PARA Supply Pricing Process

BACKGROUND:

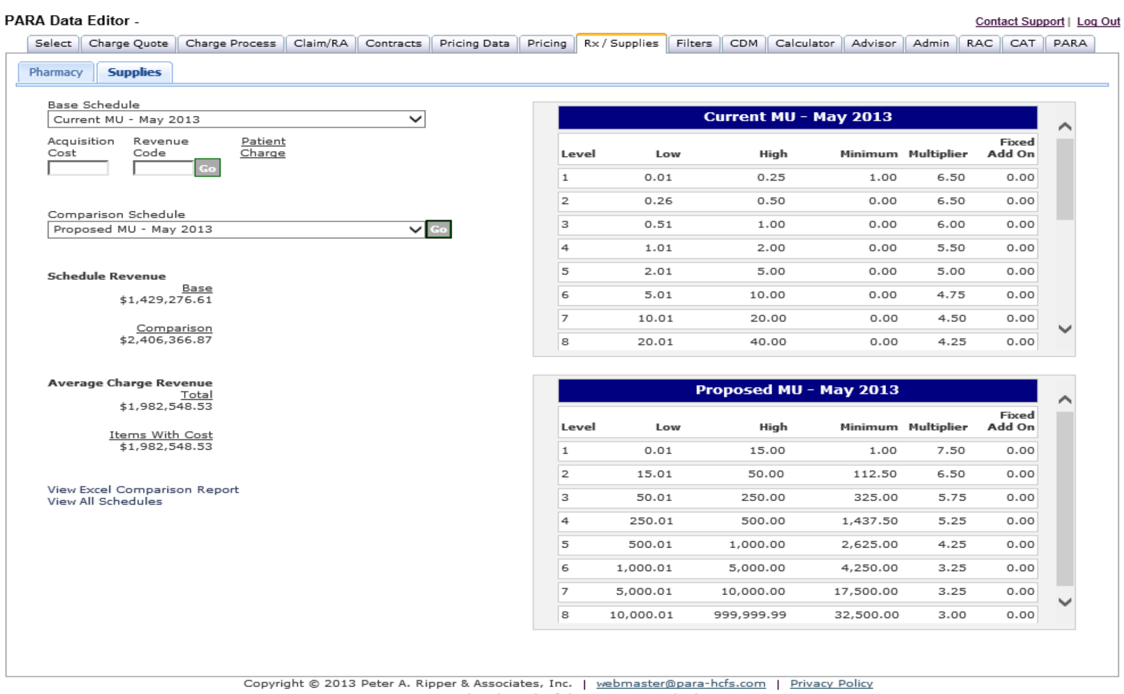
Departments such as materials management traditionally develop separate pricing policies when compared to the rest of the organization.

These pricing policies involve the development of distinct formulas. Generally, facilities assign higher level markup formulas to items with lower cost and assign lower markup formulas for higher priced items. Health care organizations create markups based on various factors including:

- **Payer mix**
- **Utilization**
- **Market Rates**
- **Service Offerings**

Hospitals are moving towards standardizing supply pricing across all departments and services, thus improving compliance issues associated with inconsistent charging practices. Although no standard methodology exists, it is PARA's opinion that when creating supply pricing methodologies, the following must be considered:

- **Pricing should be developed using the actual cost basis to create a rational markup schedule**
- **Implants should have a separate markup to provide sensitivity to any contract terms that may have carve-outs**
- **Fixed Add-On and Minimum Charges should be utilized to compensate for any additional use of departmental resources for handling the supply**



Current MU - May 2013

Level	Low	High	Minimum	Multiplier	Fixed Add On
1	0.01	0.25	1.00	6.50	0.00
2	0.26	0.50	0.00	6.50	0.00
3	0.51	1.00	0.00	6.00	0.00
4	1.01	2.00	0.00	5.50	0.00
5	2.01	5.00	0.00	5.00	0.00
6	5.01	10.00	0.00	4.75	0.00
7	10.01	20.00	0.00	4.50	0.00
8	20.01	40.00	0.00	4.25	0.00

Proposed MU - May 2013

Level	Low	High	Minimum	Multiplier	Fixed Add On
1	0.01	15.00	1.00	7.50	0.00
2	15.01	50.00	112.50	6.50	0.00
3	50.01	250.00	325.00	5.75	0.00
4	250.01	500.00	1,437.50	5.25	0.00
5	500.01	1,000.00	2,625.00	4.25	0.00
6	1,000.01	5,000.00	4,250.00	3.25	0.00
7	5,000.01	10,000.00	17,500.00	3.25	0.00
8	10,000.01	999,999.99	32,500.00	3.00	0.00

REVIEW OF NON-BILLABLE ITEMS:

The majority of Providers bill for items which are not appropriate under CMS, Medicaid, or managed care charge policies. The **PARA Data Editor (PDE)** contains a filter to assist Providers in identifying charge items which may not be allowable charges.

