Cold Iron Truth

The hospital outpatient facility may lose its secret sauce

BY BRETT M. COLDIRON

If it's happening in Cincinnati, it is happening everywhere. All the young doctors are being hired by hospital systems at better pay than private practices can afford. When I asked the CEO at one Cincinnati hospital about the trend, he explained: "We like to have referrals available for our primary care physicians." Sounds nice, but I don't believe it.

Hospital outpatient facilities have been reaping the benefits of site-of-service differential payments for years. Under the current Centers for Medicare & Medicaid Services payment scales, identical services are reimbursed at extraordinarily higher rates – differentials amounting to, on average, approximately 360% of Medicare's payment for the same mix of services when they are performed in a physician's office – if they are delivered at off-campus hospital outpatient departments rather than independent doctors' offices. Technically, these outpatient departments can be an office that has been bought by the hospital and proximity is not an issue. Many off-campus hospital outpatient departments in my area are as far away as 35 miles, some in strip malls no less!

That situation may soon change, though. The CMS has proposed eliminating the site-of-service differentials for hospital outpatient services. The proposal is being aggressively opposed by hospital lobbyists and has even inspired lawsuits because it would blow the lid off the extraordinary payment differential available to hospital outpatient departments ("Proposed site-neutral payment policy sets the stage for battle royale between CMS, hospitals," Modern Healthcare, July 26, 2018).

It's a change that's long overdue.

In the period from 2001 to 2017, Medicare Part B payments to physicians increased only 6%, while Medicare's index of inflation measuring the cost of running a medical practice increased 30%.

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After adjustment for inflation in practice costs, physician pay has declined 19%, thus failing to match increases in office overhead costs. In that same 17-year period, Medicare hospital payments increased roughly 50%, including average annual increases of 2.6% for inpatient services and 2.5% per year for outpatient services. Hospitals have thus received payment increases more than eightfold greater than payment adjustments to physicians in the period from 2001 to 2017!

I think we have found the secret sauce!

Obviously, some of this largesse was spread over the recruiting of physicians, buying offices, and creating secret sauce clinics. Hospital purchases of private offices and physician employment at hospitals soared to nearly 33%.

But much went to the hospital's bottom line.

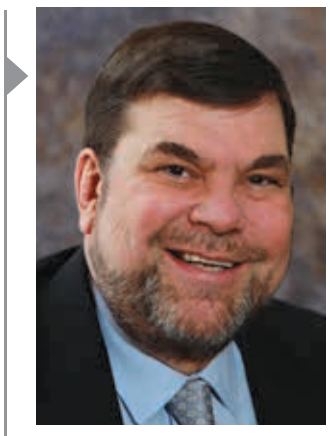
Hospitals have enjoyed 28 annual year-over-year increases in payments for services rendered in hospital outpatient facilities.

Many of these hospital systems claim to make no extra money using the hospital outpatient system. If so, eliminating the site-of-service differential will not affect them. We will see.

I think the elimination of the site-of-service differential will have profound impacts on office medicine. While the American Medical Association is asking that the savings (several billion over 10 years) be funneled back into the office setting to correct past underpayments, just the correction of the distortion will benefit office practice. The recruitment of new physicians by hospitals, and the practice-buying binge, appear to have subsided. Expect many of these satellites to close, and their employed physicians, young and old, to be coming back into the job market. Expect Medicare beneficiaries to pay lower copays and deductibles.

Corrections of distortions like the site-of-service differential empower patients and independent physicians. Thank the AMA for exposing the unfairness and allowing the CMS to act. You may not know it, but the American Medical Association puts together a tremendous – some would say overwhelming – amount of research together on topics of importance to physicians. Some of this is fascinating. I direct you to the AMA's Report 4 of the Council on Medical Service (I-18)

This report lays it all out, and explains what has happened. ■



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