

## **Medical Markup: California Hospitals Open Books, Showing Huge Price Differences**

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By Lucette Lagnado

How much does a Tylenol cost? In California, that depends on what hospital you're in.

At some California hospitals, a tablet of Tylenol, or its generic version, acetaminophen, is billed at \$5 or \$5.50. Others charge \$7, or even \$9, for a single pill. One Los Angeles hospital charges just 12 cents a tablet, while at a few facilities it's free. The retail price of brand-name Tylenol is about eight or nine cents each. The generic goes for a nickel or less.

A new law in California mandates that hospitals there do what few hospitals in America will: open up their "chargemasters," books that show thousands of list prices for medical goods and services. An examination of chargemasters at several hospitals shows that pricing strategies fluctuate wildly -- on everything from brain scans to painkillers to leeches. Depending on a hospital's pricing method, the charge for the same commodity or service, such as a blood test, can vary by as much as 17-fold from one institution to another.

Virtually every business marks up the wholesale cost of supplies and services. But in the hospital business, pricing is an increasingly sensitive and controversial issue. List prices are usually charged only to uninsured patients. Health plans negotiate big discounts and the government essentially dictates what it will pay.

Meanwhile health-care costs are surging and are likely to go up by 8% or 9% per year over the next five years, according to Glenn Melnick, a professor of health-care finance at the University of Southern California. Economic growth is expected to be about 3% per year, he says, prompting a national debate over how to pay for all this.

Dozens of lawsuits have been filed in recent months by lawyers alleging that nonprofit hospitals are price-gouging the poor and uninsured. Hospitals long seen as charitable organizations are being forced to defend themselves against allegations they have preyed on patients for debts that were inflated.

For years, details on hospital charges were kept secret. Hospitals deemed their prices proprietary, to be kept off limits from institutional rivals, insurers and even consumers. Patients often had no idea what costs they were racking up until they got their bill.

California's law, which went into effect earlier this year, requires hospitals to make their chargemasters available to the public. These lists show how much each hospital charges for everything from drugs and patient rooms to bandages, X-rays and CT scans.

One state that requires disclosure of hospitals' list prices to the public is Arizona. Wisconsin, while permitting hospitals to keep their chargemaster books confidential, makes them disclose on a state-run Web site the cost of some common procedures, from having a baby to knee-replacement surgery. Next year the program will be taken over by the Wisconsin Hospital Association, which will expand it.

The California law was intended to make it easy for consumers to see how much certain services would cost. The idea, in part, was to goad hospitals to limit or change their markup policies, says the law's sponsor, assemblyman and majority leader Dario Frommer. The hospital industry initially fought the bill, he says, and then worked to amend it. Eventually it withdrew its objections.

Mr. Frommer and consumer advocates who backed the bill concede it is just a first step. They hope the information will help consumers compare prices, shop around and make the industry more mindful of what it charges for some health-care services. Under the terms of the law, anyone can visit a hospital and request to see its price list -- except for some small rural hospitals which are exempt. Some hospitals require an appointment so that they can help explain the document, which can run hundreds of pages and contain thousands of items. A few hospitals have posted their lists on the Web.

The California Healthcare Association, a trade group representing more than 500 hospitals, has contended all along that the chargemaster bill wouldn't help consumers. So far, in fact, there have been few takers, with several hospitals reporting only a couple of patients coming in to examine the document.

But the consumer group that pushed for the legislation says it will be useful in many ways. "This information matters a lot to the uninsured patient who has the ability to decide where they are going for care," says Anthony Wright, executive director of Health Access. "It gives consumer groups and major purchasers the tools to try to get a handle on the overall issue of why health-care costs are rising so much."

For now, the public disclosures offer a look into a system that even some insiders say is askew. "There is no method to the madness," says William McGowan, chief financial officer of the University of California, Davis, Health System, a large teaching hospital in Sacramento. "As we went through the years, we had these cockamamie formulas," says Mr. McGowan, a 30-year veteran of

hospital finances. "We multiplied our costs to set our charges."

Take that ancient treatment the leech. It has made a comeback in medicine, but with a newfangled price. UC Davis and Scripps Memorial Hospital in La Jolla are among those that use the creatures for certain treatments. The leech sucks blood in the course of delicate surgical procedures.