The User can create a list of charges which when reviewed and marked will allow the User to calculate the gross revenue impact of removing the items. The **PARA Supply Pricing Process** will not assign a price or revenue assignment to any item market as compliance.

PARA Data Editor · Contact Support | Log Out

Select | Charge Quote | Charge Process | Claim/RA | Contracts | Pricing Data | Pricing | Rx / Supplies | Filters | CDM | Calculator | Advisor | Admin | RAC | CAT | PARA

CDM Summary | CDM Detail | Replacement / Explode Codes

Filters

CDM: **4/30/2013** Department: All - **Items: 135** (135 loaded) Compliance - Identified for Review

Quantity Date Range: **5/1/2012** to **4/30/2013** Left mouse click on code to add to additional search

Procedure Code	Procedure Description	ExC	Qty	Price	CPT® / HCPCS				Revenue Code			
					CPT®	Medicare	Medicaid	Other	Dflt	OPPS	Part B Only	Other
01 - 7400 - 0000114	DRESSING 4X4 GAUZE SPONGE TRAY	-	75	4.36	-	-	-	-	0272	-	-	-
02 - 7400 - 0001064	BLANKET MAXI-THERM 876 ADULT	-	4	85.80	-	-	-	-	0270	-	-	-
03 - 7400 - 0002447	NUTRAMIGEN POWDER	-	-	26.59	-	-	-	-	0271	-	-	-
04 - 7400 - 0002477	BRUSH CYTOLOGY GI 3mm	-	-	62.46	-	-	-	-	0272	-	-	-
05 - 7400 - 0006313	SPECIAL BED RENTAL_PER DAY	-	-	300.00	-	-	-	-	0270	-	-	-
06 - 7400 - 0006408	STRAP URO CATH 20IN LEGBAND	-	23	19.64	-	-	-	-	0272	-	-	-
07 - 7400 - 0009197	BLOOD/FLUID WARMING SET	-	7	95.95	-	-	-	-	0272	-	-	-
08 - 7400 - 0009306	SET PUMP PROVIDER 80" 11689-01	-	-	77.20	-	-	-	-	0272	-	-	-
09 - 7400 - 0009308	ELECTRODES BALL B0512ZQ	-	10	163.10	-	-	-	-	0272	-	-	-
10 - 7400 - 0009341	TUBE TRACH PED 5.0 CUFFED	-	2	267.03	-	-	-	-	0272	-	-	-
11 - 7400 - 0009635	BREAST PUMP SYSTEM	-	56	136.29	-	-	-	-	0272	-	-	-
12 - 7400 - 0009636	BREAST PUMP STARTER 8 0ML BTLS	-	2	47.87	-	-	-	-	0271	-	-	-
13 - 7400 - 0009711	ELECTRODE LOOP BALL END 27054N	-	-	498.67	-	-	-	-	0272	-	-	-
14 - 7400 - 0010376	ELECTRODE CUTTING 27050 G STER	-	10	381.56	-	-	-	-	0272	-	-	-
15 - 7400 - 0010378	ELECTRODE COAGULATING 27050NK	-	3	483.22	-	-	-	-	0272	-	-	-
16 - 7400 - 0010463	KIT VACUUM DEL KIWI HAND PUMP	-	10	265.57	-	-	-	-	0272	-	-	-
17 - 7400 - 0010577	ELECTRODE LETZ 10 MM STERILE L	-	-	57.55	-	-	-	-	0272	-	-	-
18 - 7400 - 0010583	ELECTRODE NEEDLE 6" EXTENDED	-	-	15.35	-	-	-	-	0272	-	-	-
19 - 7400 - 0010611	MATTRESS WAFFLE W/ PUMP NS	-	145	231.50	-	-	-	-	0271	-	-	-
20 - 7400 - 0010732	SYRINGE 10CC W/ LOCKING DEVICE	-	50	12.10	-	-	-	-	0272	-	-	-
21 - 7400 - 0011235	STAT II PUMPETTE SET W/TUBING	-	-	22.75	-	-	-	-	0272	-	-	-

