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PROGNOSIS: PROFITS

As doctors flock to hospitals,bills spike

By Ames Alexander, Karen Garloch and David Raynor

North Carolina patients are likely to pay more for routine health care if their doctors are employed by a hospital, an investigation by the Observer and The News & Observer of Raleigh has found.

It's true for services ranging from heart tests to routine office visits. And it's part of a national shift that experts say is raising costs but not quality.

Hospitals are increasingly buying doctors' practices, then sending bills for routine services that are significantly higher than those charged by independent doctors.

By one count, the percentage of U.S. doctors employed by hospitals has doubled over the past decade. In Mecklenburg County, more than half of all physicians are employed by hospitals.

As a result, the cost of many routine medical tests and services has soared, according to an analysis of Medicare data and insurance claims.

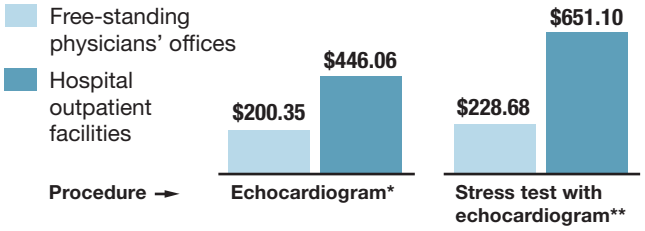
The same service performed in the same location by the same doctor can cost more than double what it did before the hospital acquired the practice.

"Prices are increasing often for no other reason than the sign on the door changed," said Robert Zirkelbach, spokesman for America's Health Insurance Plans, a trade group representing the insurance industry.

Here's why: For many routine services, insurers pay hospitals more than independent doctors. Under Medicare rules, hospitals are allowed to collect more than doctors - and that means the out-of-pocket share for Medicare patients also is larger.

Same test, different price

Some routine cardiac tests, including echocardiograms, cost more than twice as much in hospital-owned clinics as in independent cardiology offices. The following figures show the current Medicare payments to free-standing physicians' offices and hospital-owned outpatient facilities in the Charlotte area.



Notes: Echocardiograms are tests that use ultrasound to create a moving picture of the heart. The figures above include both the professional fee to the doctor and the technical fee for the test itself.

*Reflects figures for CPT code 93306, the most common type of echocardiogram

**Reflects figures for CPT code 93351, an echocardiogram performed during a stress test to determine the effects of stress on the heart.

Source: Medicare payment schedules

AMES ALEXANDER – RESEARCH DAVID PUCKETT – STAFF GRAPHIC

The shift also has affected those covered by private insurance. That's because hospitals wield far more market power than independent doctors, which allows them to negotiate higher payments from insurance companies.

Hospital officials contend they deserve to be paid more because they have expenses and obligations not shared by independent physicians. They must comply with more regulations, keep many departments staffed at all times and treat all patients, regardless of ability to pay.

Experts agree that hospitals should be reimbursed for the extra services they provide.

But there's a limit, said Robert Berenson, an analyst at the Urban Institute's Health Policy Center. Hospitals get about 80 percent more Medicare revenue than independent doctors for many routine services, he said. But the additional expenses for a hospital don't justify that kind of payment difference, he said.

The latest findings underscore the lessons of a previous Observer investigation, which found that hospital consolidation is contributing to the rising cost of health care.

Many large North Carolina hospitals are quite profitable, despite their status as nonprofits, the newspapers reported in April. Those hospitals pay top executives millions and have amassed billions in reserves, even as they have pursued some poor and uninsured patients with lawsuits and collection agencies.

Now some officials are questioning whether hospital systems have grown too big. Among them is N.C. Attorney General Roy Cooper, who is examining whether to use antitrust laws or push for new legislation to reduce health care costs.

In the meantime, experts say, it's likely that hospitals will continue to buy doctors' practices.

"It's only going to grow, and it's going to grow substantially," said Paul Ginsburg, president of the Center for Studying Health System Change. " ... It raises the amount people pay. And I don't think there's a redeeming benefit to it."

'Fell into their web'

Gay Miller thought she knew what to expect when she received a heart test earlier this year - until she got the bill.

Following a heart valve replacement eight years ago, she has been getting periodic echocardiograms at her cardiologist's office in Shelby to ensure the valves still work properly. Under her insurance plan, the tests used to cost her a $60 co-pay.

This year, during Miller's checkup at the Sanger Heart & Vascular Institute in February, her doctor told her she would need to go to nearby Cleveland Regional Medical Center for her echocardiogram.

At the hospital, Miller received the usual 30-minute test. And the usual technician conducted it.

But there was nothing typical about the bill: Miller wound up owing $952.

"I was just shocked," Miller said. "... I feel like I got taken advantage of."

