

Changes in
**HEALTH CARE
FINANCING &
ORGANIZATION**

When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

November 13, 2002
Washington, DC



AcademyHealth

These materials were commissioned by the Robert Wood Johnson Foundation for use at the invitational meeting *When Public Payment Declines Does Cost-Shifting Occur? Hospital and Physician Responses* and to stimulate discussion and understanding of the hospital and physician responses to reductions in public payment. In the event that the Foundation and the authors intend to submit these commissioned materials or revisions thereto for publication, we request that the materials not be cited or circulated without the permission of AcademyHealth.

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**WHEN PUBLIC PAYMENT
DECLINES, DOES COST-
SHIFTING OCCUR?**

**HOSPITAL AND
PHYSICIAN RESPONSES**

November 13, 2002

Donald W. Fisher, Ph.D.

President and CEO

dfisher@amga.org



Medical Groups Greatest Challenges

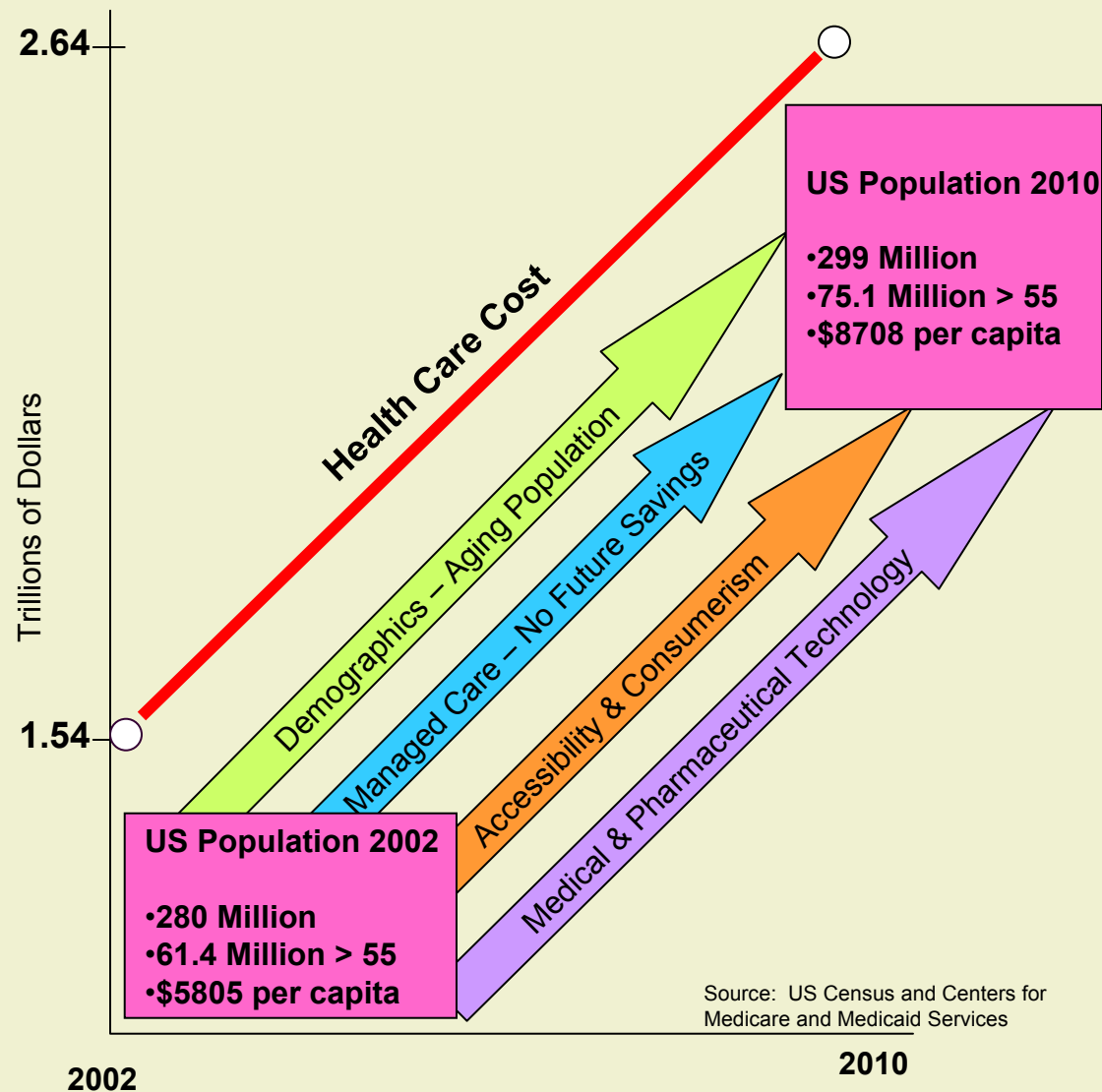
- **Surviving in a Dysfunctional Health Care Delivery System**
 - **Adequate Payment and Relationship with Payers/Employers**
 - **Unintended Cost and Burden of Laws and Regulations**
 - **Patient Physician Relationship**
 - **Professional Liability Insurance Cost and Coverage**
- **Need To Be Prepared for Acts of Bioterrorism**
- **Having Benchmarks and Evidence Based Medicine for Accountability**

