South Dakota
Association of Healthcare Organizations

Member Brief

Federal Price Transparency Requirements
November 2018

Background
The Centers for Medicare & Medicaid Services on August 2 published its final inpatient prospective payment system (IPPS) rule (see pages 2135-2142) for federal fiscal year 2019. The IPPS rule contains a transparency provision that will be effective January 1, 2019.

In the CMS proposed 2019 IPPS rule, CMS acknowledged chargemaster data are "not helpful to patients for determining what they are likely to pay for a particular service or hospital stay."

However, in an effort to continue to move the needle on price transparency, the final rule requires hospitals to make available a list of their current "standard charges" via the internet in a machine-readable format, and to update it at least annually. This requirement can be met in the form of the chargemaster itself or another form of the hospital's choice, as long as it is in machine-readable format.

Following release of the rule, CMS subsequently released additional information on how hospitals may comply with this policy.

CMS has clarified the following:

1. **Participation in an Online Pricing Tool**
   Participation in the state statute requirement SDCL 34-12E-11, 11.1, 12 and 13 South Dakota Price Point Legislation does not satisfy the requirements of this policy. SDAHO encourages hospitals to continue to link to South Dakota Price Point as a means to provide additional information on this topic.

2. **Machine Readable**
   A "machine readable format" is a format that can be easily integrated into a computer system or statistical program (e.g., XML, CSV). Traditional word processing formats (e.g., PDF) are difficult for machines to read and require information to be re-entered manually; therefore, they are not considered machine readable.

3. **"Standard Charge"**
   Beginning January 1, 2019, hospitals will need to make available the list of their current standard charges on an annual basis. CMS has left the actual format up to hospitals, but they have established some guardrails:

   - **The list must include every item and service provided by the hospital, even those line items and services that have a zero charge;**
   - **The list must include the charge for each item and service, as it is represented in the hospital's chargemaster.** This also requires, at a minimum, an identifier for the item or service associated with each charge, such as a corresponding description.

- CMS has clarified that diagnosis-related groups or any other way of grouping charges would not satisfy this requirement.

4. **Applicable Hospitals**
   All hospitals, including Critical Access Hospitals, must post this information.

5. **Enforcement**
   CMS has not indicated how it will enforce these requirements but CMS has indicated that it is considering making information regarding noncompliance with the requirement public. However, through the RFI process, CMS sought comments on the appropriate mechanisms for CMS to enforce price transparency requirements. Enforcement mechanisms may be included in future policymaking.

SDAHO Position

SDAHO strongly opposes this policy as it is clear that the posting of hospital chargemaster data will not be useful in promoting better consumer health care decision making. AHA and SDAHO will continue to engage with CMS to offer feedback and gain clarification on the new guidelines and other federal price transparency efforts.

What is a Chargemaster

A chargemaster is a comprehensive list of charges for each inpatient and outpatient service or item provided by a hospital – each test, exam, surgical procedure, room charge, etc. Given the many services provided by hospitals 24 hours a day, seven days a week, a chargemaster contains thousands of services and related charges. Chargemaster amounts are almost never billed to a patient or received as payment by a hospital.

Posting Hospital Charges

Consumers are likely to require additional information to fully understand how and why hospitals price certain services. The following information can be used as a means to assist in explaining the information.

General Facts:

- Hospital charge data is being provided as part of a federal regulatory policy mandated by the U.S. Department of Health & Human Services and Centers for Medicare & Medicaid Services.

- Hospital charge data is not representative of a patient's expected out-of-pocket costs. Because each patient's case is different based on specific medical conditions, the actual amount owed by a patient will depend on that patient's insurance coverage.

- Hospital charge data is the amount a hospital bills an insurer for a service. In the vast majority of cases, however, hospitals are reimbursed by insurance companies and Medicare/Medicaid at a rate that is considerably less than the amount charged.

- Patients should talk with their insurance provider to understand which costs will be covered, and which will be the patient's responsibility.

Disclaimer Text: To post with standard charges (hospitals should edit to meet their needs)
The information provided *[link or below, customize to your hospital]* is a comprehensive list of charges for each inpatient and outpatient service or item provided by a hospital, also known as a chargemaster. It is not a helpful tool for patients to comparison shop between hospitals or to estimate what health care services are going to cost them out of their own pocket. For more information about the cost of your care, please contact our patient financial services staff *[customize contact to your hospital*].

