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PROGNOSIS: PROFITS

Prices soar as hospitals dominate cancer market

By Ames Alexander, Karen Garloch and Joseph Neff

Large nonprofit hospitals in North Carolina are dramatically inflating prices on chemotherapy drugs at a time when they are cornering more of the market on cancer care, an investigation by the Observer and The News & Observer of Raleigh has found.

The newspapers found hospitals are routinely marking up prices on cancer drugs by two to 10 times over cost. Some markups are far higher.

It's happening as hospitals increasingly buy the practices of independent oncologists, then charge more - sometimes much more - for the same chemotherapy in the same office.

Asked about the findings, hospital officials said they are relying on a longtime practice of charging more for some services to make up for losses in others. Hospitals have a name for this: cost-shifting.

"The drug itself may just be the vehicle for charging for the services that are provided (elsewhere)," said Joe Piemont, president of Carolinas HealthCare System, the $7 billion chain that owns many of the region's hospitals. "We make literally thousands of trades to have it balance."

The rising price of cancer treatment has financially devastated many families, while driving up insurance costs and causing some patients to put off needed treatments.

"If you have enough money or good enough insurance, it may not be an issue for you," said Donna Hopkins, CEO of Dynamic Medical Solutions, a company that audits medical bills. "If you're somebody who doesn't have that, it can be a death sentence."

After examining some chemotherapy bills collected by the Observer, Hopkins called the markups "outrageous."

Some of the largest markups are made by nonprofit hospital chains that generate millions of dollars of profit each year and have billions in reserves.

It's a mystery to the public how hospitals set their charges. But the newspapers obtained and analyzed a private database with information on more than 5,000 chemotherapy claims to get insight into pricing for cancer patients, a group that faces some of the nation's highest medical bills.

The drug data, along with scores of interviews, help explain why hospitals have become so expensive - and why health care spending now makes up 18 percent of the national economy.

Among the markups found:

• Levine Cancer Institute, owned by Charlotte-based Carolinas HealthCare, this year collected nearly $4,500 for a 240-milligram dose of irinotecan, a drug used to treat people with colon or rectal cancer. The average sales price for that amount of the drug: less than $60.

• Carolinas Medical Center-NorthEast in Concord was paid about $19,000 for a one-gram dose of rituximab, used to treat lymphoma and leukemia. That was roughly three times the average sales price.

• Forsyth Medical Center in Winston-Salem, owned by Novant Health, collected about $680 for 50 milligrams of cisplatin. The markup: more than 50 times the average sales price.

Such markups are hidden from patients.

Charlotte native Chuck Moore, the patient in the Forsyth case, got nine weeks of chemotherapy for cancer at the base of his tongue in 2008 and 2009. Though he had good health insurance, he still paid about $15,000.

When a reporter told him the average sales price of the drugs he'd received, he questioned the hospital's charges.

"I've never had a business where I could get a markup like that," said Moore, an assembly plant supervisor now living near Atlanta. "It seems almost predatory."

Costlier, not better?

Until recently, those who needed chemotherapy had more alternatives. They could go to the offices of oncologists who weren't employed by hospitals.

Increasingly, however, private oncologists are under financial pressure to sell their businesses to hospitals. When they do, hospitals often charge more.

In a review of claims for seven cancer drugs, the newspapers found that charges for all but one drug were significantly higher at hospitals and hospital-owned clinics - usually more than 45 percent higher.

Levine Cancer Institute, for instance, charges about $106 for each unit of Aloxi, the anti-nausea drug. But at Carolina Oncology Specialists, an independent clinic in Hickory, the charge is just $50.

Insurers have found similar patterns.

At the newspapers' request, Blue Cross and Blue Shield of North Carolina, the state's largest health insurer, examined data from thousands of 2011 chemotherapy claims and found that hospital-owned facilities in the state tend to be paid 50 to 150 percent more for cancer drugs than independent oncologists.

A recent study by Avalere Health, a consulting firm, found similar disparities nationally. Chemotherapy costs 24 percent more in an outpatient hospital setting than in a doctor's office, the study concluded.

Dr. Ira Klein, assistant to the chief medical officer at Aetna insurance company, said he believes the acquisitions of oncology practices by hospitals have increased costs without improving the quality of care.

"We're essentially enriching people and getting nothing for it," he said. "And there are higher premiums every year."

Shifting the costs

Hospital officials defend their pricing.

Unlike many independent clinics, they say, hospitals suffer losses from treating patients without insurance and patients covered by Medicaid, the government program for the poor and disabled. Some independent oncologists acknowledge that they often refer such patients to hospitals.

Hospital officials say they provide counseling and many other cancer services that insurers don't cover.

Officials for Carolinas HealthCare and Novant, which runs four Mecklenburg County hospitals, emphasize that they provide free care to many financially needy cancer patients.

Carolinas Medical Center spent about 5.5 percent of its budget on charity care in 2010. Presbyterian Hospital spent about 5 percent.

Piemont, of Carolinas HealthCare, said charges for chemotherapy drugs may be used to cover costs of other money-losing services, such as the emergency department, which treats a high number of uninsured patients.

"We cannot be compared to (an independent doctor) who can just overtly select who they see," Piemont said. "We take everybody. That requires cost-shifting that is so emblematic of this industry."

Novant spokeswoman Kati Everett pointed to shortcomings in the Avalere study, noting that hospital patients tend to be sicker than those treated in doctors' offices. Comparing prices at hospitals versus doctor's offices doesn't provide an accurate picture, she argued.

Like most hospitals, those owned by Carolinas HealthCare and Novant are nonprofits, a designation that provides them substantial tax breaks. In exchange, they are expected to provide charity care and other benefits to their communities.

