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Crowe RCA Benchmarking Analysis

Transparent Doesn't Equal Rational: Problems With Transparency Order

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President Donald Trump's recent executive order on price transparency touched a nerve for many healthcare consumers who seek practical information for purchasing decisions about "shoppable" medical care (that is, services offered by multiple providers for which consumers can compare prices and quality). Although the order addresses convincing – but not surprising – disparities in price across like services, it does not portray what the shopping process might need to look like for consumers, nor does it explain what information they might encounter to make the best decisions for their health.

This is a long way from the online shopping experience.

To further study this topic, Crowe utilized its proprietary Crowe Revenue Cycle Analytics (RCA) solution, which captures every patient transaction for more than 1,200 hospitals nationally for purposes of automating hindsight, accounts receivable valuation, and net revenue analyses. Within its benchmarking database, Crowe analyzed a portfolio including 45 states and comprising 707 hospitals within Medicaid-expansion states and 445 hospitals in nonexpansion states, as of 2019. Crowe combines financial transaction information with 835/837 account-level data to produce comparative metrics. These metrics include accounts receivable, denials, bad debt, credit balance, and cash to expected pay.

Crowe analyzed its national hospital database of 100 common outpatient procedures priced at more than $500 in gross charges (the list price that hospitals post in their system), assuming that more shopping around would occur on higher-dollar items. Crowe also reviewed the average allowable revenue (the amount actually paid) for each of the outpatient procedures studied.

Exhibit 1: Disparity in gross charges and amounts paid for high-cost procedures

Top 100 outpatient procedures (> $500 in gross charges)

% difference between highest and lowest **gross charge** for each procedure

% difference between highest and lowest **allowed amount** for each procedure

Source: Crowe analysis

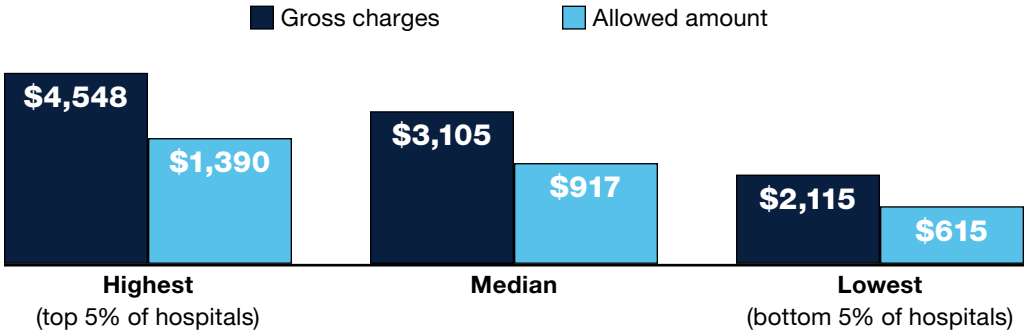
Overall, the national disparity between gross charges for each procedure was significant, exhibiting on average a 297% difference between lowest and highest gross charge for each individual procedure (Exhibit 1). The national disparity between allowable revenue (the expected payment) for each procedure also was notable at 236%. It is not uncommon for some disparity nationally, as numbers represent different labor markets and – to some degree – different economic and managed care negotiation circumstances. That said, an example of this disparity is Current Procedural Terminology (CPT) code 99285 (high-severity, potentially life-threatening, emergency room visit) in which the highest (top 5% of hospitals) gross charge was $3,499 and the lowest (bottom 5% of hospitals) gross charge was $692, representing a 406% difference. This differential also holds true for the allowed amounts, in which the highest (top 5% of hospitals) exhibited a payment expectation of $736, whereas the lowest (bottom 5% of hospitals) exhibited a payment expectation of only $192.

This trend is also evident on a local basis. For example, Crowe reviewed a standard magnetic resonance imaging (MRI) procedure within a metropolitan area of more than 3 million people and noted the following, as shown in Exhibit 2:

- 115% difference between the highest (top 5% of hospitals) average gross charge ($4,548) and the lowest (bottom 5% of hospitals) gross charge ($2,115), with the median at $3,105
- 126% difference between the highest (top 5% of hospitals) allowed amount ($1,390) and the lowest (bottom 5% of hospitals) allowed amount ($615), with the median at $917

This differential shows that two patients could undergo the exact same MRI procedure, with one paying $1,390 and the other paying $615.

Exhibit 2: Disparity in knee MRI charges and amounts paid, metropolitan area > 3 million people



Source: Crowe analysis

In the future, patients might be able to actively shop for and select a medical service (such as a knee MRI) based on a transparent pricing tool. But it should be noted that a process based on price does not take into account the many other factors that a consumer typically might consider during the normative purchasing process.

That is, to place common procedures into a commodities category based purely on price means that the consumer selection process does not consider other determinants such as:

- **Brand value perception.** Whom do I trust?
- **Consumer ratings.** What have other patients experienced?
- **Quality of care.** How do I know the provider is good?
- **Convenience and accessibility.** Where is the provider located?
- **Customer experience.** How well does the provider treat me?

And most important:

- **Urgency.** Do I have time to comparison shop? In the previous example of the price disparity of CPT code 99285, it is doubtful that a patient will shop for the lowest price in that circumstance.

Overall, U.S. consumers have grown accustomed to convenient online shopping, which allows them to easily and quickly comparison shop.

Somewhere beneath the political and policy debates about economic drivers of transparent pricing is the true, hidden desire of most patients or consumers – rational pricing. Consumers want to understand the confusing disparity among prices for similar services. As such, an increase in transparency, which creates a lower standard deviation on pricing between hospitals for similar services, will allow consumers to apply their normative, rational purchasing criteria. Hospitals that can clearly state the total price to be paid for a set of clinical services – before those services are delivered – and then charge only that price after the services are delivered will give consumers basic information they need to make rational decisions.

Learn more

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