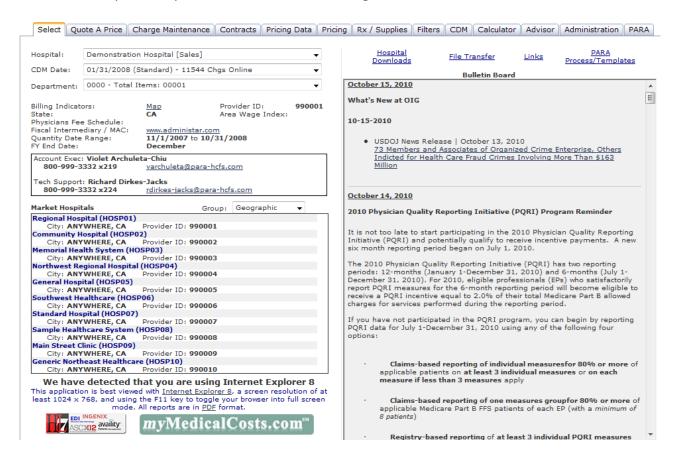# PARA – Market Based Pricing Process

The **PARA Market Based Pricing Program** (**MBPP**) is designed to improve profitability by enhancing the Hospital's ability to stay price competitive.

The goal of the **MBPP** is to identify line items in the charge master which have negative patient satisfaction due to high prices, identify gross margin improvement opportunities due to low prices and to establish a rational pricing methodology by setting prices based on fee schedule, APC, cost or competitive market pricing data.

There are seven steps in the **PARA** pricing process:

1. Interview with hospital finance administration to determine goals of the process
2. Assessment of competitive market pricing data, creation of "max" iteration
3. Loading of the managed care contract matrix into the PDE Contracts tab
4. Refinement of iteration parameters, processing of multiple iterations
5. Quality review, rounding and smoothing
6. Implementation
7. Follow-up

Each of the steps in the process can be accessed using the **PARA Data Editor**.

Project Deliverables

1. **Pricing Analysis - PARA** shall provide detailed pricing iterations based on provider specific market and cost data for the hospital to make the best possible pricing decisions

2. **Net Revenue Calculation - PARA** shall model all managed care contracts to determine the impact of price changes, claim caps, annual inflation caps, stop loss, and net revenue impact.

3. **Fee Schedule Analysis - PARA** shall report charges below Medicare clinical lab, rehab, DME, APC, Medicaid fee schedules and managed care lower of charge DRG and fee schedule impact

4. **Implementation – PARA** shall assist in the implementation of the prices, using Boston Works and a VPN connection

5. **Impact Analysis: PARA** shall provide quarterly impact analyses to measure the actual impact of the pricing study

Timeline - The timeline displays the beginning and period of the critical processes.

	Process	Period after receipt of data by PARA	Week Number							
			1	2	3	4	5	6	7	8
1.	Engagement	N/A								
2.	Interview with Hospital Finance Admin	N/A								
3.	Processing of initial data set by PARA	2 weeks	███							
4.	Loading of managed care contracts	2 weeks		███						
5.	Creation of Max iteration	1 week			██					
6.	Refinement of Max iteration	3 weeks				████				
7.	QA review, rounding and smoothing	1 week							██	
8.	Implementation	1 week								██

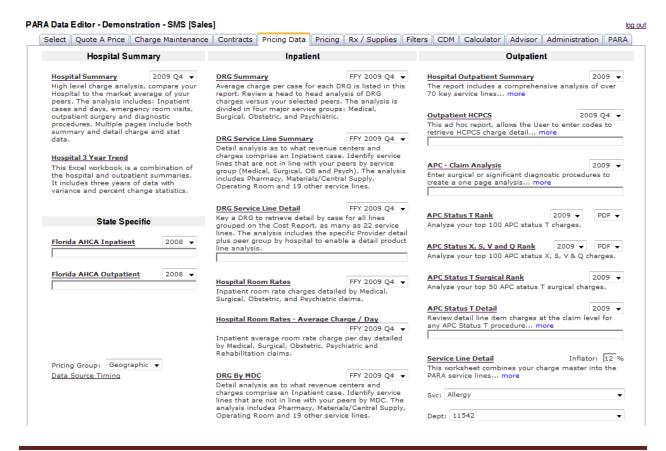**Interview with hospital finance administration to determine the goals of the process**

There are several factors which determine the goals of the annual price increase:

- Hospital financial requirements
- Board Governance
- Public and physician comment on prices
- Competition by independent labs, imaging centers and ambulatory surgical centers
- Annual price inflation limits within managed care contracts

Assessment of competitive market pricing data, creation of "max" iteration

There are 5 basic service types reviewed to determine the opportunity within each of the three different market groups, each of the service types are available within the Pricing Data tab.