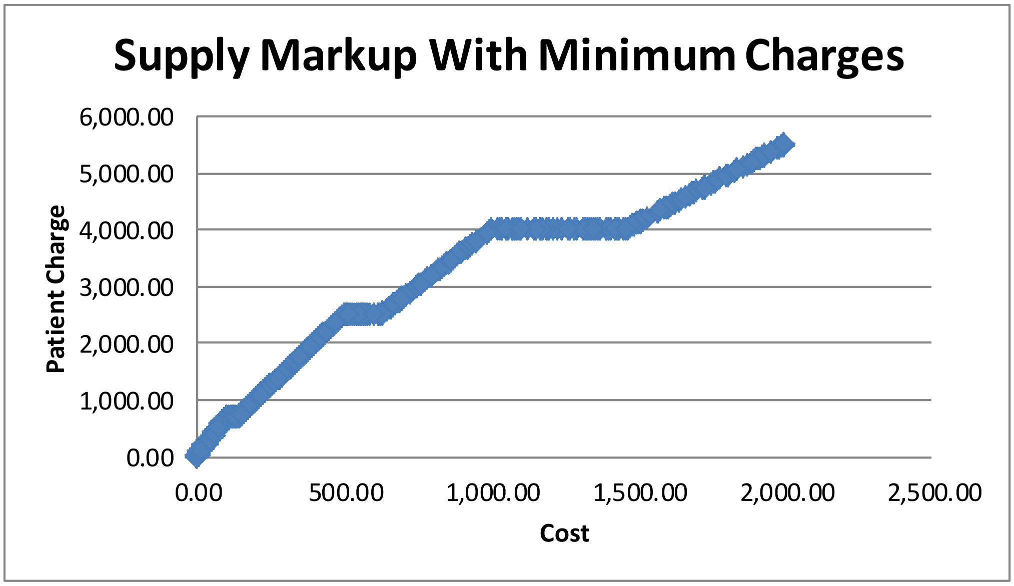
REVENUE CODE AND COST BASIS OPTIONS:

The **PARA Supply Pricing Process** is customized to meet the needs of the facility by allowing separate markups for implants versus other supply categories. The project also uses the facility's most recent cost extract to determine the most rational cost-based markup.

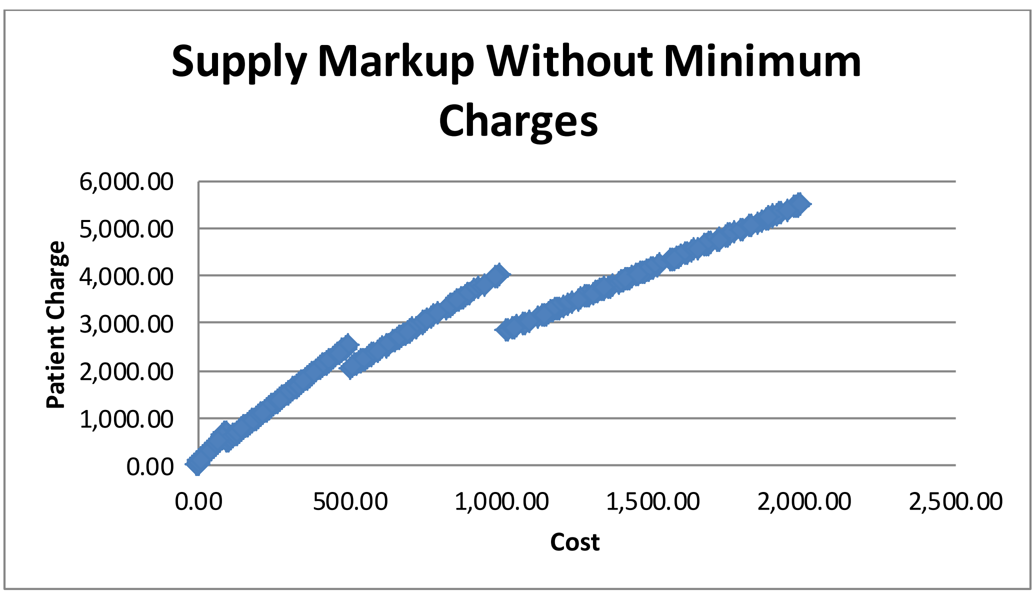
A typical supply markup will assign higher multipliers to lower cost items and lower multipliers to higher cost items. In order to ensure the patient price accurately reflects the cost of the item, fixed add-on and minimum charges are used to keep items standardized across the markup.

MINIMUM CHARGES:

Let's consider the following supply markup comparisons with and without minimum charges. The markup with minimum charges shows a consistent increase in the patient prices as the cost of the item increases.

