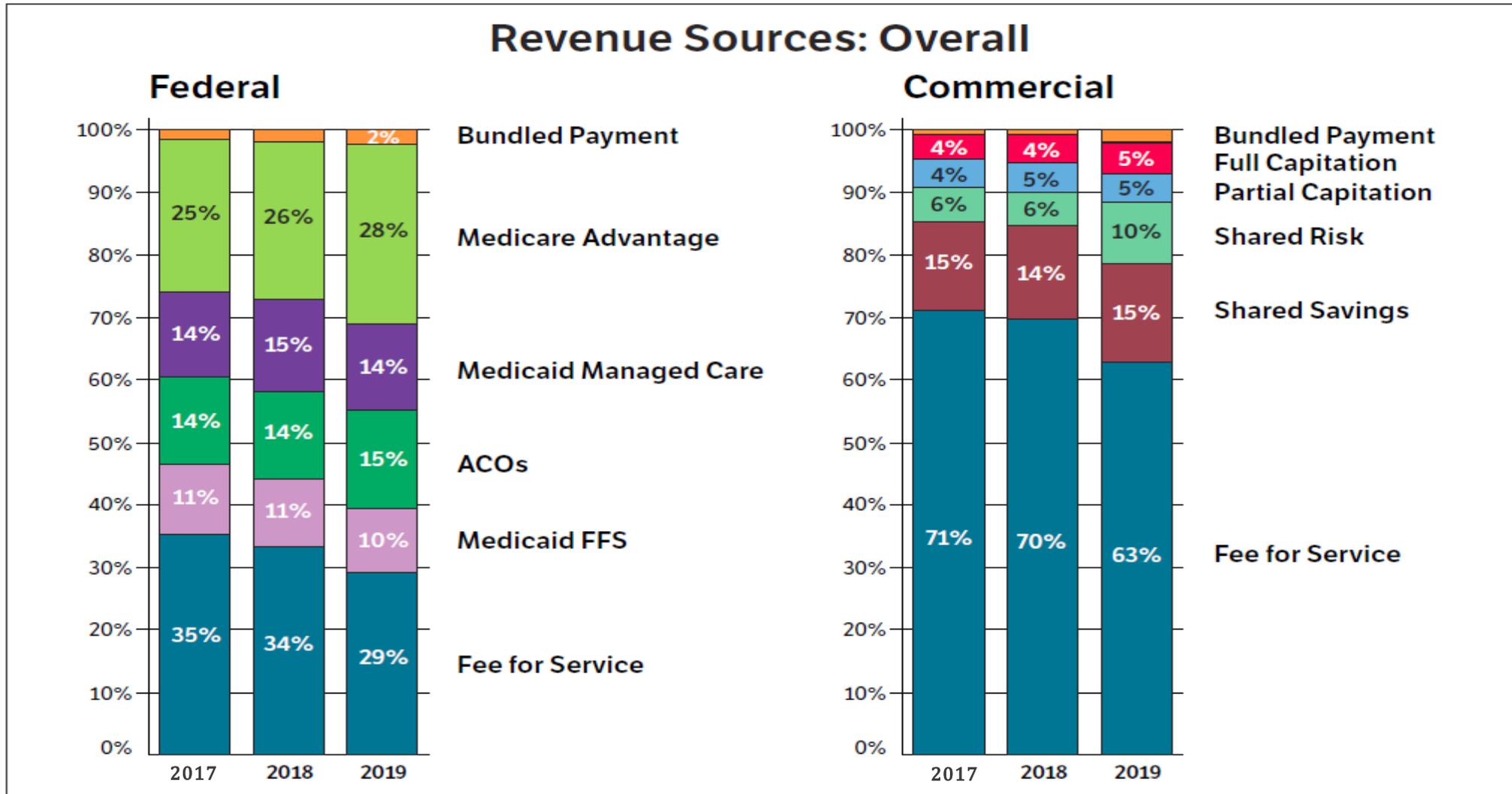


62%
Increase

Source: Health Affairs, "State Regulation Of Freestanding Emergency Departments Varies Widely, Affecting Location, Growth, And Services Provided," October 2016; IBISWorld, "Urgent Care Centers," November 2015; Accenture, "US Retail Health Clinics Expected to Nearly Double by 2017 According to Accenture Analysis," August 2015; Forbes, "Doctors' Virtual Consults With Patients To Double By 2020," August 2015; Health Care Advisory Board interviews and analysis.