At Scripps, leeches are kept in a big jar and not fed -- to make them hungry, so they'll consume more human blood. They are priced at \$19 apiece in the hospital's chargemaster, where they appear under the listing "Leech, Live." Scripps won't discuss how it arrives at its prices. The markup formula used to set the list price is proprietary, the hospital says.

While the California law requires hospitals to disclose list prices, it doesn't force them to explain how they arrive at those prices. Some hospitals remain reluctant to discuss their formulas.

Mr. McGowan of UC Davis, a nonprofit hospital, was willing to explain how that institution arrives at prices. The current reimbursement system for hospitals is in need of drastic reform, he says. "With an incredible degree of arrogance, we have established our prices and allowed the industry to develop a system we all agree is broken."

For instance, at UC Davis, a leech is considered a pharmaceutical item. Medicines purchased by the hospital for under \$40 are sold at a list price that is 13.5 times the wholesale cost, he says. Applying the formula to a leech -- which goes for \$6 wholesale -- UC Davis arrives at a retail charge of \$81 per leech.

For medicines that cost the hospital more than \$40 but less \$100 wholesale, the formula is 7.5 times cost, he says. UC Davis works under the theory that the higher the unit price of a pharmaceutical or supply, the lower the markup.

Drugs that the hospital buys for \$500 per dose wholesale are marked up 2.5 times wholesale. Some drugs that cost several thousand dollars a dose are not marked up at all. But the markups are significantly lower for procedures and items done on an outpatient basis because they don't include some overhead costs associated with overnight stays. For example, a blood count that would cost \$166 for inpatient care is only \$24 on an outpatient basis.

UC Davis uses a different formula to come up with the \$15 charge for Percocet, a prescription painkiller, or its generic version. The drug is an opiate, a "controlled substance." The wholesale price is \$1.35 per pill. But at UC Davis, the minimum retail charge for opiates is \$15.

Prices for Percocet or its generic version are all over the map in California. The painkiller is listed at \$26.79 per pill at Sutter General, a unit of Sutter Health, a nonprofit chain based in Sacramento. It costs \$11.44 at Scripps in San Diego, but \$6.50 at Cedars-Sinai Medical Center in Los Angeles. At Doctors Medical Center in Modesto: \$35.50 per pill.

Who will be asked to pay these list prices? Almost nobody except uninsured patients, says Mr. McGowan. "These are the people who are handed a bill for these astronomical amounts," he says.

There are an estimated 45 million uninsured Americans, about seven million of them in California. UC Davis, which provides a large share of charitable medical services to the poor in its area, has a policy of not suing uninsured patients to collect on debts.

For patients on Medicare, the federal program for the elderly and disabled, the hospital typically gets a flat rate, based on the diagnosis, for all care including drugs, Mr. McGowan says. Medicaid, the federal-state program for the poor, pays a negotiated amount per day in California. Health-maintenance organizations pay about 60% of the list price.

Hospitals negotiate various lower rates with different insurers. They don't have to disclose the prices that they charge insurance companies.

In the late 1960s and 1970s, hospital pricing was more straightforward. Markup formulas existed, but they were generally used to build in a small profit on top of costs. Medical providers could count on both the government and insurers paying what they were billed.

That began to change during the 1980s, when the federal Medicare program revamped its reimbursement methods. It decreed that in most cases it would pay hospitals only a flat rate for specific treatments. During the 1990s, managed care came into its own, and HMOs demanded hospitals give them steep discounts off retail prices.

Buffeted by managed care, squeezed by federal and state governments and overrun with patients who either couldn't pay or lacked coverage, hospitals felt they had no choice but to develop aggressive survival strategies.

Hospitals began marking up the prices of various goods and services. But they didn't always know what their rivals charged because of antitrust restrictions. Each hospital came up with its own formula. In some cases, retail prices for certain procedures, such as a routine chest X-ray, rose even as the costs of those services declined.

As a result, there are great discrepancies in prices. At San Francisco General, a public hospital, a chest X-ray -- two views, front and side -- is priced at \$120 to \$125. The same service costs more than twice as much at Mills- Peninsula Health Services, also in the Bay area, which is part of a nonprofit chain.