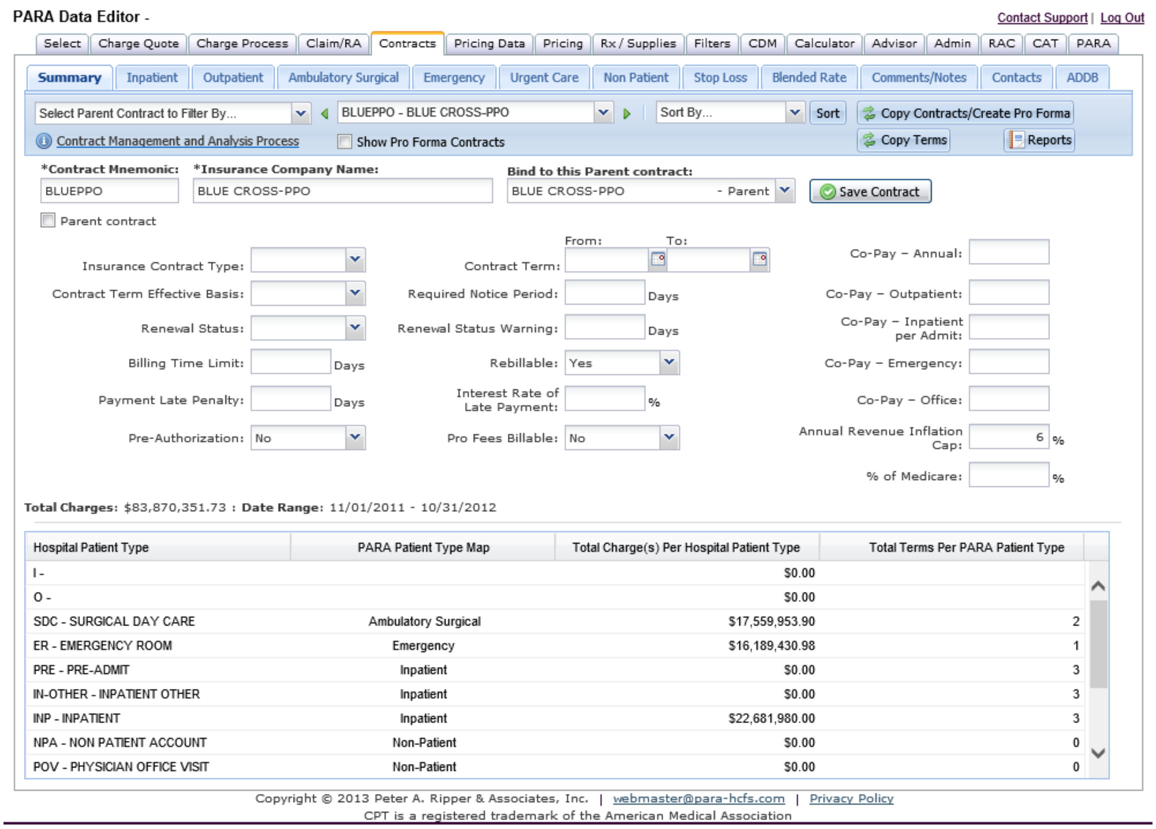


However, without the minimum charges, there are areas in the markup where a more expensive item will have a lower patient prices than a lesser expensive item. The proper use of minimum charges helps to create a rational markup formula.



GROSS AND NET REVENUE PROJECTIONS:

PARA's Supply Pricing Process uses historical transaction data and the top ten payer contract terms to project the gross and net revenue realized by changes to the materials management markup. The **PARA Data Editor** has the ability to copy and compare different markup schedules to "test" various scenarios using different cost-basis and charge category options.



IMPLEMENTATION OPTIONS:

PARA has the capability to assist with full implementation of proposed supply markups. The **PARA Data Maintenance Services** establish a secure connection to the hospital system to update markups, costs, and other information. Please see the link below regarding details of **PARA's Data Maintenance Services.**

PARA Data Maintenance Service

Facility Data Maintenance

Goal of the Process:

Establish a secure connection to the hospital system to facilitate the following:

- Create data downloads for the **PARA Data Editor (PDE)**
- Process updates to the Hospital charge master for pricing revisions
- Process updates to the Hospital charge master for coding revisions
- Access pharmacy clinical system for NDC, markup, and cost updates
- Access purchase item master for cost, markup, and charge number updates

PARA will have the option of installing a batch update service, usually incorporating a scripting solution, if the manual update process is determined by **PARA** to be too time-consuming (in excess of 5 hours per month on average).