As both federal and commercial payers shift away from fee-for-service payment models, there is a growing need for a more value-conscious pricing model.





Market segments have been impacted differently, with some experiencing a greater shift toward risk-based payment models and other price sensitive initiatives.

Market Segment Value-based Trends

Commercial Individual	Payer-led efforts to manage risk, such as increasing patient responsibility, forming selective provider partnerships, and developing narrow networks, appear to have succeeded in stabilizing premiums and enrollment
Commercial Group	Employers have responded to rapidly rising healthcare costs by making high-deductible plans available and steadily pushing employees towards them
Medicare Advantage	Payers and providers are prioritizing effective care management for elderly populations as increasingly important parts of their overarching strategies as Medicare Advantage penetration has continued to rise
Medicaid MCO	As Medicaid expansion continues to be accepted by more and more states, many state Medicaid programs are implementing various value-based payment models with increasing risk for providers, including bundled payment, population-based ACO, and total cost of care models

Health systems that do not proactively address strategic pricing may face significant challenges depending on local market dynamics.



Cleveland Clinic



Narrow network products increasingly prevalent in Cleveland market



Newer products excluded Cleveland Clinic



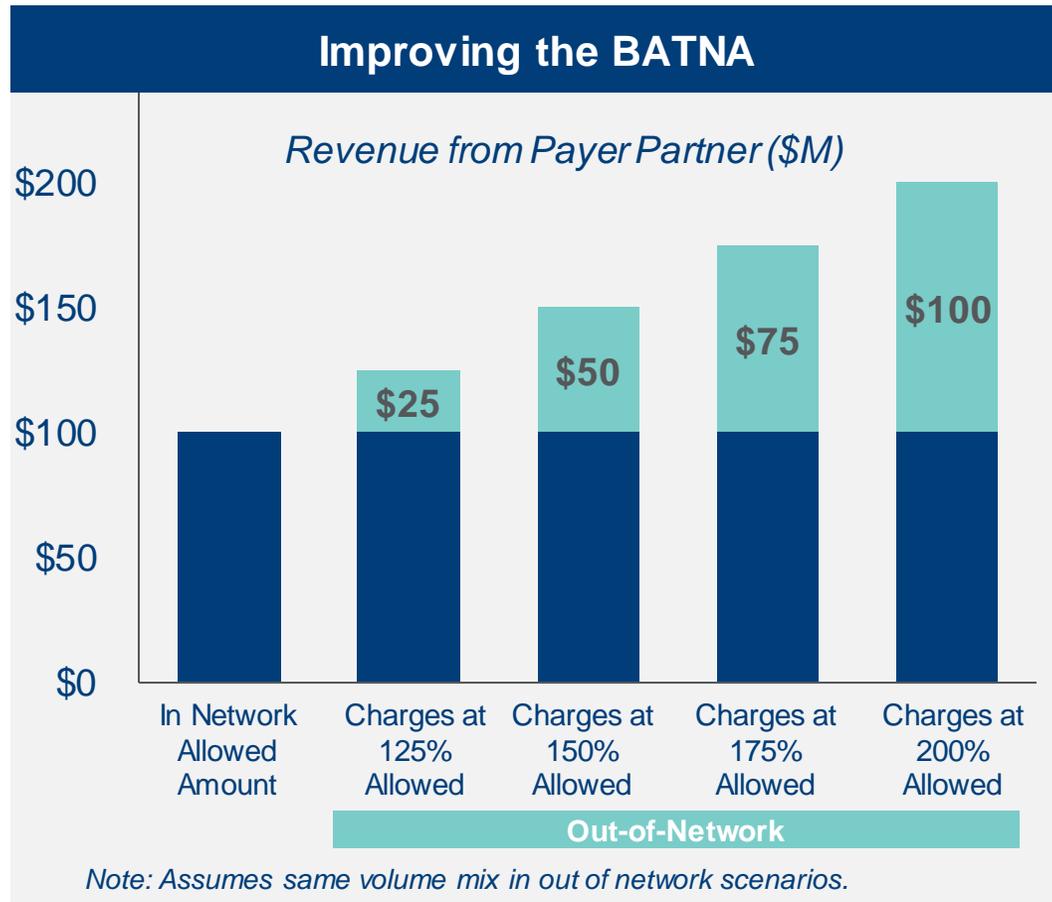
Resulted in almost **double digit decrease** in commercial volume over two-year period

Other Examples



The current environment encourages providers to move beyond the historic model of managing prices at the chargemaster level.

