



How to **SLICE AND DICE** the Value of Leading *Surgical Procedures*

Transparent pricing tools steer patients to best facilities

Transparent pricing tools can help self-insured employers better manage relative to national averages the cost, efficacy, outcomes – and ultimately value – of leading surgical procedures where so many claims dollars are spent.

Given the significant disparity in prices from one region to the next, these tools add considerable clarity to a what has long been a frustrating process of deciphering costs that appear arbitrary, unfair or both. This is particularly true in areas with largely monopolized markets.

By Bruce Shutan

The trick is landing meaningful discounts with the help of evidence-based guidelines that account for key metrics such as the frequency of surgeries performed, complication rates, surgeon credentials and geography. It also helps to target independent outpatient facilities that might be more willing to bend on their prices than traditional hospital settings. When added together, these elements can create a winning strategy for all stakeholders.

Bargain hunting

There are essentially two venues for care on the outpatient side: an ambulatory surgery center or hospital campus, with the latter generally costing more money, according to Bill Kampine, co-founder and SVP of analytics for Healthcare Bluebook. He says where a procedure is done has the single biggest impact on cost and is a critical part of educating patients to make more informed choices.

The challenge is helping patients and large healthcare payers alike make sense of costs that vary wildly from one facility to another. In New York City, for example, Kampine notes an 875% difference between the low and high end of MRIs, knee arthroscopies and carpal tunnel surgeries just to name a few.

“In most markets, there’s a difference of \$500 to several thousand dollars for the same service, and it doesn’t really matter what you’re shopping for,” he reports. And while as many as 60% to 80% of cases use network providers, he adds that *“they’re just using the most expensive facilities in the network. This is the underlying argument for price transparency because that adds cost.”*



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The majority of employees enrolled in a high deductible health plan don't have chronic diseases and end up being cash-paying patients every year. Kampine says for those who use a network but don't shop around, "there is easily a 500% or 1,000% difference in the price they'll pay."

Supply and demand

When it comes to provider compensation, location appears to be irrelevant. While the cost of a colonoscopy could range between \$800 and \$4,000 for an employer, Kampine notes that the gastroenterologist who performs the procedure gets paid the same, regardless of where it's done.

The objective for surgical facilities is to increase utilization through the simple law of supply and demand, explains Don McCully, president of Medical Captive Underwriters. In essence, they agree to lower prices in order to generate more business.

There's a disadvantage in the fully insured market in that those plans are tied to networks that do not check the validity, credentials or malpractice history of their providers, McCully notes. He describes services such as Healthcare Bluebook or PriceMDs.com as scalable solutions that help self-insured employers enjoy a competitive leg up. The advantage is that they ensure that surgeons are credible, experienced and deliver an effective outcome at the lowest overall cost.

The strategic aim is to steer patients to high-performance networks in every market. McCully says it's akin to Noah's Ark in that two specialists in virtually every area of expertise are sought within a certain radius driven by the employer census.

Bundled pricing

Two of the most critical pieces of information necessary when assessing the value of surgical procedures are the frequency at which they're performed and complication rates, says David West, director of corporate development for Group & Pension Administrators, Inc. "A lot of the other metrics are hard to measure," he explains.

While reference-based pricing is one of the most effective ways employers can manage cost, "it is not always the most user-friendly for the members that have to access care," West admits. He says bundled-pricing approaches offer health plan members predictable care and financial stability with upfront knowledge of various cost components. Those lists typically include anything from anesthesia and lab work to an X-ray and surgery – all of which are traditionally billed independently from one another.



Revelations about the degree to which there are significant cost disparities along the path to securing reasonably priced outpatient services are obviously unavoidable, but the potential for negotiation is powerful.

For example, West recalls how a large Dallas hospital specializing in pediatric care quoted more than \$100,000 for a simple diagnostic procedure involving both a colonoscopy and endoscopy for a child. Upon further investigation, he found an alternative for \$12,000 at a comparable children's hospital – not an independent outpatient surgery center.

The parents initially didn't want to change doctors and mistakenly perceived that the far more expensive option would be best because of its theoretical reputation. However, after learning from their employer that they would have to pay the difference, the family became very upset. The first hospital that was approached then decided to slash its cost in half and the employer agreed to the new price tag.

Drivers of better outcomes

Transparency tools have the potential to ease an unsteady history. *“There’s sort of an antagonistic relationship between payers and providers,”* observes Marc Grossman, M.D., founder and CEO of PriceMDs.com, whose proprietary search engine helps patients locate affordable prices for quality health care procedures worldwide. *“Both of them are used to being abused by the other, and the complaints are real on both sides.”*

His firm's role is one of an ombudsman or neutral party that seeks to replace any acrimony with understanding for the benefit of all stakeholders. Indeed, Grossman was a general and vascular surgeon for nearly 30 years who once filled in for an administrator on vacation at one of two hospitals through which he had an ownership stake. His clinical experience is a driving force behind PriceMDs.com's objective to secure the highest quality at the lowest price on behalf of self-insured employers.

