

### The "Managed Care Penalty"

On New Year's Day, *The Arizona Republic* published an article by Laurie Roberts entitled, "Hospitals continue to pad patients' bills because they can." Ms. Roberts reports on the plight of various patients forced to pay inflated prices for a \$57 hospital gown, a \$28 toothbrush, the \$61 IV needle, and a \$265 gelatin sponge! She has been informed, she reports, that these outlandish examples reflect "the cost of technology, lawsuits, uninsured patients, and staffing a hospital around the clock." This reporter goes on to correctly note that, "every major provider in the Valley added beds in 2004, and several new hospitals are coming." Indeed, I have been told that there are over **one billion dollars** in new hospital construction underway in Maricopa County at the present time. Ms. Roberts correctly notes that, "Somebody must be making money."

As physicians we know the answer to that inquiry. As the cost of health care increases the profits of insurers, hospitals, lawyers, and the pharmaceutical industry continue to grow yet the direct providers of the care to the patients detailed in Laurie's article do not participate in that growth. The provider portion of the health care dollar continues to shrink. It has been said that physician's fees represent less 1% of the cost of care, a number that can no longer be accurate as reimbursement decreases further. The reason the uninsured, underinsured, and those who will pay directly for the care they receive at a hospital is "padded" is called cost shifting. It's the hospital's way of trying to extort as much money as possible from those patients not covered under a managed care contract for which the hospital drastically discounted their charges to garner a volume of business from that health plan. The hospital can inflate the charge to compensate for the contracted care they provide and there's where the billion dollars of construction are hidden. The patients in Ms. Roberts' article paying the "managed care penalty," the same penalty that physicians in Maricopa County pay every day.

The emergency room is the hospital's money machine. Hospital administrators have pointed out that a great number of elective hospital procedures are "loss leaders" but once the patient hits the emergency room the till begins to fill. At a West Valley hospital for example, a major construction project is underway. There's little space for doctors or patients to park due to the disruption this work has caused. The dust, mud, and noise are a daily nuisance. There are however, at least three billboard size banners proclaiming "Emergency Room Open." It is only in the emergency room portal where there's hope of extracting "billed charges" not "contracted rate" from those who present for care at the time of greatest need.

The concept that "billed charges" represent appropriate reimbursement further confuses the tort reform issue. When a lawyer prepares a demand for settlement and calculates the cost of care for the plaintiff the 'real world' is left behind. That calculation is always based not on what CIGNA, Blue Cross, Humana, or Pacific Care will pay but on a fee schedule that hasn't been seen in over two decades! This is a major component of the outlandish awards that are pushing medical liability premiums out of the reach of many of us. When was the last time a managed care representative came to your office and used your "billed charges" as a point with which to begin a discussion of a provider contract? Why would any hospital hesitate to pay stipends to specialists that are willing to be on call to their emergency rooms 24 hrs. a day so that the needs of the emergent patients can be addressed? After all, the hospital expects to receive "billed charges" in a high percentage of cases (especially if there's third party litigation involved, i.e. an

accident victim) and the physician is lucky to get the managed care rate if he or she gets paid at all.

The "playing field" is not level. The lawyers and hospitals use theoretical, actuarially inflated numbers which have no basis in reality yet the people who do the caring, and those for whom they care, are firmly planted in the very real world of medical economics. Ms. Roberts is quite correct when referring to this system as "fractured." It's the physician and patients that pay the "managed care penalty" while others reap the profits of the ever-spiraling inflation in health care spending.

See you next month,

**Marc J. Rosen, M.D.**  
**President**