Rationale for Significant Spread Between Allowed Amounts and Charges



Avoiding 'Lesser of Charge' Issues

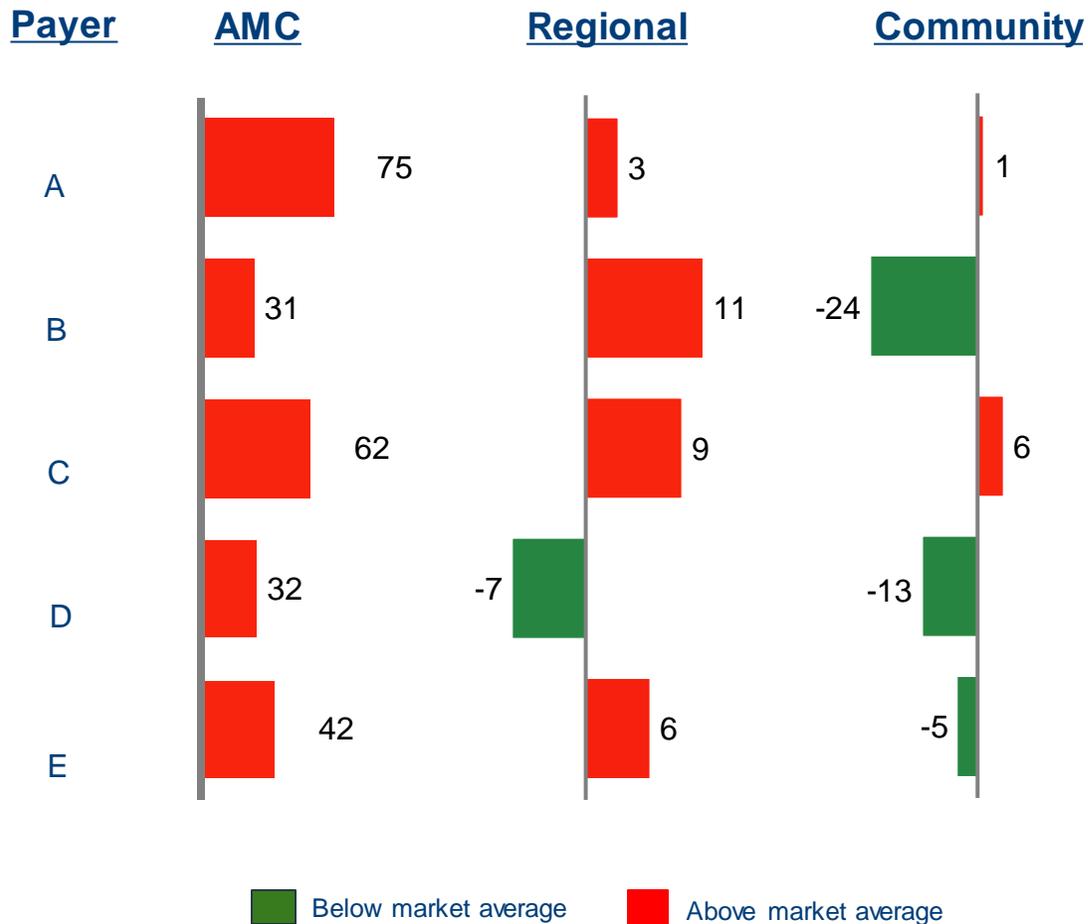
Chargemaster			
Code	Description	Charges	Allowed Amount
301100011	202 MICU	\$10,000	\$9,012
302100012	206 Intermediate Care	\$7,075	\$6,025
301100550	OP Observation Unit	\$200	\$250
303000011	121 Med / Surg Acute	\$3,601	\$4,024

Due to lessor of provisions in contracts past clients have experienced significant payment losses (e.g. tens of millions of dollars)

