Physician fees are the source of increased spending in U.S., researchers find—but some say there's more to it than that

By Jessica Zigmond
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It's the prices, stupid," might be how political strategist James Carville would characterize the findings of a new study on healthcare costs.

The researchers concluded that the higher fees—rather than higher practice costs, volume of services or tuition expenses—were the “main drivers” of higher spending in the U.S., especially in orthopedics.

Published in the September issue of the journal Health Affairs, the study by Columbia University professors Miriam Laugesen and Sherry Glied compared physicians' fees paid by public and private payers for primary-care office visits and hip replacements in Australia, Canada, France, Germany, the United Kingdom and the U.S.

The study also examined physicians' incomes (net of practice expenses), differences in paying for the costs of medical education, and the relative contribution of payments per physician and of physician supply in the countries' national spending on physician services.

For instance, Medicare paid about 27% higher fees for office visits to U.S. primary-care physicians, compared with public payers in the other countries, while private health plans paid 70% more. And the difference in fees to orthopedic physicians for hip replacements in the U.S. compared with other countries was higher still: 70% for public
payers and about 120% for private payers.

“In terms of the fees, we would expect those to be a little higher given the cost of practicing medicine,” Laugesen said in an interview. “But the difference between those fees and other countries—there is an added amount that we can't explain,” she added. “It's just higher.”

Laugesen posited a few theories of why this is the case, suggesting private insurers are perhaps less likely to negotiate fees, and also that there is no standard price for procedures in the private sector.

The dramatic differences in fees are difficult to explain because of the general lack of price transparency throughout healthcare in the U.S. and elsewhere, Laugesen and others interviewed about the finding said.

“We don't really have a lot of information about what private payers pay doctors,” Laugesen said. “We know generally, but it's nothing like a national database of fees.”

Dr. Bruce Malone, an orthopedic surgeon at the Austin (Texas) Bone & Joint Clinic who serves as president of the Texas Medical Association, likewise thinks insurers need to be more open about pricing.

“Insurers are proprietary and competitive and will not tell us where their best hospital contracts are,” Malone said last week. “We have asked some of the large commercial carriers if they want to publish a list of where their best deals are,” he said, adding that if an insurer shared this information with him, he'd choose to work with that payer. “They won't because they have an agreement with a hospital system that won't reveal those,” he added. “That's part of the competition.”

But America's Health Insurance Plans contends that insurers aren't the only players in the healthcare game who need to be forthcoming when it comes to prices.

“There needs to be far greater transparency about the prices hospitals and physicians are charging for their services,” said Robert Zirkelbach, spokesman for AHIP. Zirkelbach added that last year's Patient Protection and Affordable Care Act focused heavily on insurance premiums with provisions such as a federal cap on administrative costs and funding for rate-review programs. Neither of those, Zirkelbach said, addresses the “underlying issue of prices.”

Representatives for the American Hospital Association and the Medical Group Management Association were not available to be interviewed for this story.

It isn't surprising that none of these stakeholders wants to show too much, according to Matthew Amodeo, a partner in the healthcare group of law firm Drinker, Biddle & Reath. “Like any other industry, are you going to show your hand unless you're absolutely forced to? No,” he said. “Because as soon as you show your lowest common
denominator, that's going to be their first proposal out of the gate,” he said, referring to
the other party in the deal.

“There is more transparency on fees today than any
time in the past,” Amodeo added. “You can go to any
commercial payer's website who—with the permission
of providers—publish their fees as a way to drive
beneficiaries that are covered under these policies to
cheaper providers.”

Meanwhile, the study also showed that income levels
were higher for U.S. physicians. In the case of
orthopedic surgeons, the average pre-tax earnings (net
of expenses) for an orthopedic surgeon in the U.S. were
$442,450 in 2008, compared with an average of $208,634 in Canada and $187,609 in
Australia.

But the study didn't consider that in the U.S., a very large portion of the orthopedic
surgery market consists of health centers and clinics that are owned by orthopedists,
Amodeo noted. “That means that their incomes reflect not only the fees they charge for
the service, but the technical fee that in other countries is being charged by the
hospital,” he said.

Dr. Kevin Bozic, an associate professor and vice chair in the orthopedic surgery
department at the University of California at San Francisco, emphasized that physician
fees are just a part of total healthcare costs. There is also a significant difference in
hospitalizations in the U.S., as well as differences in the costs of implants and the
differences in the way care is fragmented in the U.S. compared with other countries,
said Bozic, who chairs the healthcare systems committee at the American Association
of Orthopedic Surgery. As he sees it, all stakeholders have the responsibility to be
transparent in pricing in order to benefit patients.

“Hospitals, physicians, payers, policymakers all need to be pushing for more
transparency and more understandable metrics of qualities of cost for physicians in their
decisionmaking,” Bozic said, “so that patients can be more directly accountable in terms
of them being responsible for paying for the healthcare they consume.”