

Understanding Pricing for Healthcare Services

New Rules for Healthcare Pricing Transparency

In November 2019, Medicare finalized policies following directives given by a President Trump executive order. Its name, **“Improving Price and Quality Transparency in American Healthcare to Put Patients First,”** summarizes the intent of the order.

Before you view the pricing information for any hospital, we wanted to provide you with some basic background information about:

- The provided pricing information
- How it relates to a final hospital bill or pricing information included in an explanation of benefits (EOB) from your health insurer

While this information should help you compare prices from hospital to hospital, it is unlikely that your final bill will exactly match the prices listed. We'll explain more about that later.

Each hospital sets a “gross charge” for every individual service rendered to patients within their “chargemaster” or CDM (charge description master). These gross charges do not include any discounts that may be offered, and they serve as the starting point from which payment is negotiated with individual insurance payers for specific insurance plans. As a patient receives services throughout their visit, a charge for each service provided is generated on their account, resulting in a claim that is submitted to the patient’s insurer.

You should know that patients will almost never pay the listed gross charge for healthcare services. However, under federal law, all insurers, including Medicare and Medicaid, must be billed the amount listed on the chargemaster for those services. These charges are rarely paid in full due to the contracted payment rates negotiated between hospitals and insurers.

The EOB provided by individual insurers details each patient’s actual cost for services provided. Hospitals typically cannot publicly disclose the negotiated rates, making it difficult to compare final prices from one hospital to the next using the gross charge information from the chargemaster.

The Information You Will See: Standard Charges & Shoppable Items

Standard Charges

Medicare has defined several different types of standard charges that should be available for patients to see. *They are:*

- **Gross charges**
- **Discounted cash price**
- **Payer-specific negotiated charge**
- **De-identified minimum negotiated charge**
- **De-identified maximum negotiated charge**

Here's a quick overview of each.

Gross Charges

The gross charge is the full list price from the hospital chargemaster.

Gross charges can vary, sometimes greatly, from hospital to hospital for the same procedure or service based on how each hospital manages its charges and costs. Charges can vary based on geography, physician supply and medication preferences, the kinds of services the facility typically provides, and the expertise required to deliver these services. External factors also play a role: The cost of living in a given area can have a significant effect on wages, which is a major factor in cost calculations for hospitals. Drug and supply costs also vary greatly depending on which (if any) group purchasing organization the hospital is part of.

Discounted Cash Price

The second type of standard charge defined by Medicare is called a discounted cash price, which is the price offered to patients willing to pay in cash at the time of service without involving insurers.

Payer-Specific Negotiated Charge

The payer-specific negotiated charge is the charge that a hospital has negotiated with a third-party payer for an item or service; this is sometimes referred to as the "allowed amount" on an EOB. This charge amount will likely vary from payer to payer and even between insurance plans for the same insurance payer.

De-identified Minimum Negotiated Charge

The de-identified minimum negotiated charge is simply the lowest charge that a hospital has negotiated across all insurers for an item or service.

De-identified Maximum Negotiated Charge

The de-identified maximum negotiated charge is the highest charge that a hospital has negotiated with all insurers for an item or service.

Shoppable Services

The high degree of variation in charging practices and differences in reimbursement methodologies between insurance payers make it difficult for patients to get the intended full-benefit of “pricing transparency.” Medicare wanted to give patients another way to compare prices, so they’ve also asked hospitals to create a list of shoppable services.

Medicare defines “shoppable service” as a service that typically can be scheduled by a patient in advance on a non-urgent basis. Medicare has identified 70 shoppable services that all hospitals should include and has asked hospitals to each choose at least 230 additional shoppable services that they perform most frequently.

Every shoppable service will contain an easy-to-understand description of the item or service and standard charges information, including the gross charge, discounted cash price, average negotiated charge for each insurance payer, de-identified minimum charge, and de-identified maximum charge.

You’ll also see a specification for whether the procedure is done on an inpatient or outpatient basis, as procedures done on an inpatient basis may incur additional charges, such as room and board charges.

Where Can You Get More Information?

Calling your insurer is always a good idea if you're considering an elective procedure and want to get a general idea of your out-of-pocket costs. Your insurer can help you understand how your coverages and deductibles work as well as your current payment history as an essential first step.

If you want to get a more general idea of costs or compare your likely costs to those incurred by others, there are a few public pricing resources to consider:

The Centers for Medicare & Medicaid Services

Medicare releases annual payment information for inpatient and outpatient procedures. For more information, visit [cms.gov](https://www.cms.gov).

All-Payer Claims Database

Some states have large-scale databases that collect medical, pharmacy, and dental claims, as well as eligibility and provider files from private and public payers. For more information, visit [apcdcouncil.org](https://www.apcdcouncil.org).

FAIR Health Medical Cost Look-Up

This is a consumer-oriented tool that provides information on out-of-pocket costs to consumers. For more information, visit [fairhealthconsumer.org](https://www.fairhealthconsumer.org).

If you Have Questions

If you have questions about pricing or paying for your procedures or services, we urge you to contact us at 818.902.2913. We will be happy to help you with any questions you may have and want to help you understand your costs for care received at our facilities.