Across North Carolina and the U.S., hospitals are increasingly billing for heart tests. Experts say the higher bills illustrate the structural shift that has left patients paying more for identical procedures.

In 2005, doctors with Sanger - Charlotte's oldest and largest group of cardiologists and heart surgeons - became employees of Carolinas HealthCare System, the massive hospital system that runs Cleveland Regional.

At the time, officials said Sanger patients wouldn't notice any difference. Now, however, some Sanger patients who need echocardiograms are diverted to higher-charging hospitals.

Miller's insurance plan won't cover hospital outpatient tests and procedures until she pays her $3,500 annual deductible.

"It's like we were hoodwinked and fell into their web," said Miller's husband, John, who owns a trucking company. "...Something is not right."

Officials for Carolinas HealthCare did not specifically address questions about the case. But the system said Sanger has been nationally recognized "for cost-effectiveness and delivering the most appropriate care to each patient."

A former Sanger cardiologist, however, said he felt moving such tests to hospitals would not improve the quality.

"It has everything to do with money," said the doctor, who asked not to be named. " ... It's a constant game you play with insurance companies."

A similar change happened in 2010, when Asheville Cardiology Associates, the largest cardiology practice in Western North Carolina, merged with Mission Hospital. Subsequently, Mission began billing at the higher hospital outpatient rates for echocardiograms and MRIs done at those offices.

Charlotte's second-largest cardiology group, Mid Carolina Cardiology, is also hospital owned. In 2007, its doctors became employees of Novant Health, which owns four Presbyterian hospitals in Mecklenburg County.

Mid Carolina continues to provide echocardiograms and other diagnostic tests in its offices, at the physician rate, not the hospital rate, Novant spokeswoman Kati Everett said. All but about three percent of the physician practices owned by Novant charge at the lower rate, she said.

Trend brings higher prices

Until recently, the large majority of physicians worked in doctor-owned practices. But that's swiftly changing.

Last year, 47 percent of U.S. physicians were employed by hospitals - roughly twice the percentage in 2002, according to surveys by the Medical Group Management Association.

One health care recruiting company predicts that hospitals could employ as many as 75 percent of U.S. doctors within two years.

The irony, some doctors say, is that federal efforts to reduce health care costs have helped drive the trend.

In 2010, Medicare reduced payments to physicians for various cardiology tests while raising payments to hospitals. That prompted many independent doctors to sell to hospitals, which could collect significantly more for the same tests.

In Mecklenburg, about 90 percent of the more than 100 cardiologists are employed by hospital systems.

Dr. Daniel Wise, a former Novant cardiologist who now has a Charlotte private practice, said cuts in reimbursement have gone too far, especially for doctors trying to remain independent. He said cardiologists' incomes have declined by 30 percent to 40 percent in the past three years.

Wise left Novant in 2008, but said, "If I had foreseen where things were going, I would not have done it."

When hospitals try to increase reimbursement by moving tests from the office to the hospital, it's not about improving quality, Wise said. "It's a volume-driven thing. If you stuff more people into the hospital system, and you try to do it with less (technicians) to keep your costs down, ... it's got the potential of driving it in the other direction."

Many doctors have been unhappy about the trend. In a recent survey, 75 percent of North Carolina doctors said they disagreed "somewhat" or "mostly" with the premise that hospital employment of physicians is a "positive trend likely to enhance quality of care and decrease cost."

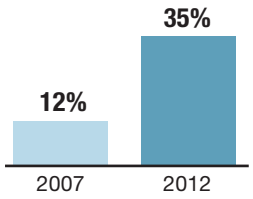
While compensation helps explain why many doctors have opted to join hospitals, other factors play a role. By joining hospital systems, many overworked physicians get shorter work weeks and share on-call duties. Hospitals also take over complicated back-office functions such as billing, negotiating with insurance companies and managing the expensive transition to electronic medical records.

Hospitals have plenty to gain as well. Buying doctors' practices helps hospitals enlarge their referral networks and boost profitability. Now, however, many experts say the trend is boosting the already high price of health care.

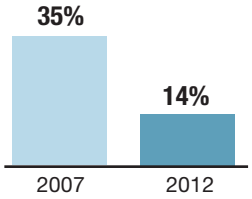
"This is really a historic change in the practice of medicine in the U.S.," said Dr. William Zoghbi, president of the American College of Cardiology. "... It's more costly to the whole health care system, including patients."

N.C cardiologists join hospitals

In North Carolina, the percentage of cardiologists employed by hospitals has soared in recent years...



...while the percentage employed by freestanding physicians' offices has plummeted.



NOTE: The remaining cardiologists are employed by medical schools, universities and government agencies.

