



Healthcare Consulting | Valuation

Partner Insight Series:

*Price Transparency:  
Leveling the Playing Field*

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June 30, 2024

# *How can Price Transparency Data Transform the Healthcare Industry?*

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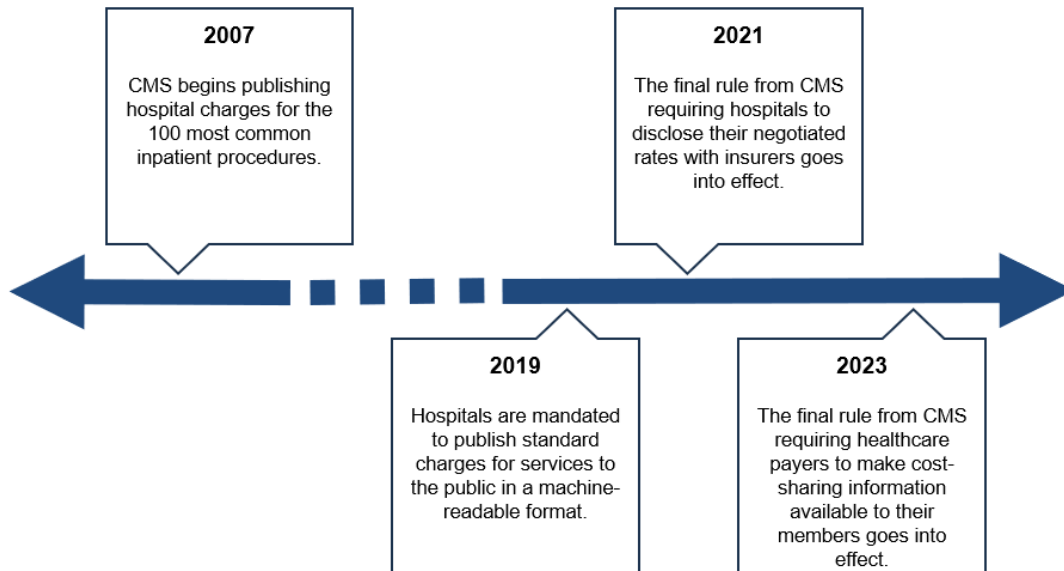
Price transparency in the healthcare space has been strongly regulated by government entities for over fifteen years, keeping patients in the dark about prices and providers unaware of competitor rates. However, recent regulatory developments have shifted the landscape to provide greater clarity and access to market data, allowing individuals and entities to make informed decisions regarding price and quality of care. While greater visibility in theory creates a more informed market, the nuances and magnitude of healthcare data sets are proving more difficult to interpret than many had originally hoped.

## *What is Price Transparency?*

Price transparency, specifically within healthcare, refers to the availability of information about the price of medical services. Historically, it was illegal for providers to share their contracted payer reimbursement rates for procedures or treatments with other providers. Recent regulatory changes now require certain data to be made publicly available in hopes that patients will have the ability to openly shop for providers where the price of the required service aligns with their financial needs. Although patients were top of mind when the legislation was passed, many other players within the healthcare industry have also been able to take advantage of this newly available data.

As demonstrated in the timeline below, the topic of price transparency and the subsequent shift to more accessible data has been in motion since before 2007. This trend accelerated in 2019 when hospitals were initially required to publish the charges for services performed. Although a step in the right direction, this information proved to be relatively useless since charges do not directly translate to actual payment rates for most healthcare services. Similarly, hospitals were required to disclose their negotiated rates with payers beginning in 2021. While this information is useful to consumers and health systems, there is little guidance on the format of data to be publicly posted. Because of the complexity of the data and the lack of consistent formatting, little insight came from the information published by providers. The most recent ruling passed in 2023 requires insurance companies to post negotiated rates to the public. This rule puts stricter guidelines around the published data in an effort to enhance consistency and comparability of data. While the data posted is still not easily accessible or understandable to patients, it can be manipulated to help healthcare providers make better decisions. JTaylor is at the forefront of developing analytics to turn this treasure trove of publicly available data into meaningful insights to aid in a variety of decision making.

## Timeline of Price Transparency Events



As for the future of price transparency, there are already discussions around expanding the existing price transparency requirements to apply to additional providers, including Ambulatory Surgery Centers (“ASCs”), imaging centers, and even labs, proving that the recently enacted regulations are only the beginning.

### *Who Can Use This Data?*

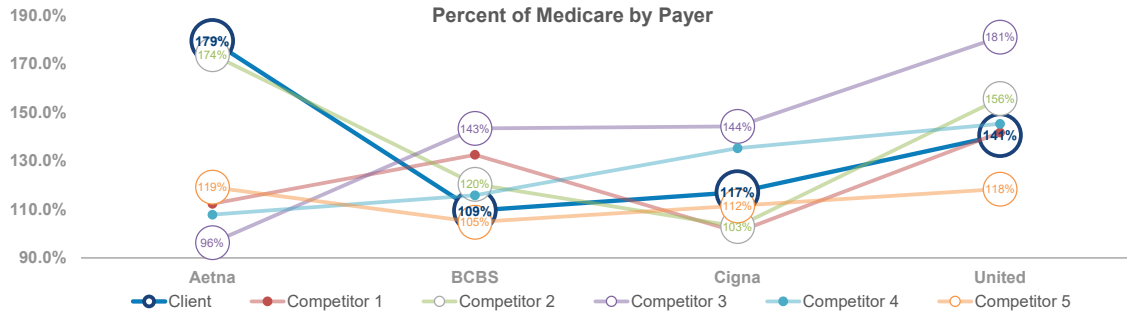
While recent regulatory changes have made this data available, manipulation and interpretation of the data is still in its infancy. Patients may still be years away from being able to compare costs between various providers for similar services, but other players in the healthcare industry are already actively incorporating this data into their operational strategy. It’s not a secret that healthcare has yielded to the payer more than the patient in the past, but this is the first major step the government has taken to prioritize patients and providers.

