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HOW SMART PRICING TRANSFORMED A RURAL HOSPITAL'S REVENUE

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EXECUTIVE SUMMARY

Critical Access Hospitals (CAHs) operate under persistent financial pressures, thin operating margins, and increasing payer complexity. As reimbursement methodologies evolve, pricing strategies must evolve with them. This case study presents the outcomes of a Strategic Pricing Review conducted for a rural Wisconsin CAH following renegotiation of key managed care contracts. The hospital transitioned from percent-of-charge reimbursement models to fee schedule–based reimbursement, while maintaining a 3% annual chargemaster increase limit.

Two pricing scenarios were modeled: a traditional 3% across-the-board increase and a strategic 3% increase redistributing line-item adjustments while remaining within contractual limits. The strategic approach delivered $1.2M in net revenue—nearly three times the $421K generated by a uniform increase—demonstrating how targeted charge realignment and market-informed modeling can unlock significant financial opportunity.

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LEADERSHIP PERSPECTIVE

"This wasn't about raising prices—it was about aligning them. Correcting years of underpricing, while lowering areas above market, generated more than a million dollars of revenue within the same 3% limit we've always had."

– Chief Financial Officer, WI CAH

BACKGROUND

Rural hospitals face payer mix instability, heavy reliance on public payers, and limited commercial negotiating leverage. The Wisconsin CAH in this study shifted to fee schedule–based reimbursement with "lessor of" language, exposing long-standing pricing imbalances and limiting the hospital's ability to benefit from contracted rates. Leadership sought a strategy to realign charges without violating the 3% annual cap.

Years of applying uniform percentage increases caused underpricing in high-volume services and overpricing in common areas such as room rates and ED levels. New "lessor of" reimbursement further limited revenue when charges fell below payer fee schedules. Importantly, the 3% limit applied to aggregate price movement—not individual charge lines—allowing space for strategic redistribution.



01 METHODOLOGY

The analysis integrated fee schedules, hospital utilization, market benchmarks, and contract terms. Strategic adjustments increased underpriced items to fee schedule amounts while reducing overpriced services. The overall chargemaster movement was held to +3%.

02 FINDINGS

A traditional 3% increase produced $421,450 in net revenue. The strategic 3% redistribution model yielded $1,214,712, **producing a $793,262 improvement**. Key drivers included correcting underpricing, eliminating market outliers, improving reimbursement accuracy, and positioning the hospital more competitively.

03 DISCUSSION

Modern reimbursement demands modern pricing structures. Strategic pricing enables CAHs to align charges with fee schedules, minimize revenue leakage, improve transparency, and support payer relationships. It is a foundational component of long-term sustainability in an environment where pricing accuracy directly affects financial performance.

CONCLUSION

By redistributing increases and decreases while remaining within the contractual 3% limit, the Wisconsin CAH achieved nearly triple the financial return of a standard increase. Strategic pricing is essential for CAHs seeking to strengthen financial stability, enhance compliance, and ensure long-term viability. Contact us to learn how we can support your hospital.

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