SOURCE: Surveys conducted by the American College of Cardiology.

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DAVID PUCKETT – STAFF GRAPHIC

Bill changes; service doesn't

Gary Ziomek can vouch for that. The Waxhaw resident began getting physical therapy in 2011, after undergoing an unsuccessful spinal fusion surgery. He went to a therapist at Carolinas Rehabilitation on the campus of Carolinas Medical Center-Pineville hospital.

Early this year, his bill was $148 for 30 minutes of massage. But starting in May, the charge for a 30-minute massage rose sharply, to $249.30 - even though he got the same therapy from the same therapist in the same building.

Ziomek said an employee told him the higher charge came about because the office, which is owned by Carolinas HealthCare, began billing as a hospital-based setting. He said he was told that patients could go to the Ballantyne office and pay the lower amount.

Ziomek's Aetna insurance reimburses differently based on where a service is rendered. For an office visit, Ziomek was responsible for a $20 co-pay, no matter if he had met his $250 deductible. For a hospital visit, he pays 10 percent of the bill after paying the $250 deductible.

In this case, Ziomek's out-of-pocket expense dropped, because he had already met his deductible for the year. But he's concerned that the overall cost went up, with no change in service or quality.

Doctors flock to hospitals

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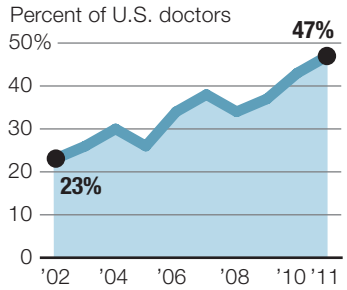

Source: Medical Group Management Association survey

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DAVID PUCKETT – STAFF CHART

"Somewhere along the line, they realized, 'We can charge more to the insurance company even though the patient is getting exactly the same service,'" said Ziomek, 70, a retired investment banker. "They could have kept the lower rate, but they chose not to. Why? Because of greed."

Margie Maxwell, president of Aetna's Southeast market, which includes the Carolinas, agreed to review Ziomek's bills at the Observer's request. She said company officials have seen more bills for services at the higher hospital rate.

"The result is an increase in costs to Aetna and our customers without providing more or better services to the patient," she said. "We will be reaching out to the hospital to find out what is driving this change and how together we can reduce the cost ..."

Carolinas HealthCare didn't respond specifically to questions about Ziomek's case.

But the hospital system said only about 20 percent of the more than 400 physician practices it owns are considered "hospital-based" - allowing them to bill Medicare at hospital rates.

"Those that are hospital-based are clinically integrated with a CHS hospital, which allows for improved access, quality and coordination of care for our patients," the system said in a statement. "Furthermore, hospital-based practices are held to higher regulatory and quality standards than private practices which therefore may result in higher costs."

However, private doctors' practices bought by big hospital systems don't have to be "hospital-based" in order to benefit. When it comes to billing private insurance companies, ordinary practices owned by a large hospital system like Carolinas HealthCare have a clear advantage, experts say. That's because they're able to use the system's negotiating clout to get higher-than-average payments from commercial insurers.

Carolinas Healthcare defends its pricing, saying it does not take a "one-size-fits-all" approach to billing. "We work hard to achieve greater value and better care for our patients if these higher charges do occur," the statement said.

Is cost bump justifiable?

For many tests and services, the difference between what hospitals and independent physicians can collect is vast.

Hospitals, for instance, can get about 80 percent more from Medicare than independent physicians for a 15-minute office visit - and more than twice as much for many cardiac tests.

Private insurers also typically pay hospitals more. For a common outpatient echocardiogram in 2012, Carolinas Medical Center was paid about $1,200 by one private health plan. The same data showed an independent cardiologist in Charlotte was paid less than half that much.

The employers and workers who share costs for health insurance wind up footing much of the bill.

Patients, meanwhile, are left with higher out-of-pocket costs.

Hospital officials say there are valid reasons they can collect more. They say they're obligated to serve all patients, regardless of ability to pay, while independent doctors can be more selective about which patients they treat. "Provider-based services are also under state and federal regulatory oversight, while free-standing physicians and clinics are not," the N.C. Hospital Association wrote.

The association stresses that its members are merely following Medicare rules. Doctors' practices owned by hospitals are generally allowed to bill Medicare at the higher outpatient rates if they are within 35 miles of the hospital campus and integrate their operations with the hospital.

But some experts and insurers question whether that's reason enough for patients and taxpayers to pay dramatically higher prices. Said Aetna's Maxwell: "There is no logic and there is no reason to allow a higher payment because it has now become a hospital billing. ... It should not be happening."

Staff Writer Hilary Trenda and News & Observer Staff Writer Joseph Neff contributed.