1. **Daily hospital services** – Hospital Room Rates – Average Charge / Day
2. **Surgical services** – DRG Service Line Summary, APC Status T rank
3. **Drugs sold to patients** – DRG Service Line Summary
4. **Medical supplies** – DRG Service Line Summary
5. **Diagnostic and therapeutic services** – APC Status X, S, Y and Q Rank
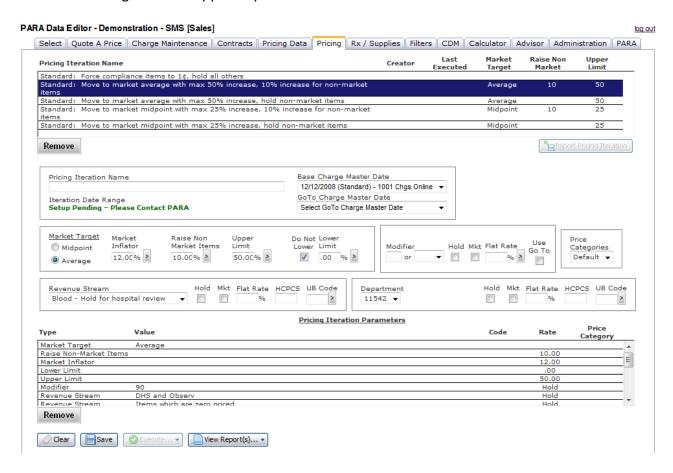
PARA – Market Based Pricing Process

Assessment of competitive market pricing data, creation of "max" iteration (continued)

Based on the review of the market pricing data a "max" iteration is created within the Pricing tab in the PDE, the goal of the "max" iteration is to quantify the total opportunity within the market prior to the application of outside constraints.

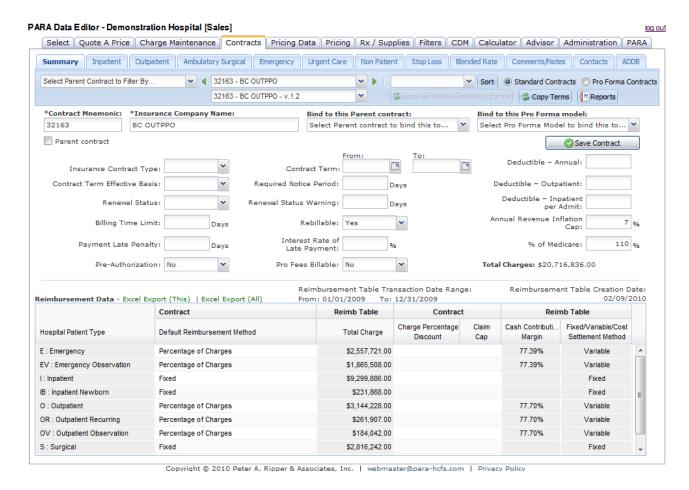A typical max iteration may have the following parameters:

1. Increasing ICU room rates by 20%
2. Increasing semi-private rates by 15%
3. Increasing I/P surgical service by 15%, O/P rates to be held
4. Setting O/P Lab to 2x independent lab prices, I/P to the 85th percentile
5. Setting O/P imaging to 2x independent testing facility, I/P to the 85th percentile
6. Increasing drugs sold to patients by 10%
7. Increasing medical supplies by 10%

Loading of managed care contract matrix into the PDE Contracts tab

Each managed care plan contract term which impacts net revenue is keyed into the **Contracts** tab to be used in the net revenue settlement, the terms which are loaded are as follows:

