

## The Key to Hospital Charges: Understanding Pricing in Your Neighborhood

With more patients paying out-of-pocket for their healthcare, hospital charges are increasingly in the spotlight. To reduce the threat of public scrutiny and to protect your name and revenue, understanding where your charges align with your peers is paramount.

“When hospital pricing is scrutinized by the media, often the prices reported result in negative publicity for hospitals. But, as hospital administrators know, hospital pricing is never as simple as it seems in those media reports,” said Kerry Martin, CEO and President of VitalWare. “The trouble is, you can’t explain that to consumers,” he said. “Mrs. Jones will never understand why her surgery is \$6,200 at one hospital but \$4,000 at another down the street. All she understands is there is a difference of \$2,200,” Martin added.

“Instead of trying to make consumers and potential patients understand the variability of pricing, hospitals need to be able to defend their pricing strategy, and to do that requires an understanding of where they are in comparison to their peers in their geographic region,” Martin said. “A sure way to get beat up by the consumer is to have prices that are double or triple the prices of your neighbors,” he noted.

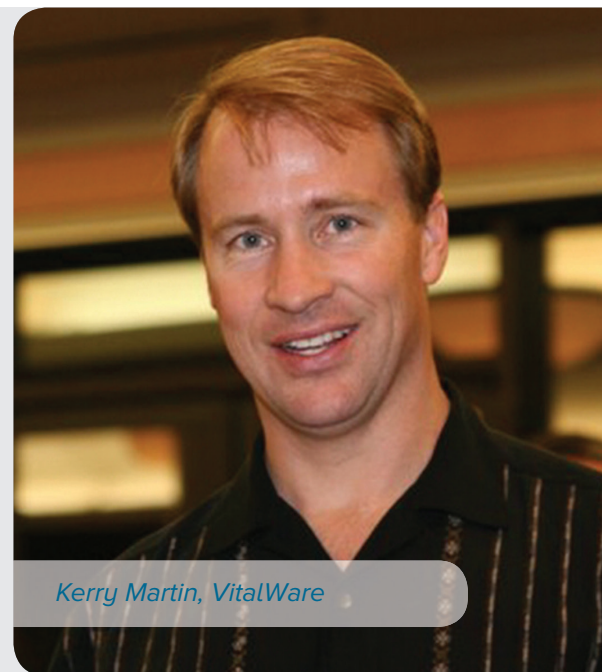
To understand where you are compared to your neighbors takes data and analysis. VitalWare collects more than 300 hospital chargemasters. That data, in combination with Medicare claims data, allows VitalWare to provide organizations with a picture of the pricing strategies of the hospitals in their neighborhood.

Looking at and utilizing pricing data annually gives a CFO an understanding of the different pricing strategies within their area, which will lead to better alignment with peer hospitals. The CFO must acknowledge when their prices are way out of line with their neighboring hospitals’ charges. “Alleviating these deltas plays an important part in overcoming the overall transparency challenges that hospitals face,” Martin said. “If you stay within an acceptable range of peer hospitals, your pricing is more likely to be defensible. Cost is another important component, but cost-based accounting is a very challenging endeavor and still presents its own margins of error.”

In addition to making your pricing strategy defensible, VitalWare helps hospitals with improving and preserving revenue. “By examining the pricing of the hospitals in the area, organizations can identify if they are in alignment with the prices of their neighboring peers,” Martin said. “If you find you need to lower some charges, you potentially save yourself public scrutiny and

audit risk. If you discover you need to raise some prices, in some instances, such as in the case of cost-based reimbursement, you could increase revenue.”

Such was the case for a small, financially strapped critical access hospital (CAH) in Mississippi. When VitalWare sat down with the hospital’s CFO, the company identified that the CAH was pricing far below the prices of five hospitals in their area. VitalWare estimated that by bringing their prices in line with the average prices of the other hospitals, the CAH would gain \$1.6 million in gross charges while remaining in the same price range as its neighbors. And because of the hospital’s critical access designation, the hospital would receive up to \$400,000 more in reimbursement. The additional reimbursement could allow the CAH to add services, thereby potentially bringing in more revenue.



Kerry Martin, VitalWare

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– Kerry Martin | CEO & President | VitalWare

“You have to understand what’s going on in your neighborhood, because that’s how you’re going to be judged by consumers and those providing reimbursement. If all hospitals in an area are aligned on charges, they protect themselves from potential Medicare reimbursement cuts,” Martin concluded.



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