Two hours away in Sacramento, the price differences are even greater. Mercy General, a Catholic hospital, charges \$413 for the same two-view chest X-ray. At nearby Sutter General, a nonprofit, the basic two-view X-ray goes for \$790.

Michael Blaszyk, an executive vice president at Catholic Healthcare West, which runs Mercy General, says the hospital has a discount program that spares many uninsured patients from paying full charges.

Sutter General's executives defend their pricing. They note there are more than 10,000 items in Sutter's chargemaster; to select only a few that appear steep compared with other institutions could give a distorted picture, hospital officials say. Jeff Sprague, chief financial officer for the Sacramento Sierra region, says Sutter's prices are "competitive." The hospital system commissioned a study that found its prices for inpatient stays to be comparable to other Northern California hospitals.

Even so, the hospital wants to be more price-conscious, Mr. Sprague says. It has cut list prices of several pharmaceutical items, including morphine, which it reduced earlier this year to \$75 a dose from \$100. As part of a plan to standardize its markup formula, the hospital's list price for all drugs is now two times the average wholesale price, a spokesman says.

The elaborate pricing systems hospitals have developed over the years will be difficult to change, many in the industry say. "The entire system will have to be blown up," says Jan Emerson, spokeswoman for the California Healthcare Association.

One of the most dramatic price differences is seen in the "comprehensive metabolic panel," a blood test usually consisting of 14 analyses that look for abnormalities in the liver and kidneys, as well as checking blood sugar and other measures of health.

The test is \$97 at San Francisco General, where prices for some procedures are so low that officials are considering ramping up certain charges to get in line with competitors. "It is kind of embarrassing," says Gregg Sass, chief financial officer at the San Francisco Department of Public Health, which oversees the hospital.

The blood test costs \$197 at Scripps. But the fee rockets to \$576 at Cedars-

Sinai in Los Angeles and \$743 at Sutter General in Sacramento. At Doctors Medical Center in Modesto, the price is about \$1,733 -- or 17 times the price at San Francisco General.

Doctors Medical Center is owned by a subsidiary of Tenet Healthcare Corp., a for-profit chain, which is moving its headquarters from Santa Barbara to Dallas. Harry Anderson, a spokesman for Tenet, says prices for that blood test and other items were set under a previous management. Tenet now gives patients without insurance about 50% off its list prices, he says, and hasn't raised its prices for a year.

Why not just lower the list prices? A key problem with changing the system is that high list prices have been a "negotiating tool" for hospitals in dealing with HMOs that demand big discounts, Mr. Anderson says. A new system must be invented, he says, that protects the public and makes sure hospitals are reimbursed fairly.

The industry's list prices have been "like a secret handshake -- understood within the industry, not understood by anybody else -- and that is a problem," Mr. Anderson says. Until now, "this industry never had to explain its prices."

Market forces can influence the price of some hospital services. Scripps Chief Executive Chris Van Gorder says stiff competition from freestanding radiology centers, laboratories and outpatient clinics has forced his hospital to be more price-conscious about certain procedures such as X-rays and CT scans, which are easily performed outside a hospital.

Scripps's list price for a brain scan is \$881.90, among the lowest of a dozen California hospitals surveyed by The Wall Street Journal. At Doctors Medical Center in Modesto, by comparison, the brain scan starts at \$6,599.

Regional factors, including labor costs and real estate, also affect prices. Bill Gleeson, a Sutter spokesman, cites the influence of labor unions and capital-improvement costs at his and other Northern California hospitals as factors to explain the price variations. But in Southern California, Scripps's Mr. Van Gorder disagrees. "I would speculate that living in San Diego is far more expensive than in most places in Northern California and our cost environment is probably higher," he says. "It is a surprise to me that charges would be that different from North to South." He adds: "Maybe everybody should move to San Diego."

Then there is Tylenol, or its generic version, acetaminophen.

Some hospitals, including Doctors Medical Center and Sutter General, don't charge for acetaminophen.

At San Francisco General, a public hospital that caters to the poor, a tablet costs \$5.50. On some basic services, the hospital's list prices are modest, so why the steep price for a tablet? "It is the formula," says Robert Perry, the hospital's chargemaster manager. "Expensive items are not marked up high; inexpensive items are marked up."