PARA Deliverables:

This engagement allows PARA to access necessary tables and reporting tools to process the following within the hospital systems:

- Update recommendations from charge master reviews and CMS quarterly updates
- Update pricing Recommendations from Market Based Pricing and other pricing reviews
- Monthly coding updates from Medicare, Medicaid, and Worker's Compensation
- Process new charge items and changes to existing charge items
- Access to Medical Records for coding/claim audits
- Follow up for Accounts Receivable
- Process physician billing activities

THE PARA SOLUTION:

Although there is no right or wrong way to structure a markup formula for supplies, these concepts help to see the various factors and how they affect the overall result. The **PARA Supply Pricing Process** assists facilities in creating a rational, cost-based supply markup that remains sensitive to implants and compensates for additional use of resources.

Details of this project including purpose, data requirements, method, timeline, and deliverables are as follows. If you would like more information, please contact your Account Executive.

PURPOSE:

The purpose of the **PARA Supply Pricing Process** is to create a rational, cost-based materials management markup using the concepts according to the information presented above.

The project focuses on creating a cost-based supply markup that remains sensitive to implants and compensates for additional use of resources to meet the revenue goals of the organization.

DATA REQUIREMENTS:

The required data tables and fields for the **PARA Supply Pricing Process** are as follows:

- **Materials Markup- Charge category, multipliers, minimums, and additional fees**
- **Charge Master- Charge code, current charge/price, HCPCS Code**
- **Detailed Materials Cost Data- Cost data as found in the materials management system**
- **Transaction Data- Detailed patient level claims data**
- **Payer Contract Matrix- Managed care contract settlement terms**

METHOD:

PARA Data Staff will tie these tables together and load into the **PARA Data Editor**. The client will complete a Supply Markup/Pricing Goals questionnaire to outline preferences in cost basis, revenue goals, and other important aspects of the analysis.

The **PARA** Coding staff will review the current CDM for non-billable supplies. The new markup schedule will not assign a price to any item identified as non-billable during this review.

The **PARA** analytic staff will create a markup to meet the goals of the project and calculate the gross and net revenue opportunity of the proposed markup. The client will review the proposed markup and identify any areas where changes would like to be made.

After the final markup has been approved, the client will either implement or engage **PARA** to implement the markup as outlined above.

PARA Supply Pricing Process

TIMELINE:

Supply Pricing Process

	Process	Completion Date or Estimated Date after receipt of data/service agreement by PARA	Week Number 1	2	3	4	5	6	7	8
1.	Engagement									
2.	Processing of Initial Data Set	2 weeks								
3.	Load Managed Care Settlement	2 weeks								
4.	Non-Billable Review	2 weeks								
5.	Financial Analysis	1 week								
6.	Refinement of Mark-up	1 week								
7.	Implementation	2 weeks								

DELIVERABLES:

The **PARA Supply Pricing Process** deliverables to the client include identification of non-billable supply items and gross revenue impact, proposed markup, gross and net revenue projections, item-specific detailed spreadsheet of proposed changes, and a full write-up of techniques and findings.

Dept Code	Procedure Code	Procedure Description	UB Code	Qty	Cost	Current Charge	Proposed Charge	Current Revenue	Proposed Revenue
Supply Schedule Analysis Report – Prepared for: Demo Hospital Schedule 1: Current Markup- Jan 2013 Schedule 2: Semi Final Proposed MU v2 - Mar 2013					**Base CDM Date: 4/30/2013**				**Average Charge Source: Pricing Iteration 5650**
7400	0003166	BLADE ARTH INCISOR 4.5MM	0278		59.48	151.67	163.57	0.00	0.00
7400	0003250	BLADE SAW SAGITTAL 2296-3-111	0272	1	38.21	315.23	315.23	315.23	315.23
7400	0003974	FORCEP BIOPSY	0272	900	7.62	62.87	62.87	56,578.50	56,578.50
7400	0004004	COMP PLUS CLEAR 4X4	0272	14	1.91	0.00	0.00	0.00	0.00
7400	0004535	PLATE 5 HOLE 2460-41-05 IMPLNT	0278		35.10	89.51	96.53	0.00	0.00
7400	0004536	PLATE 6 HOLE 2460-49-06 IMPLNT	0278		50.87	129.72	139.89	0.00	0.00
7400	0004564	PLATE 226.08	0278		274.00	698.70	753.50	0.00	0.00
7400	0004590	PLATE CONDYLAR	0278		398.00	1,014.90	1,094.50	0.00	0.00
7400	0004817	CAP SCREW 5.0 394.993	0272		4.28	0.00	0.00	0.00	0.00
7400	0004820	SCREW SCHANZ 5.0 BLUNTED TROCA	0278		113.00	288.15	310.75	0.00	0.00
7400	0005090	BLADE SAW SAGITTAL 5052-179	0272	40	40.32	332.64	332.64	13,305.60	13,305.60