1. Percent of revenue
2. Annual inflation caps
3. Outpatient claim caps
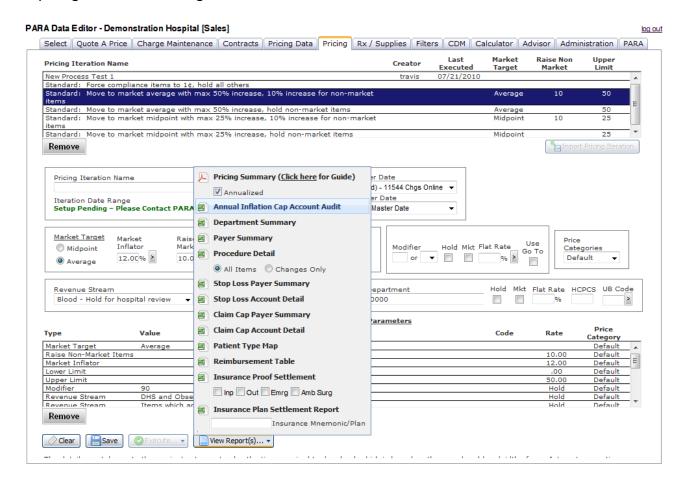4. Stop loss terms

Within each of the **PARA** standard patient types the contract terms are defined, if the service is reimbursed on the basis of a DRG, APC, fee schedule, ASC level or per diem, there is no relationship between pricing and reimbursement.

The **Pricing** tab will only attribute additional net variable revenue to those contracts which have been specifically loaded into the Contracts tab and the reimbursement is based on a percentage of charges; the "default" reimbursement is fixed, there is no relationship between prices and reimbursement.

Refinement of iteration parameters, processing of multiple iterations

Based on the results of the max iteration and with consideration of the outside constraints, **PARA** will then process multiple iterations to calculate the settlement values.

Each of the iterations is "saved" so that the User can always refine and reprocess, without requiring the re-establishing the iteration.

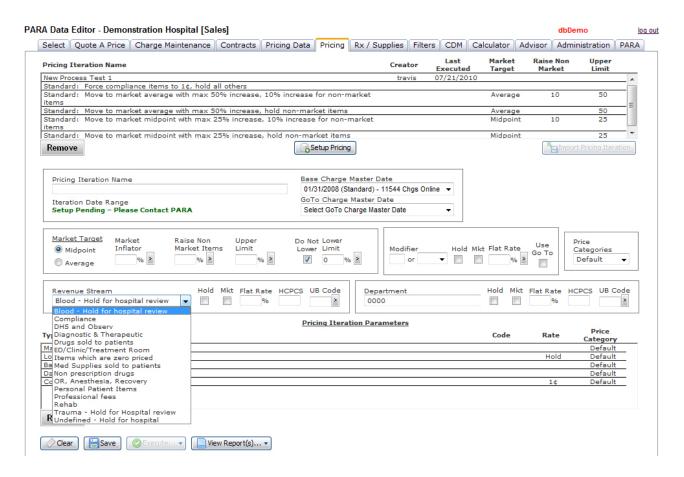The report pop-up window allows detail analysis of the iteration with a number of worksheet schedules.

PARA tracks your revenue and sets prices using "revenue streams"; each of the revenue streams is established to allow the User complete control over the pricing.

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Refinement of iteration parameters, processing of multiple iterations (continued)

The revenue stream definitions are as follows:

1. Items which are zero priced
2. Non prescription drugs
3. DHS and Observation
4. Blood
5. Trauma
6. Professional fees
7. Personal Patient Items
8. OR, Anesthesia, Recovery
9. GI Lab
10. Lithotripsy
11. Items which have a average price to CDM price variance > 10%

