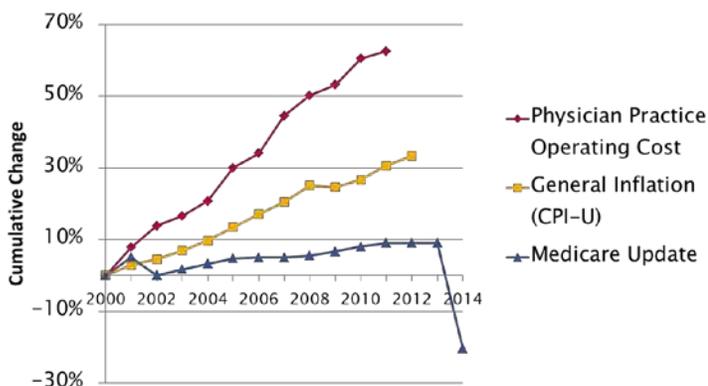


# Physician Charges Do Have Meaning

When health plans or business say “physician charges are exorbitant,” it may seem so if the health plan is comparing them to what Medicare or Medicaid actually pays versus the amount a physician actually bills to those programs. This is an “apples to oranges” comparison. Again, those are government program payments, and they are politically derived budget-neutral fees. They don’t have a bearing on what is going on in the private market and have not kept up with inflation or costs. Physicians fight that battle every year in Congress to make sure that the cuts to the Medicare fee schedule are not draconian. If Congress had not acted to prevent the close to 30-percent reduction in fees, physicians who participate in Medicare would have gone over their own personal fiscal cliff in 2013 as illustrated below by the Medicare update trend line.

## Trends in Practice Expense – From 2000



Sources: Percent change from 2000 calculated from median multispecialty (not hospital or IDS-owned) practice cost reported in annual MGMA Cost Reports, from the Consumer Price Index – All Urban Consumers published by the U. S Dept of Labor and from the update factors applied to the Medicare physician fee schedule by the U.S. Dept. of Health and Human Services, Center for Medicare and Medicaid Services.

Regardless of whether the physician is an office-based physician or a facility-based physician, the charge is critically important in the processing of every claim. In every case, the charge is the service price, unless a specific discount applies, and even when a discount is used, it is usually based on the charge in one of the following ways:

**Lesser of allowed or actual amounts** — In most health plan networks, the contract amount physicians agree to provides that they will be paid a contracted amount that is the lower of the plan allowable or the billed amount (charge) that is filed on the claim. Government programs that pay the lesser of the allowed or actual amount include Medicaid and Medicare. The Texas workers’ compensation system also pays the lesser of allowed or actual amounts.

**Percent of standard charge** — Some health plan contracts and commercial discount programs specify that their allowed payment is equal to a set percentage of the physician’s charge. Some discounts offered directly by providers are also calculated on this basis.

**No discount** — Patients sometimes purchase services for themselves under many different circumstances. Sometimes they are uninsured, or they are using services that their insurance will not cover. In other cases, they must pay for the services but will later be paid in whole or in part. In all of these cases, the standard charge applies unless some specific discount applies.

## Physicians are Employers and Businessmen, too

Just like any other business, physician practices must consider all of their costs when determining their prices/charges. Fees must be adequate to cover all operating costs and to provide an allowance for losses on charity care and bad debt, including nonpayment and underpayment by insurers. Some of the relevant cost categories are salaries, overhead and payer mix.

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## Salaries

- On average, a physician practice that accepts insurance payment has *five* nonphysician employees to support the services of every physician.
- On the administrative side, physicians must pay salaries for employees who do all the necessary office tasks, i.e., scheduling/billing, filing claims, making appointments, getting authorizations, working payroll, and reconciling accounts, to name just a few, in order to keep the office up and running.
- On the health care side, physicians must pay salaries for licensed professional employees who are nurses, physician assistants, and in some cases, lab and x-ray technicians. In addition, in order to attract good physician partners to their group to take care of their community, recruitment fees are paid to recruiting companies.
- To keep employee turnover low, as businessmen, physicians need to pay their employees well, and provide insurance if they can. Since much of what physicians do falls under government regulation and is scrutinized at many levels, physicians need stable office staff that don't come and go often and who they can depend on to navigate the confusing regulations applicable to physicians.
- To keep up with all the various insurer requirements for payment (i.e., eligibility, authorization, submission of claims), physicians need to employ savvy and astute office staff. Their staff must keep abreast of all the various insurer requirements and state and federal laws physicians need to meet to get claims submitted, paid, or in some cases, appealed within the required timeframes.

## Practice Overhead

- Physicians pay for utilities (electricity, gas, water), and for upgrades to meet building code requirements, i.e., handicap access and parking.
- Physicians buy equipment and supplies for the treatment rooms, and stock and maintain vaccines and certain drugs that insurers at times won't cover or even pay the cost for physicians to provide the drugs to their patients.
- Physicians buy office equipment such as computers and software and implement electronic health records to keep the billing office working smoothly.
- Physicians pay rent/ mortgage for their office space, as well as property and business taxes when applicable.

## Payer Mix (last but certainly not least)

Unlike other businesses, physicians don't always get to select who they will provide services to, especially when on call for the hospital or work in the emergency room. Nor do they always get to decide what their payment will be. In some cases, there will not be any payment at all for their services. No other business in the marketplace has a dependency on a third-party payer for payment to the extent physicians do. Most businesses can go directly to the customer, client, or vendor for payment for the services provided. When determining their charges, physicians have to consider:

- Payer mix — this term is unique to health care. Depending on a physician's payor mix: government programs versus self-pay versus commercial — these payer mix ratios have a major impact on what his or her charges would be. The payer mix drives how the physician negotiates contract rates with the commercial payers, especially if the majority of his or her patients are covered by government payers and workers' compensation, which have fixed non-negotiable payment schedules. A physician whose patient base and practice is primarily Medicare and Medicaid will have to set his or her charges accordingly, especially since these are two programs whose payments have not kept up with inflation.
- A physician's charge for a service applies to every payer, no matter if it is a commercial payer, government payer, or a self-pay patient. What varies significantly is what the physician actually receives as payment in return for his or her services. A physician may bill \$XX for an office visit, but be paid anywhere from \$Y to \$YY depending on the payer. That payment may be based on a contract or a set government program fee schedule. Unfortunately, Medicaid and Medicare payments do not even cover the physician's cost. Oftentimes it costs the physician money to see patients covered by government programs.



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