Understanding Hospital Charge Information
The amount a hospital bills for a patient's care is known as the "charge." This is not the same as the actual cost or amount paid for the care. The amount collected by a hospital for each service is almost always less than the amount billed. The following are common examples of why hospitals do not receive billed charges:

- Government programs such as Medicare and Medicaid typically pay health care providers much less than the billed charge. These payments are determined solely by the government and hospitals have no ability to negotiate the reimbursement rates for government-paid services.
- Commercial insurers or other purchasers of health care services usually negotiate discounts with hospitals on behalf of the patients they represent.
- Hospitals have policies that allow low-income persons to receive reduced-charge or free care.

Negotiations between hospitals and health care purchasers generally begin with the charge amount. While each hospital's charge structure may vary in important ways, charges represent a consistent, though imperfect, way to compare health care costs.

Why Charges May Differ Among Hospitals
There are many reasons that charges may differ among hospitals. Among them are the following:

- **Payer mix** – As with other businesses, hospitals cannot survive if costs exceed revenues over a long period of time. Government programs (like Medicare and Medicaid) generally reimburse hospitals at rates that do not cover the costs they incur to provide care. Therefore, hospitals that have a relatively high percentage of government-program patients are forced to recover a greater percentage of their operational costs from privately insured and self-pay patients through higher charges.

- **Hospital cost structures** – Hospitals differ in their approach to pricing based on operational costs. Some hospitals try to spread the cost of all services and equipment among all patients. Others establish charges for specific services based on the cost to provide each specific service. Furthermore, some hospitals may decide, or be forced, to provide certain

services at a loss while other hospital operations subsidize the losses. Any of these situations can result in significantly different charges among hospitals for a given type of service.

- **New technology** - The equipment hospitals use to provide services differs in age, sophistication and frequency of use and may impact the charges of the hospital.

- **Staffing costs** - Salary scales may differ by region and are typically higher in urban areas. Shortages of nurses and other medical personnel may affect regions differently. Where shortages are more severe, staffing costs, and, therefore charges, may be higher.

- **Intensity of care** - Some hospitals are equipped to care for more severely ill patients than others. Patients within the same diagnosis or procedure category may need very different levels of service and staff attention, causing a variation in charges.

- **Range of services provided** - Hospitals differ in the range of services they provide to patients. Some may provide the full range of services required for diagnosis and treatment during the stay. Others may stabilize patients and then transfer them to another hospital for more specialized or rehabilitative care.

- **Service frequency** – The per-patient cost of services is generally higher if the type of hospitalization occurs infrequently at the hospital. Furthermore, a single case with unusually high or low charges can greatly affect a hospital's average charge if the hospital reported only a few cases in a given time period.

- **Documentation/Coding** - Hospitals are required to follow correct coding guidelines and to code all the conditions documented in the patient's medical record. The hospital bill will reflect charges to the greatest level of specificity as documented in the medical record by clinicians. Hospitals vary in their coding systems and personnel and in the number of billing codes they routinely include on a billing form.

- **Capital expenses** - Hospitals differ in the amount of debt and depreciation they must cover in their charge structure. A hospital with a lot of debt may have higher charges than a hospital not facing such expenses. Furthermore, hospitals may choose to lease or purchase equipment or hospitals. The choices made about financing of capital projects may affect charges in different ways.

Notes: The Affordable Care Act included a requirement for all hospitals to establish, update and make public a list of the hospital's "standard charges" for items and services provided by the hospital, including for Diagnosis Related Groups (DRGs). This information is to be made available each year, but did not make that method a requirement. The 2019 IPPS final rule requires the information to be made available via the internet in machine-readable format, while the 2015 IPPS final rule gave the hospital options for how to make "standard charges" available to the public.

The information below will assist members with developing and implementing transparency policies and information.

- AHA Updated Price Transparency Guidelines
- Frequently Asked Questions Regarding Requirements for Hospitals to Make Public a List of Their Standard Charges via the Internet
- Price Transparency in Health Care – Report from the HFMA Price Transparency Task Force
- Grid of state laws regarding price transparency

Contact:
Gil Johnson
Vice President, Business Development
605-361-2281 or gilbert.johnson@sdaho.org