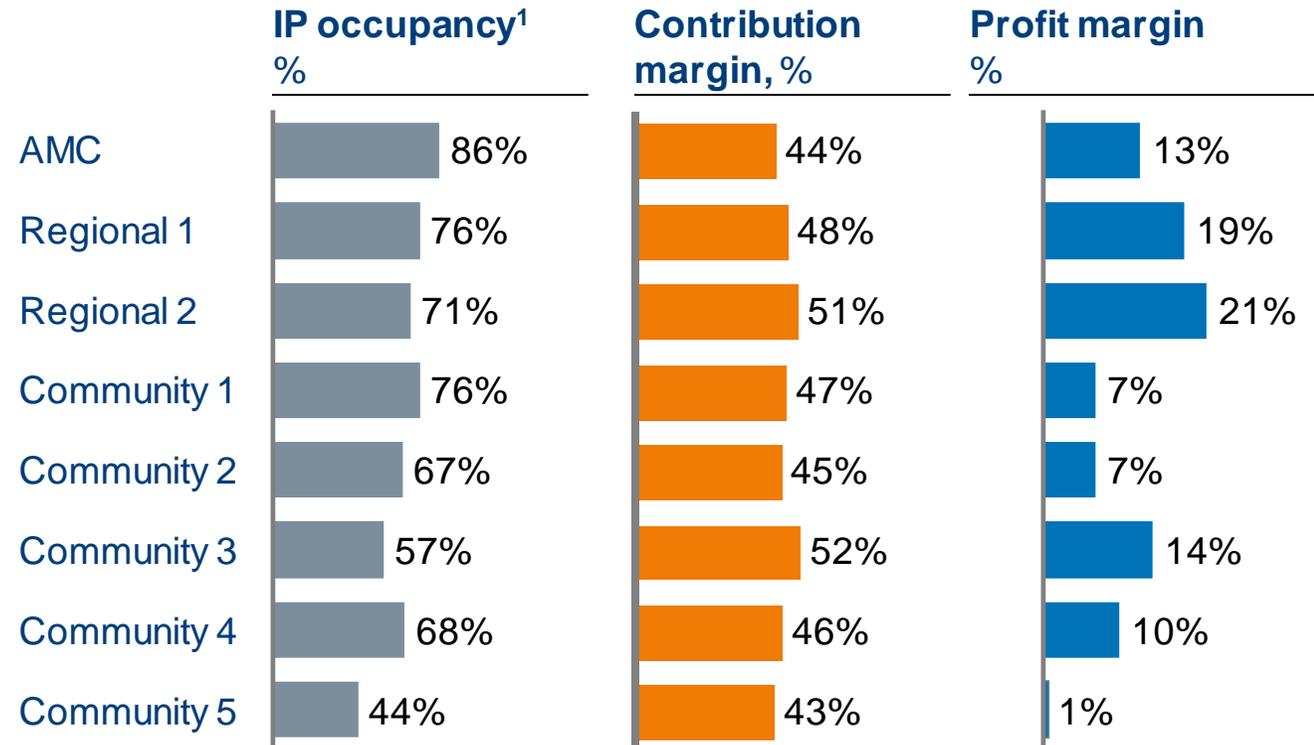
Health systems still need to maintain a strong spread between charges and allowed amounts. However, setting the right allowed amounts is growing in strategic importance.

Strategic pricing starts with a comprehensive understanding of reimbursement, patient revenue, expenses and margin.

Average Reimbursement Gap To Market (%)

