Higher Payments to Hospital Outpatient Departments "Not Sustainable"

As hospitals continue to acquire physician practices and integrate them within their networks, the higher payments doled out to hospital-owned facilities will strain the healthcare system. The acquisition of physicians by hospitals has accelerated the growth in hospital outpatient procedures and related expenditures. For example, the Medicare Payment Advisory Commission (MedPAC) estimates that 35 percent of cardiologists are now employed by hospitals, an increase from 11 percent only five years ago. Many hospitals and health systems have ramped up their physician practice acquisitions in order to employ more physicians and bring in higher sources of revenue through enhanced payments.

The higher reimbursement provided to hospital outpatient departments (relative to freestanding physician clinics) by Medicare and private payers are not sustainable. The MedPAC is increasing their scrutiny of provider and site-specific pricing across primary and secondary service areas. The short-term pricing (and profitability) “bonanza” secondary to differential reimbursement does not eliminate the need for cost reduction and quality initiatives, and potentially represents a longer-term opportunity for investment in care delivery innovation.

In its March 2012 report, the MedPAC (a payment advisory body to Congress) noted that evaluation and management (E&M) office visits are reimbursed 80 percent higher by Medicare if they are performed in a hospital outpatient department (HOPD), as compared with a freestanding physician clinic. The report also claimed Medicare payment rates for surgical services are 74 percent higher in HOPDs than in ambulatory surgery centers. Private payers also follow Medicare's lead in large price differentials between HOPD services and physician practices.

The MedPAC has recommended "site-neutral" payments on several occasions to close the wide payment gap between HOPDs and facilities that are independent of hospitals, which could reduce Medicare spending by up to $1 billion. Options under consideration include parity payments or a rise in freestanding physician clinic spending offset by an equivalent decline in hospital outpatient department spending. However, the American Hospital Association has lobbied heavily against such recommendations, saying site-neutral payments hurt access to care for patients and are needed to subsidize a hospital's less profitable, but necessary, service lines like emergency departments and trauma care.