San Francisco General buys the tablets wholesale for a penny apiece, Mr. Perry says. But virtually every area of a hospital, from drugs to central supplies, uses markup formulas to dictate how it will price an item. The hospital's formula calls for low-cost items to have a minimum charge of \$5.50; hence the final list price. Mr. Perry noted that the hospital has a mission of caring for the uninsured.

Every hospital uses a different set of formulas -- which is why the same 325 milligram Tylenol pill costs \$7.06 at Scripps. Overhead is built into the pricing of even simple items like Tylenol, Scripps's Mr. Van Gorder says.

At UC Davis, Mr. McGowan's pricing decision on acetaminophen was influenced by an Ann Landers column he read years ago. In it, someone complained about a hospital bill for aspirin. Anticipating the day someone would complain about the same thing at his hospital, he tinkered with his usual pricing formulas and set the price at \$1.

Mr. McGowan says there's a good reason his hospital charges much more for the tablets than a consumer would pay at a drugstore. "I suggest that you call the drugstore," he says, "and ask them to bring you one Tylenol delivered to your bedside by a registered nurse after you have a prescription from a doctor, along with a glass of water, and see what they charge."

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#### How Much Is That Chest X-Ray?

A new California law allows patients to look up the retail prices of many goods and services at hospitals. A survey of several hospital price lists shows dramatic differences in price.

SCRIPPS MEMORIAL LA JOLLA, San Diego  
Chest X-ray (two views, basic): \$120.90  
Complete blood count: \$47  
Comprehensive metabolic panel: \$196.60  
CT-scan, head/brain (without contrast): \$881.90  
Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,  
5-325  
mg: \$11.44

Tylenol\* (or acetaminophen) one tablet, 325 mg: \$7.06

SUTTER GENERAL, Sacramento

Chest X-ray (two views, basic): \$790

Complete blood count: \$234

Comprehensive metabolic panel: \$743

CT-scan, head/brain (without contrast): \$2,807

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,  
5-325

mg: \$26.79

Tylenol\* (or acetaminophen) one tablet, 325 mg: No charge

UC DAVIS, Sacramento

Chest X-ray (two views, basic): \$451.50

Complete blood count: \$166

Comprehensive metabolic panel: \$451\*\*

CT-scan, head/brain (without contrast): \$2,868

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,  
5-325

mg: \$15

Tylenol\* (or acetaminophen) one tablet, 325 mg: \$1

SAN FRANCISCO GENERAL, San Francisco

Chest X-ray (two views, basic): \$120

Complete blood count: \$50

Comprehensive metabolic panel: \$97

CT-scan, head/brain (without contrast): \$950

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,  
5-325

mg: \$6.68

Tylenol\* (or acetaminophen) one tablet, 325 mg: \$5.50

DOCTORS, Modesto

Chest X-ray (two views, basic): \$1,519

Complete blood count: \$547.30

Comprehensive metabolic panel: \$1,732.95

CT-scan, head/brain (without contrast): \$6,599

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,  
5-325

mg: \$35.50

Tylenol\* (or acetaminophen) one tablet, 325 mg: No charge

CEDARS-SINAI, Los Angeles

Chest X-ray (two views, basic): \$412.90

Complete blood count: \$165.80

Comprehensive metabolic panel: \$576

CT-scan, head/brain (without contrast): \$4,037.61

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,

5-325

mg: \$6.50

Tylenol\* (or acetaminophen) one tablet, 325 mg: 12 cents

WEST HILLS HOSPITAL, West Hills

Chest X-ray (two views, basic): \$396.77

Complete blood count: \$172.42

Comprehensive metabolic panel: \$387.18

CT-scan, head/brain (without contrast): \$2,474.95

Percocet\* (or Oxycodone hydrochloride and acetaminophen) one tablet,

5-325

mg: \$27.86

Tylenol\* (or acetaminophen) one tablet, 325 mg: \$3.28

\* Hospitals carry either generic version, name brand, or both

\*\* Represents the added total of 14 tests that make up the  
comprehensive  
metabolic panel

Sources: Scripps Memorial La Jolla; Sutter General; UC Davis Health  
System;

San Francisco General; Doctors Medical Center; Cedars-Sinai Health  
System;

West Hills Hospital and Medical Center

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