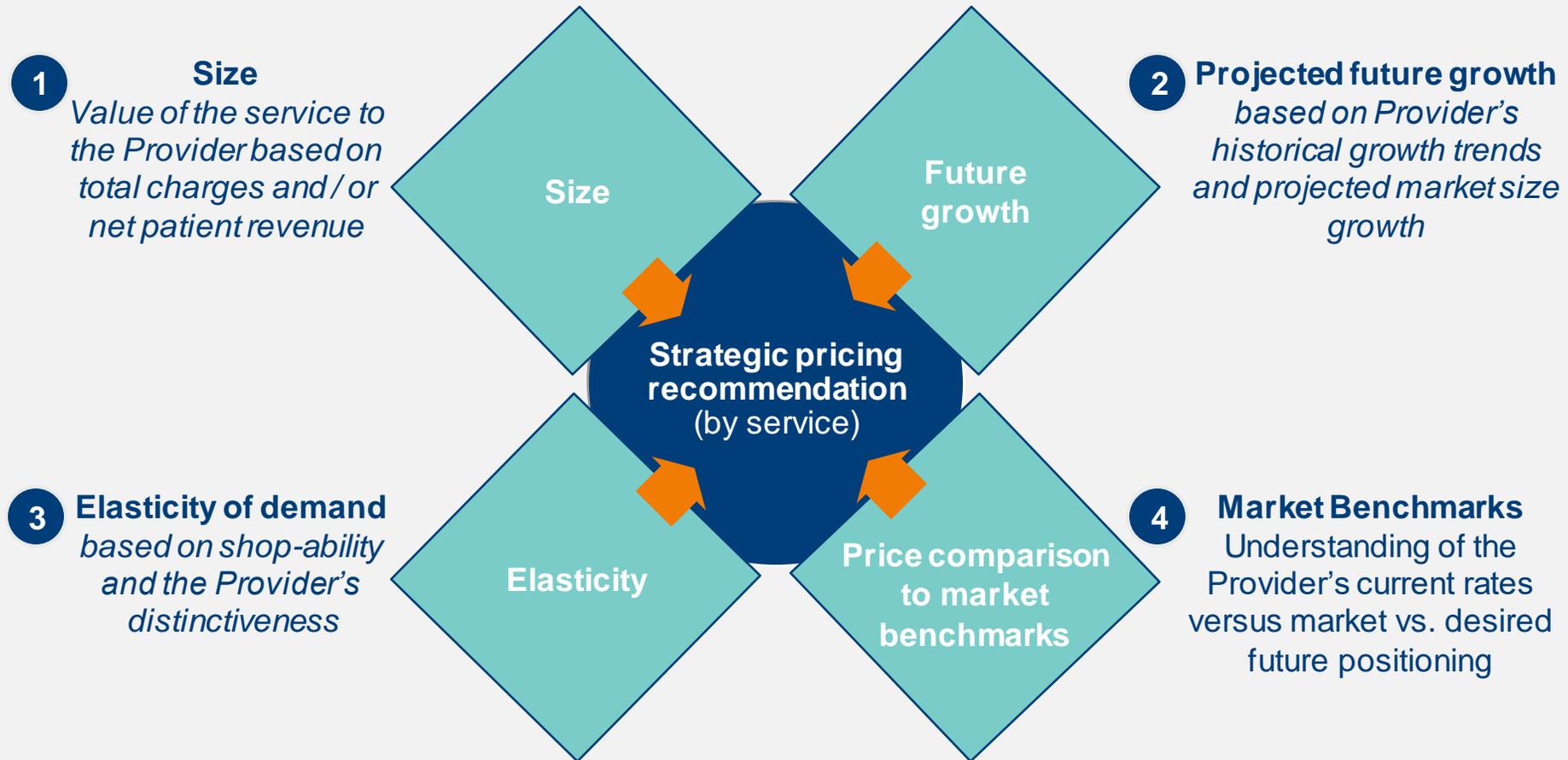


Key Hospital Occupancy & Margin Statistics



Strategic pricing is informed by key considerations pertaining to historic volumes, growth, market position, and elasticity of demand at the sub-service line level.