Medical Groups Recent Challenges

Decline of stock market has resulted in:

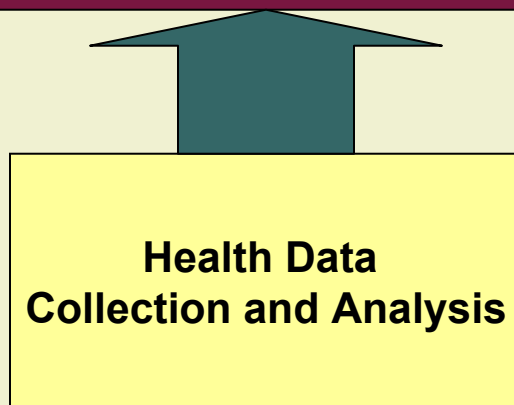
- **Huge pressures on pension fund obligations**
- **Losses in endowment funds and other non-operational funds**
- **Lower bond ratings**

The National Health Care Cost Dilemma



HOW WILL COSTS BE "CONTROLLED"

- Evidence Based Practice
- Chronic Disease Mgt
- Effectiveness Analysis
- Outcomes Analysis
- Cost/Quality Benchmarks
- Consumer Choice



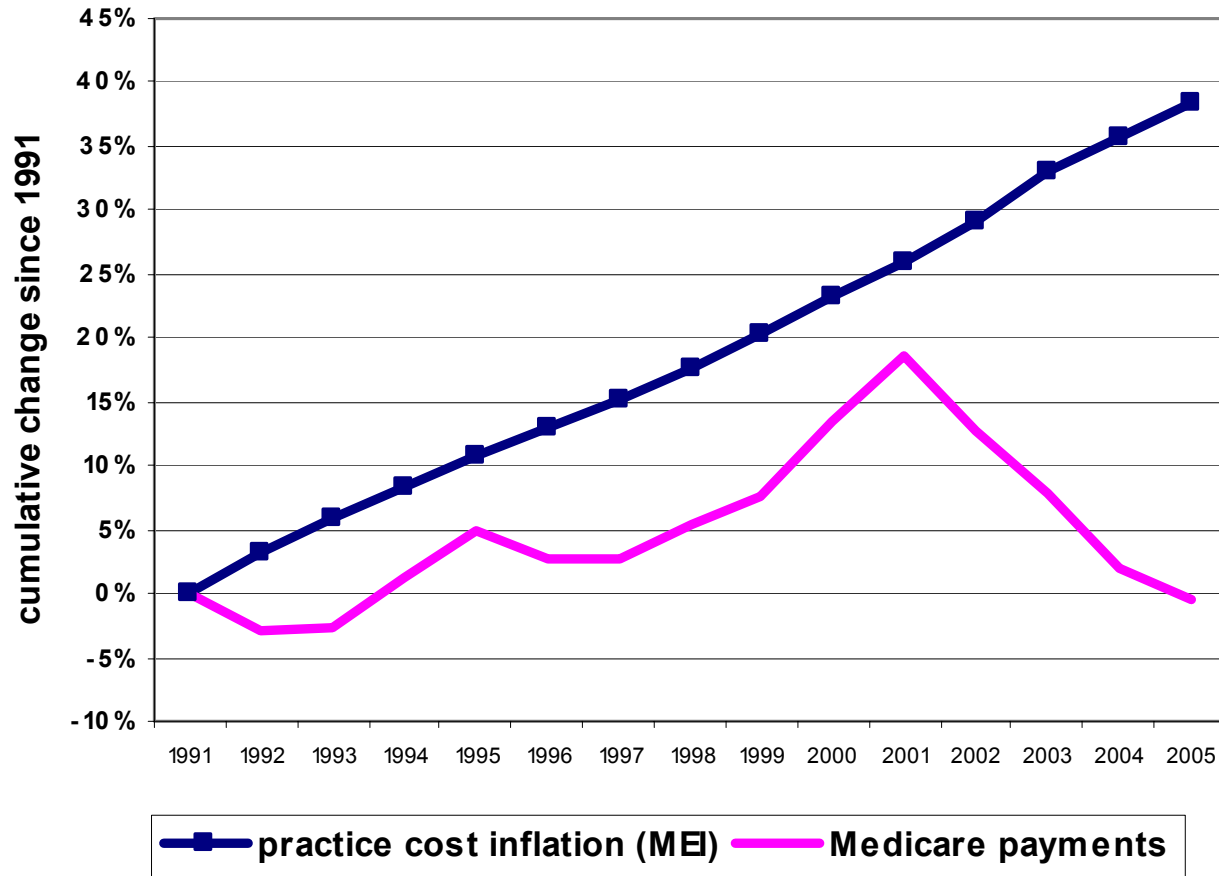
BRINGING PRACTICE TO POLICY: WHAT MEDICAL GROUPS ARE FACING

**MEDICARE PHYSICIAN PAYMENTS WILL BE
REDUCED BY **\$11 BILLION** IF
CORRECTIVE ACTION IS NOT TAKEN**

2003-2005

BRINGING PRACTICE TO POLICY: EFFECTS OF REDUCTIONS IN MEDICARE PAYMENTS

Medicare Payments vs. Practice Cost Inflation: Projected Trends Under Current Law



If the 12% in additional Medicare payment cuts for physicians and other health professionals go into effect for 2003-2005: In 2005, average Medicare payment rates will be below their 1991 levels. Practice cost inflation will have risen nearly 40% from 1991-2005.

Sources: AMA, CMS, PPRC

The impact of reductions in physician fee schedule (2002 and 2003) on some medical groups.

- **Lahey Clinic:** loss of **\$ 6 million**
- **Mayo Clinic:** loss of **\$ 34.2 million**
- **Cleveland Clinic:** loss of **\$ 6 million (2002 only)**