Hospitals will likely face fewer unpaid bills under the federal Affordable Care Act. That's because the law, scheduled to become fully effective in 2014, requires millions of people to buy health insurance. At the same time, hospitals will likely face cuts in government reimbursement for care.

Neither hospital system answered questions about how much they've spent on chemotherapy drugs in recent years, and how much revenue those drugs generated.

But Everett said Novant lost money on outpatient chemotherapy infusion last year.

Vulnerable patients

It's understandable why many cancer drugs don't come cheap, according to those who make and administer them. Drug companies must cover research and development costs. Hospitals have to cover overhead.

The N.C. Hospital Association said the costs of handling and preparing cancer drugs "far exceed those required for most other medications."

"Medicines that treat cancer are toxic, dangerous chemicals that demand the highest levels of trained personnel, specialized equipment and facilities," the association said.

But community oncologists say they use the same toxic drugs in their practices at a much lower price.

And some experts contend that hospitals don't need to inflate prices so dramatically.

Gerard Anderson, who heads the Johns Hopkins Center for Hospital Finance, thinks hospitals mark up charges on cancer drugs more than most other drugs and supplies. One reason, he suspects, is that patients are "not inclined to do comparison shopping in a life-or-death situation."

In at least two ways, size has given hospitals a financial edge.

An Observer investigation in April showed how hospital consolidation has led to higher prices. When hospitals merge into large systems, they gain leverage to negotiate higher payments from private insurers.

While insurers might be willing to exclude a small clinic from their networks, they are loath to lose the hospital chains that have come to dominate many markets.

That has helped some North Carolina hospital chains evolve into profitable, fast-growing giants. At Carolinas HealthCare, the nation's second-largest public hospital system, the average annual profit has exceeded $300 million over the past three years. The chain has built up more than $2 billion in investments and owns more than $1 billion in property.

Novant had about $1.6 billion in cash and investments in 2010 - a threefold increase over the decade.

A positive for patients is that such profits have improved access to quality health care. With the creation of Levine Cancer Institute in 2010, Carolinas HealthCare has recruited specialists from respected institutions such as the Cleveland Clinic and M.D. Anderson Cancer Center in Houston.

Size gives hospitals another advantage, allowing them to save money when they purchase drugs in bulk.

And more than 40 North Carolina hospitals - including Carolinas Medical Center and Presbyterian Hospital - are able to obtain deep discounts on outpatient drugs under the federal 340B program, which requires drug manufacturers to provide price breaks to hospitals that treat large numbers of financially needy patients.

Although Congress set up the program to offset the cost of treating Medicaid patients, hospitals can buy discounted drugs for all outpatients, including those with private insurance.

"There is no requirement to pass the savings on to patients, and they don't," said Dr. John Peterson, who practiced as a private oncologist in Sanford for 18 years before moving to Dartmouth College last year. "These hospitals are driving out the private practices, and they're becoming the Wal-Mart of health care, squashing the competition, but without the low prices."

Costs can jeopardize lives

Cancer costs more per patient, on average, than any other medical condition.

In North Carolina, Blue Cross and Blue Shield said the cost of cancer drugs for members younger than 65 rose from $178 million in 2009 to $211 million last year.

New drugs have given hope to many cancer pa-

tients. But some of those drugs come with annual price tags that rival those of a small home.

Treating a cancer patient with Avastin, for instance, costs about $90,000 a year, doctors say.

Much of the bill is picked up by employers and their workers, who pay ever-increasing sums for insurance and other costs.

But no one feels the financial pain more than patients. In a 2010 survey commissioned by the American Cancer Society, 21 percent of people younger than 65 undergoing cancer treatment said they had used up all or most of their savings. And 19 percent said they or their family members had put off getting a recommended cancer test or treatment because of cost.

Dr. Otis Brawley, the society's chief medical officer, has seen the consequences.

When Brawley headed the cancer center at Emory University in Atlanta from 2001 to 2007, he regularly treated patients who waited too long to get treatment - often because of financial concerns.

"Many folks put off managing their problems until it's so, so bad, they have to come into the emergency room," he said.

Too often, Brawley said, such delays cost patients their lives. Patients who initially suffered from treatable colon cancer, for instance, sometimes delayed seeking treatment until the malignancy spread to the liver and became incurable.

Doctors in North Carolina see some patients making similar choices.

"A lot of patients are forgoing care," said Dr. David Eagle, of Huntersville, who is president of the Community Oncology Alliance, a national nonprofit group dedicated to community cancer care.

Marge Beazley, who manages an oncology practice in Western North Carolina, said some underinsured patients wind up with more than $50,000 in annual out-of-pocket expenses. Others, she said, choose not to be treated because of the cost.

"Those are the ones that break your heart," she said.

'Oh my God'

When Carol Fleming of Huntersville was diagnosed with breast cancer in 2008, her husband's job in Saudi Arabia provided health insurance.

But he died of leukemia in 2010. Ten days later, her insurance was canceled. Within a month, the bills for her chemotherapy and related services had topped $65,000.

She recalls opening her first bill and saying: "Oh my God. Oh my God."

"I remember thinking, 'I'm in the middle of my battle. How many more treatments am I going to need?' I was petrified."

Presbyterian Huntersville provided excellent care, along with help with some of her bills, said Fleming, a former CIA agent. She exhausted her savings paying some of the rest.

Now she's living in a small apartment, dependent on government assistance. It's a far cry from her life in Saudi Arabia, when she lived in a six-bedroom house with marble floors.

"This has happened to me," she said. "It can happen to anybody."

Database editor David Raynor contributed.