



Posted on Tue, Jan. 07, 2014

## 'Facility fees' add billions to medical bills

By ALAN BAVLEY |  
The Kansas City Star

It was a minor skin infection. The visit to the dermatologist's office at SSM Cardinal Glennon Children's Medical Center took just a few minutes.

Before she left, Allison Zaromb paid \$40 for her 4-year-old son's care, the amount listed on her insurance card for an office visit to a physician specialist.

Zaromb assumed she had settled the bill, until a shocker arrived in the mail: After paying for the doctor, she still owed about \$200 for a "facility fee" charged by Cardinal Glennon.

"I had no idea you would have to pay another fee because the doctor's office was on a hospital campus," Zaromb said. "It's just not fair. It's like paying the barber for a haircut and then being charged extra for sitting in the barber chair."

Fair or not, facility fees are built into the way Medicare and commercial insurance plans pay for health care. Hospitals have charged them routinely for years for services at their outpatient clinics.

But the fees are getting new scrutiny now that hospitals nationwide are buying up physician practices and putting thousands of physicians on their payrolls.

Sometimes by making few visible changes beyond putting their logos on the door and issuing new ID badges, hospitals can declare newly acquired practices part of their outpatient department and start billing patients more.

The doctor's office doesn't have to be in the hospital or even on the hospital campus to charge facility fees. It can qualify if it's as far as 35 miles away.

Facility fees can more than double the cost of a visit to the doctor, a major hardship now that many people have high-deductible insurance plans with substantial out-of-pocket expenses.

The full cost of the fees has never been calculated, but the extra payments just from Medicare, the federal insurance program for the elderly and disabled, amount to billions of dollars.

"It doesn't make sense," said Kevin Kavanagh, a retired surgeon and chairman of the patient advocacy group Health Watch USA.

Either hospitals are making extra money by charging facility fees, or they're operating far less efficiently than a doctor's office can, Kavanagh said. In either case, facility fees "are extremely expensive to the health care system."

The fees may be one of the primary factors driving physicians out of private practice and into hospital employment, Kavanagh said. "You can't compete against an enemy paid almost twice as much as you are."

Hospitals defend facility fees by saying it's unfair to compare their expenses to those of a physician in private practice.

Essential community services such as emergency rooms and burn units must be maintained, said Herb Kuhn, president of the Missouri Hospital Association. "And the regulatory environment between a hospital and a doctor's office is so different."

That argument doesn't convince Seattle attorney John Phillips.

"It's a complete fiction that hospitals are doing cost accounting. They charge what they can charge. It has nothing to do with the hospital's own analysis of what its overhead is. It's just additional revenue."

Phillips has settled four class-action lawsuits on behalf of patients who were charged facility fees by hospitals in Seattle and St. Louis.

The lawsuits alleged that the hospitals violated state consumer protection laws by not telling patients clearly upfront that they would be charged the fees. Zaromb, who was among the plaintiffs, received a full refund.

"We felt like from an organizational perspective our billing was clear and transparent. We were following all the rules and regulations," said Karen Rewerts, chief financial officer of SSM Health Care, which operates Cardinal Glennon.

"We learned through this case that it could be more clear and transparent."

Phillips said the most he can do for patients is get them a refund and fuller disclosure of the fees.

"We've never been able to say you can't charge these (facility fees) as a matter of law because Medicare permits it," he said.

Closer scrutiny

That could be changing.

The Department of Health and Human Services' office of inspector general, the agency charged with detecting waste, fraud and abuse, has facilities fees in its sights.

An examination of whether hospitals are following Medicare billing rules for the physician practices they own is part of the agency's current work plan. The agency also plans to scrutinize hospital acquisitions of outpatient surgery centers, another venue where hospitals are paid higher rates.

Last year, the group that advises Congress on Medicare rates recommended phasing out facility fees for simple office visits to the doctor. The fees can boost charges by 70 percent.

"We started noticing purchases of physician practices. We thought some of the motivation was to instantly increase revenue," said Mark Miller, executive director of the Medicare Payment Advisory Commission, or MedPAC.

"Hospitals do have some higher costs," Miller said. "There are certain costly standby services with highly trained staff and equipment, like the emergency room, that are needed by the community."

"The question becomes, how much more should we pay? If patients can get it cheaper elsewhere, why pay more?"

An independent physician typically is paid \$72.50 to see a Medicare patient for about 15 minutes. The money covers both the professional fee and office overhead.

That same visit to an office owned by a hospital yields two payments: a physician fee of \$49.70 and a facility fee of \$73.68, for a total of \$123.38. Patients have to pay about \$25 of that, \$10 more than they pay for an independent physician.

Louis Lux, 84, of Grain Valley started seeing this difference firsthand after his wife's doctor moved from an independent practice to employment at Centerpoint Medical Center. Facility fees began to show up on her bills.

For a brief visit to her doctor in July, Naomi Lux received a bill for \$152 from her doctor and a bill from Centerpoint for "ancillary charges" totaling \$581.52.

Medicare knocked those list prices down to their usual rates, but Louis Lux still doesn't think it's right to get two bills.

"If you decide to ride the bus and you pay your fare, then you pay more for the bus being there — it's just how the world has gotten. All screwed up."