12. Drugs sold to patients
13. Med Supplies sold to patients
14. Implants
15. ED/Clinic/Treatment Room
16. Rehab
17. Diagnostic & Therapeutic
18. Clinical Lab
19. Diagnostic Radiology, US, CT, MRI
20. Pathology
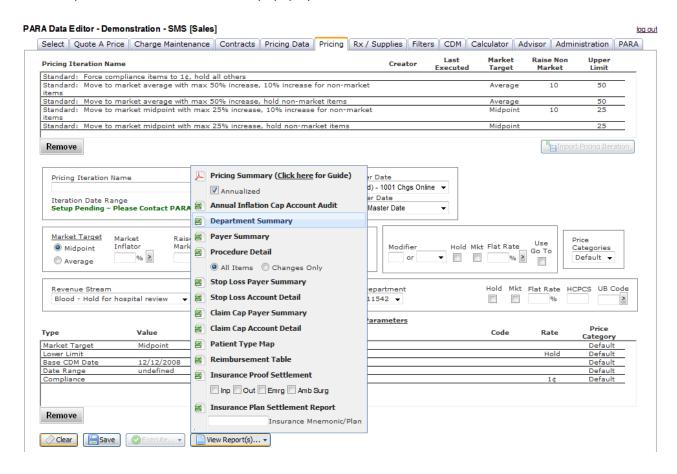21. Diagnostic & Therapeutic

Quality review

To ensure that the **PARA** model is calculating the correct reimbursement on the final iteration and that the prices are consistent within the services and correctly rounded, PARA will process a series of audit reports.

Procedure Detail – This report allows the User to view each line item in the charge master along with market pricing data and the GoTo price from the iteration. The report is used to check consistency between prices, round, and verify the application of the iteration parameters.

Payer Summary – The worksheet summaries the financial impact to payers by patient type, and includes the payer factors which determine reimbursement.

Insurance Proof Settlement – The worksheet contains a sample of 200 accounts which can be "audited" to be sure the contracts are loaded correctly into the contract tab for settlement.
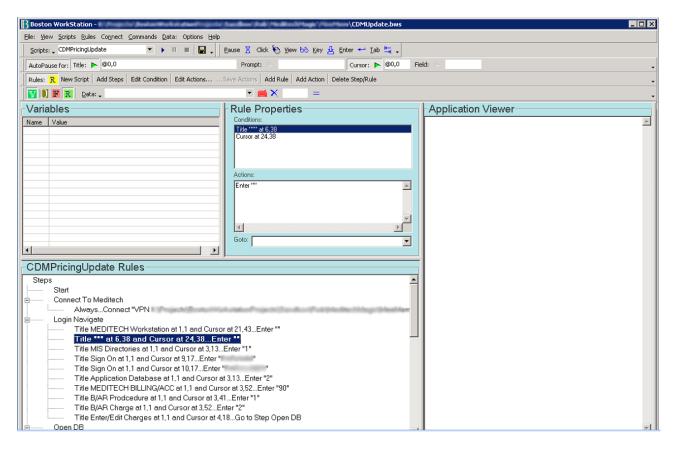
Fee Schedule Audit - This worksheet will list any GoTo price which is lower than a Medicaid fee schedule, or a Medicare APC status A, X, S, Q, or T reimbursement.
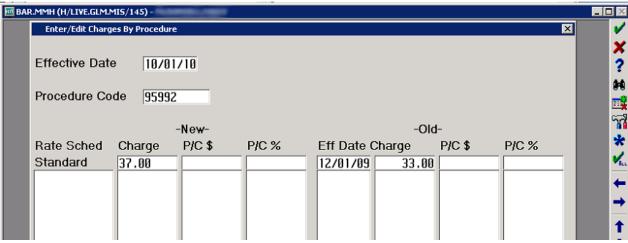
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Implementation

PARA has the ability to assist the hospital in the implementation of the prices.

PARA can produce a custom upload file or **PARA** will process the price change utilizing a VPN connection and Boston Workstation to set each individual price.

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Follow-up

PARA provides ongoing follow-up services as part of the **Market Based Pricing Process** to be sure the prices are implemented correctly and that the revenue target is achieved.

Implementation confirmation - Immediately after implementation **PARA** requests a copy of the updated charge master to check that the prices were implemented correctly.

Quarterly Impact Analysis - PARA will perform a quarterly impact analysis to track the expected gross and net revenue to identify variances from the projection due to a shift in volume, patient type and financial class mix.

PARA will produce the following reports and files to track the projected benefit of the pricing analysis. The impact analyses are based on the current fiscal period as compared to the prior year fiscal period; they are produced at the hospital, department and line levels.

1. Payer mix
2. Procedure volume
3. Stop loss
4. Claim cap
5. Contract annual inflation cap
6. Market pricing opportunity