#### 1. Medical Practices and Health Systems

As many know, contracts with insurance payers are one of the main determinants of the success or failure of a medical practice. Historically, the providers have been at a significant disadvantage when negotiating their rates with insurance payers because while the payer knows the rates present in the market, the provider has been blinded from this information. Now that price transparency data is available, providers have increased leverage to negotiate by comparing their current rates to competitors of similar size or others in the market.

Through a proprietary algorithm, JTaylor provides state and market-wide analytics surrounding commercial plan reimbursement levels by payer and entity. These market analyses aim to provide the client with a robust understanding of their current reimbursement levels, where they stand against the rest of the market and direct competitors, and where negotiation (rate improvement) is readily available.

Payer	Percent of Medicare					
	Client	Competitor 1	Competitor 2	Competitor 3	Competitor 4	Competitor 5
Aetna	179.5%	112.3%	173.8%	96.3%	107.8%	119.2%
BCBS	109.5%	132.5%	120.4%	143.4%	115.8%	104.7%
Cigna	117.1%	100.7%	103.0%	144.2%	135.2%	111.5%
United	140.5%	141.7%	155.7%	181.1%	145.3%	118.4%



Service Mix	Client Percent of Charges
SURGERY	31.7%
RADIOLOGY	22.3%
E&M	23.8%
OTHER	22.2%
<b>TOTAL</b>	<b>100.0%</b>

Payer Mix	Client Percent of Managed Care Charges
Aetna	6.5%
BCBS	21.1%
Cigna	14.4%
United	11.4%
<b>TOTAL</b>	<b>53.5%</b>

## 2. M&A Activity

Likewise, those involved in mergers and acquisitions within the healthcare industry can also benefit from this data. Apart from operational synergies, contracted reimbursement rates are one of the most important variables when analyzing possible merger or acquisition targets. Now we can see how rates compare between health systems within specific markets to determine possible partnerships or full-on acquisitions earlier in the process without having to engage each potential target and conduct a rate analysis. While broader due diligence would still be needed before deciding whether to pursue a particular target, price transparency data allows for a quick analysis to determine the potential financial implications of a transaction. We have already seen this approach pay off for many of our clients, allowing them to dismiss poor targets earlier in the process before spending thousands of dollars on diligence.

## 3. Patients

As discussed previously, allowing patients to have access to information that allows them to “shop” for medical services was the original goal of the price transparency legislation. The idea is that if patients are armed with information about the price and quality of services, they will lean towards lower-cost, higher-quality providers. In theory, over time that would inject healthy competition among providers and lower the overall cost of care. Unfortunately, many factors make this a difficult proposition, such as having to cross-

reference provider network status with a patient's insurance carrier compared to the price transparency data. Further, the complexity of the healthcare pricing structure results in an enormous volume of potential service combinations. This makes it challenging, if not impossible, for a potential patient to determine from the massive volume of posted rates what might be applicable to their specific medical needs. However, there is hope that over time, as more players in the industry begin to utilize the available data, the desired competitive effect will begin to take shape.

## *Final Thoughts*

Price transparency has exposed previously hidden information within a highly confidential industry to reprioritize the end user: the patient. In turn, hospitals and independent medical practices can capitalize on the information to effectively negotiate reimbursement rates with payers, navigate market trends, and predict competitor performance. While there is still work to be done to make this information digestible for all stakeholders, steps are being taken to ensure a future of visibility. This continued march in the right direction shows promising opportunities for providers, hospitals, investors, and ultimately, patients.

*If you are interested in learning more about how JTaylor can use price transparency data to help you achieve your organization's strategic initiatives, please contact the authors below or visit us at [jtaylor.com](https://jtaylor.com).*

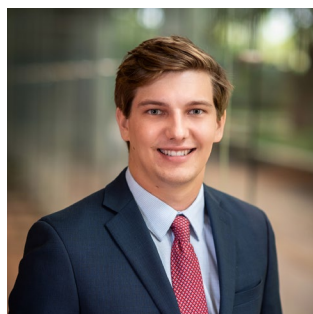


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Arielle joined JTaylor in 2016 and provides consulting and valuation services. She has experience in various practice areas with an emphasis in the healthcare industry. Arielle's fields of expertise include transaction advisory, due diligence related to mergers and acquisitions, and business valuations. Clients served by Arielle in the healthcare industry include independent physician practices and national physician management companies, ambulatory surgery centers, free-standing cancer clinics, and large multi-hospital and health systems. Additionally, Arielle has represented a number of closely held businesses in a variety of service industries as part of a business exit.



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