“One of the ways we assure quality is with outpatient surgery centers, which are very motivated to provide the best care as efficiently as possible,” Grossman explains.

It's critical to choose facilities that perform the highest volume of a particular procedure with minimal to no complications. “So if somebody needs a knee arthroscopy, most likely you're going to get the orthopedist who does that all day long,” he says, noting that in many cases, the facility is owned or partially owned by the providers.

A key component is all-inclusive bundled pricing in the aggregate with no hidden fees or details of various components involved with each surgical procedure. The arrangement is appealing to physicians who appreciate being compensated promptly by a third-party administrator (TPA) without any negotiation after a procedure is done.

“Everything is known beforehand,” Grossman says, adding that facilities have an incentive *“to be as friendly as possible so that they can get more business and better utilization.”*

In contrast, he says doctors lose money on every case that is paid on a capitation basis. The approach also usually represents “incremental business” that he says can help pay fixed costs such as utilities and labor staff.



Marc Grossman

These facilities are more willing to accept a lesser price when they post their prices for TPAs or a firm like his and not the public at large, Grossman explains. The resulting competition drives down prices. "It's not always just a straight line to the least expensive," he says.

Bundled pricing also benefits a TPA in avoiding labor-intensive adjudication. "They just cut one check," according to Grossman. He says patients are happy because their out-of-pocket costs are usually much lower, and in many cases, deductibles are waived. Moreover, there are no separate or surprise bills for anesthesia, pathology or other areas of specialty.

One caveat about contracting with the lowest-cost provider is that they may not necessarily offer the best value, cautions Grossman, which is why multiple variables need to drive purchasing decisions. Similarly, he believes some providers might struggle to drum up enough business if their services are, say, 30% higher than competitors.

There are certain criteria PriceMDs.com looks for in outpatient facilities. For starters, care is generally sought within a reasonable distance of where patients reside. Another driver is that common procedures must be done well by extremely competent surgeons who, in some places in the U.S., are at the top of their profession.

For international care, Grossman says a facility must be recognized by the Joint Commission International, a sister organization of the Joint Commission on Accreditation of Hospital Organizations. He will even tour overseas facilities, scrub in and talk to the doctors before agreeing to include them on his list of preferred surgical centers. PriceMDs.com raises the quality bar for international surgeons, who must be considered world class.

There are certain procedures that are not approved in the U.S. or feature limited access that can be done extremely cost-effectively overseas. One such example is a high-frequency ultrasound for prostate cancer. There also are offshore solutions to high-cost pharmaceuticals

that can save more than \$100,000 per treatment, which translates into an 80% to 85% discount relative to the U.S. pricing.

PriceMDs.com pledges substantial savings for its customers on a number of popular surgical procedures. For example, spinal fusion runs about \$16,500 vs. a national average of \$100,000, hip replacement is \$19,400 vs. a national average of \$40,000 and knee replacement is \$19,400 vs. a national average of also \$40,000. Those savings can add up, with the company noting that it can cut the cost of half a dozen common procedures by \$6.1 million for every 25,000 insured employees or \$20 per employee per month based on a pilot program in West Virginia.

Since most medical claim dollars are spent in hospitals in any given market, prices are largely dependent upon a hospital chargemaster that itemizes the cost of services. McCully describes it as "very complicated" and says the reluctance to share pricing information could result in attempts to regulate hospitals and, in the

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process, cap their profits. He says Maryland is the only state that has established a schedule for hospital costs.

Transparent pricing tools fit nicely into what West calls “the Millennial Effect” wherein young people are searching or buying virtually everything online. Now here’s the rub: “They can find great information on a medical problem and how to treat it, but they can find virtually nothing on cost and quality,” he says. What’s ironic is that millennials are generally healthy, although he adds that many are using technology to help their parents find care.

West is sanguine about the future of bundled pricing, noting a recent discussion about this approach with a chain of emergency rooms. He predicts that big hospital systems eventually will embrace it.

“As more hospitals gain more control over the market by buying doctor practices and having them working for the hospital, I think the opportunity is there,” he says. “It’s just going to take more time for that to actually come to fruition just because the old model makes them a lot of money.” ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for nearly 30 years.



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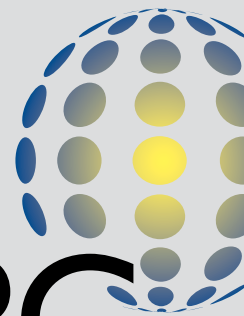
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