Specifically, The Marshfield Clinic:

- **Only recovers 68.5% of Medicare Allowable Costs**
- **Medicare reimbursement is only 10% to 50% of what commercial payers pay for identical services**

BRINGING PRACTICE TO POLICY: EFFECTS OF REDUCTIONS IN PUBLIC PAYMENTS

And the Marshfield Clinic has:

- **Personnel layoffs and/or hiring freezes:**
 - **350 open and unfilled allied health staff positions**
 - **70-80 open and unfilled physician positions**

- **Less ability to invest in needed capital and infrastructure**

- **As a non-profit group had to reduce other missions of research and education**

BRINGING PRACTICE TO POLICY: EFFECTS OF REDUCTIONS IN PUBLIC PAYMENTS

Two Options Available to Medical Groups

- **Cost shift to other payers**

- **Change payer mix:**
 - **Stop participating in Medicare program and balance bill**
 - **Continue to participate in Medicare but**
 - **limit number of new Medicare patients**
 - **Limit procedures/services available to Medicare patients**

Consequences of Inadequate Payment

- **Early retirement**
- **Access problems for commercial and Medicaid populations**
- **Increased difficulty recruiting certain subspecialties**
- **Inability to innovate and invest in solutions to our current health care delivery problems**

BRINGING PRACTICE TO POLICY: EFFECTS OF REDUCTIONS IN PUBLIC PAYMENTS

■ Questions and Comments...