The Big Idea for 2013: Show Me Your Fees

Private practices, hospital-owned practices and affiliated group practices are facing big changes from healthcare reform, demographic shifts, and economic and reimbursement pressure. The industry is re-evaluating itself from top to bottom and looking for new business models, ideas and opportunities to make medical practice feasible. Health insurance is changing as employers and payers are reducing benefits and shifting costs to patients. High deductible health plans (HDHPs) are becoming more popular, and with that patients are thinking more like customers, and making their healthcare decisions based on out-of-pocket costs.

Patients want access to pricing info, and are not satisfied with **“it’s complicated”** as an answer. The industry as a whole is moving towards rewarding performance over volume, and patients will also be armed with more publicly available performance and safety data.

In short, bedside manner and reputation are not enough anymore: practices now have to compete on price and quality in a more explicit way than ever before. We are advising our medical practice clients to take a long hard look at how they set their prices. Setting your prices does not have to be a complicated exercise when you have a basic understanding of your overhead. If you understand what it costs to produce each RVU of service to your patients, than you can understand what a self-pay or high-deductible patient needs to pay in costs and margin. **Then tell your customers what your services cost.** This is what other businesses do.

Price transparency improves patient satisfaction and trust because patients can relate what they are paying for to the value they are getting. It eases conversations about patient financial responsibility. Patients want to understand the money behind the treatment they are getting, because they have more financial “skin in the game” than ever before. Engage your patients in this process immediately by publishing your fees!

For almost as long as I’ve been in healthcare, telling patients what services cost has been an issue and here’s why –

Fee schedules are set for insurance companies, not for patients. When a practice signs a contract with an insurance company, the assumption is that in exchange for the insurance company delivering volume (lots of patients) the practice can afford to deeply discount their fees. The practice supplies their fee schedule and the insurance company cuts it down. The practice wants to start with a high enough fee schedule that a significantly cut schedule will still be much better than Medicare. This is what is referred to as “not leaving any money on the table” – setting your fee schedule high enough to capture everything an insurance company will potentially pay.

Medicare and Medicaid don’t pay physicians enough to cover expenses. To make up for this, practices charge commercial payers more to cover what government payers don’t pay.

Every payer/insurance company negotiates a different rate. Unless the practice has negotiating power, the physicians are usually forced to take what the insurance company is offering. Especially if the insurance company has a strong presence in the community, the physician may feel s/he has no choice but to take what is offered. This is why many physicians are opting to join megapractices or hospital organizations.

The rise of uninsured patients and high-deductible insurance plans has changed the number of patients paying 100% for their healthcare. For the past 5 years, the payment for healthcare has dramatically shifted and medical practices and patients have not been ready. Against rising healthcare costs, insurance plans and employers have shifted payment to patients in the way of increased cost-sharing, increased deductibles, increased co-pays and co-insurance and decreased benefits. Patients have often been the only ones paying the full retail cost for healthcare – the full fee schedule.

How do you place a price on healthcare services?

1. **Calculate what your services really cost**. One way is to take the last 12 months of practice expenses and divide them by the work Relative Value Units (wRVUs) you produced over the same period. This will tell you what it costs you to produce each unit of work. Look at it with the physician’s pay included and without the physician’s pay included.
2. **Calculate what portion of your expense is related to filing and collecting insurance payment.** This is primarily your coding, billing and insurance staff, their workspace and equipment and everything related to filing insurance and collecting. Reduce your fees by this cost for uninsured patients.

Why should you take this radical advice?

1. **Consumers deserve to know what your service costs.** Why

would anyone buy anything without knowing what it costs? Consumers should know both the value of the service as well as knowing what is their personal responsibility to pay. Does the fact that healthcare sets their prices above what the market can bear mean we are part of the healthcare problem?

2. **Publishing fees makes you justify them**. Medical practices may not want to post their fees if they aren’t sure what their services truly cost. Other businesses charge what their services or goods cost plus a profit, why don’t we?
3. **You will find out if your prices are not competitive in the market.** Patients will tell you. Then you will have to decide if you want to be competitive. If you are worried you can’t compete with a hospital-sponsored practice if they know your prices, stop worrying. The hospitals already know your prices.
4. **Publishing your prices will open the door for things to be simpler.** Publishing fees will liberate you and your staff to talk much more openly with patients about their financial responsibility.

Part of this post was originally published under “The Big Idea: Healthcare Price Transparency” on LinkedIn.