Strategic Pricing Factors



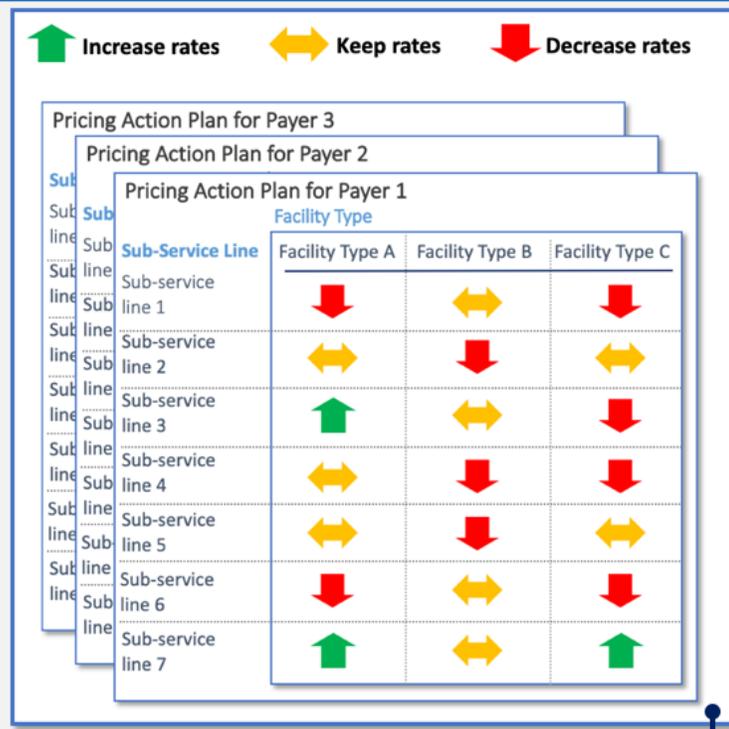
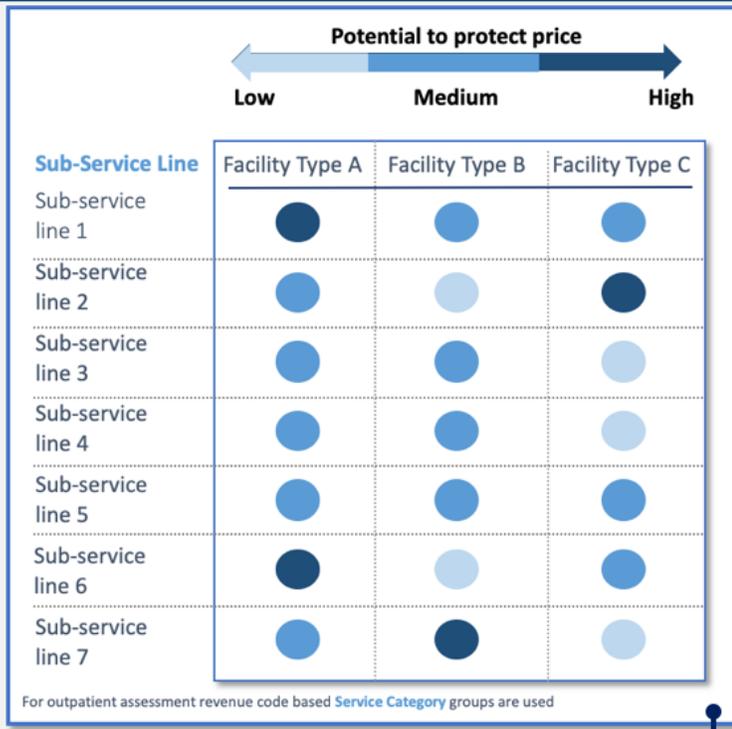
Service level insights on the potential to protect price are then used to inform payer-specific pricing actions.

Key Elements of Strategic Pricing Strategy

Align pricing strategy with provider & department goals

Use payer specific analytics to define payer specific rate actions

Generate contract rate sheets for each payer



Typically performed by client teams internally

When approaching a strategic pricing effort, several best practices should be kept in mind.

Best Practices

- Recommendations should be tailored by facility to reflect their respective market realities
- Any pricing adjustments should:
 - Protect strategically important services that are distinctive and/or growing
 - Calibrate pricing for shoppable services
 - Optimize market positioning
- Costs should be understood at the service line and sub-service line levels and prices reflective of that knowledge
- Integration and communication with finance, budgeting process and P&L ownership is essential to socialize changes

When done right, pricing strategies position organizations to drive growth, revenue and overall margin.

Case Study

Problem

- A large western health system had made significant investment in their ambulatory footprint to shift revenue to outpatient services and was not seeing a return on investment or hitting outpatient visits targets

Market Context

- Payers excluded health system from preferred list of outpatient services
- Meanwhile, physicians in the market began opening their own Ambulatory Surgery and Imaging Centers

Actions Taken

- Health system implemented pricing strategy focused on aligning pricing with market trend: lowering prices for shoppable services and increasing prices for select hospital-based services

Results

- Volumes increased with uptake in physician and payer referrals
- Overall revenue and margin increased due to the redistribution of prices across services, even with concessions made



LEADING CONSTRUCTIVE CHANGE

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