Corinne Everson, spokeswoman for Centerpoint's parent corporation, HCA Midwest, said its doctors and hospitals "bill based on what is outlined by the health insurance plan" or by Medicare and Medicaid.

MedPAC estimated in 2012 that equalizing the amount paid for routine visits to hospital-based and independent physicians could save Medicare as much as \$5 billion over five years.

The commission now is looking at what would happen to Medicare costs if hospital payments were brought into line with those of private practices for other kinds of services, such as minor surgeries and diagnostic imaging.

Doing that for echocardiograms and cardiac nuclear stress tests alone, MedPAC estimated, would cut Medicare spending by \$500 million per year, including about \$100 million less in patients' out-of-pocket expenses.

In its report to Congress this June, MedPAC warned that maintaining the status quo could prove costly.

With the rapid migration of doctors from private practice to hospital employment, the percentage of outpatient visits eligible for facility fees is soaring.

At the present rate of growth, by 2021 the increase in facility fees for routine doctor visits and for cardiac imaging tests will cost Medicare an extra \$2.3 billion and patients an extra \$590 million in out-of-pocket expenses each year, according to MedPAC estimates.

The same kind of math applies to outpatient surgery. According to data from the Ambulatory Surgery Center Association, the trade group of independent outpatient surgery centers, when a hospital acquires a surgery center and makes it part of its outpatient department, its Medicare rates jump by about 75 percent. For example, eye surgery to remove a cataract that cost Medicare \$951 when the center was independent costs \$1,691 after it becomes part of a hospital.

Meanwhile, the commercial insurance industry's response to the growing prevalence of facility fees has been muted.

Its trade association, America's Health Insurance Plans, rails against hospital mergers and medical practice acquisition as stifling competition and raising charges.

But all that its spokesman Robert Zirkelbach would say about facility fees is that "it's an important issue that needs to be looked at. Consumers need to know what they're charged and why."

Officials in several states are trying to get more information about facility fees to consumers. A bill requiring full disclosure of the fees for outpatient services was introduced this summer in the Pennsylvania House of Representatives. The Connecticut attorney general recently asked state lawmakers to consider similar transparency legislation next year.

Angry patients — and doctors

Kansas City area hospitals routinely charge facility fees, say officials at Blue Cross and Blue Shield of Kansas City.

But Wayne Powell, the company's chief of staff, said that to his knowledge Blue Cross subscribers have lodged no questions or complaints about facility fees.

He hasn't heard from John Sheldon's patients.

Sheldon does radiation therapy; a lot of his patients are men with prostate cancer. He's part of an independent practice but is based at Research Medical Center.

Routine visits to discuss results of a test that may indicate the return of the patient's cancer come with facility fees of \$313. Sheldon himself charges \$73 to \$150.

"The patient gets angry, and he gets angry at me. 'Why should I ever come back to you, Dr. Sheldon?'"

Because so many of his patients were dropping these important follow-up office visits after their treatments, he started doing the consultations for free by phone and fax.

Unless patients complain, as Sheldon's did, doctors may not even be aware of how high the facility fees can get, or even that patients are being billed for those extra charges.

Internal emails from a Seattle hospital show that doctors were stuck between patients who complained about the charges and administrators who insisted the charges were part of doing business.

The emails were obtained by attorney John Phillips after he filed a class-action suit against Virginia Mason Medical Center.

A neurologist warned hospital administrators of a revolt among patients who were surprised when the hospital started to charge them facility fees for their Botox injections.

"Unfortunately, this has generated a significant volume of complaints ... and I fear we may have lost some of our patients because this information was not related to patients or to anyone in Neurology," he wrote.

A dermatologist was prompted to write to hospital administrators after he received a complaint from the mother of a patient who was charged facility fees of \$348 and \$754 for two visits to treat warts.

He called the charges "an embarrassment to me and to the medical center."

"I was aware of facility fees, but have not previously questioned them, in part because I did not appreciate the scope and dollar costs," he wrote. "I believe these fees are not only excessive, but ethically unfair."

The answer the doctor got back was that Virginia Mason wasn't permitted to selectively exempt patients from facility fees. "Medicine is a business and businesses must be compliant or they get fined."

In places where hospitals have been sued or facility fees have become a community issue, hospitals have taken steps to let patients know in advance that they will be charged the extra amount.

From the patient billing page of Cardinal Glennon's website, you can click to another page with information about facility fees.

"If you are planning to visit a physician at any of the clinics listed below, please be advised that you may receive 2 separate bills for the services your child receives," the Web page advises.

Earlier this year, Mercy Regional Medical Center in Lorain, Ohio, launched an advertising campaign boasting that it doesn't charge facility fees for primary care visits.

"Just because you can, doesn't mean you should," Mercy's ads said. Mercy's larger competitors, like the Cleveland Clinic, do charge the fees at most of their outpatient clinics.

Hospitals are required to alert Medicare patients if they will be billed a facility fee at offices and clinics off the hospital's main campus. For anyone else who's concerned about the charges, the best advice may be to do as Allison Zaromb does now.

When she had strep throat last year, she went to a hospital urgent care center because it was closer than her regular doctor. She asked about facility fees.

" 'Oh, we don't know anything about billing.' I walked right out," Zaromb said.

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