Heart Palpitations

Lawmakers working on the Medicare "doc fix" should be aware that reimbursement formulas influence behavior. Just ask cardiologists. By Margot Sanger-Katz

Blair Erb sold his cardiology practice this year. It was a tough choice, he said, after more than 20 years as a heart specialist in Bozeman, Mont. But a change in the way Medicare pays him meant that he didn't see a clear way forward for his business. He and his partner were looking at declining salaries, and they were unable to recruit a third physician to help share the workload as they neared retirement.

"I never thought I would be an employee," Erb, 55, said. But now he is, having sold his practice to Bozeman Deaconess Hospital.

After decades of offering cardiologists one of the highest pay rates in medicine, Medicare instituted a new payment system that has them running for shelter. Last summer, some 40 percent of cardiologists were in the process of joining hospitals, according to data from the American College of Cardiology, and hospital consultants say the trend continues. One consultant estimated that between 60 and 85 percent of all cardiology practices are either owned by hospitals or in talks about selling. "It was almost like a migration of wildebeests," said Dr. Jack Lewin, the ACC's chief operating officer. "It was amazing."

The cardiologists blame the payment change on poor methodology. Medicare officials contend that the new rates better reflect the true cost of providing cardiology services. But no one predicted the specialty's rapid transformation. As Congress mulls yet another "doc fix" to patch Medicare's perennial pay problem, this is a cautionary tale of unintended consequences. For better or worse, pay formulas influence behavior.

The reimbursement change stemmed from a survey meant to assess various specialties' true cost of doing business. The American Medical Association solicited funds from the medical-specialty societies to poll doctors about their overhead and the amount of time they spent on various procedures. For unclear reasons, cardiologists were reticent to respond. Only 55 cardiologists completed valid surveys, and their answers, which showed declining overhead, were not representative of the specialty as a whole, Lewin said.

Despite the cardiologists' howls, Medicare used those results to slash reimbursement rates for in-office diagnostic imaging tests, such as echocardiograms and nuclear stress tests, by as much as a third. Those tests, combined, make up about 30 percent of most cardiologists' income, and some evidence shows that they were being overused. According to a 2009 Medicare Payment Advisory Commission study, doctors who owned their imaging equipment ordered nearly double the number of tests than those who did not. Cuts in the imaging rates enabled Medicare to boost payment rates for primary care and other specialties that officials believe are underpaid, said Jonathan Blum, the deputy administrator and director of the Centers for Medicare and Medicaid Services.

Spent: Cardiologists are abandoning private practice.

Ironically, the attempt to reduce cardiology reimbursements may actually raise Medicare's costs. Hospitals bill the government for the same tests using a different fee schedule, and the in-hospital rates are much higher. That's at least part of the reason why hospitals have welcomed cardiologists with open arms.

The differences vary, but for a basic echocardiogram, the most common test performed, a private practice can collect, on average, $165; a hospital gets $402. Unless doctors begin practicing cardiology very differently once they become hospital employees, more of those tests are likely to migrate, with the physicians ordering them, to the higher price point. MedPAC data document substantial shifts in the number of these tests being ordered in hospitals: up to 29.1 percent of echocardiograms in 2010, compared with 25.8 percent in 2009. (It's worth noting that the number was already rising before the reimbursement change, though at a slower rate. In 2008, hospitals administered 22.4 percent of the tests.)

Blum says that Medicare's internal studies do not show a big shift so far. The program tracked the number of certain cardiac imaging tests performed in 2010. Its data show that while office testing declined by 13 percent, hospital tests grew by only 1 percent, saving Medicare $299 million. "This suggests to us that the change has been positive for the Medicare program," Blum said, noting that officials will continue to watch the trend.

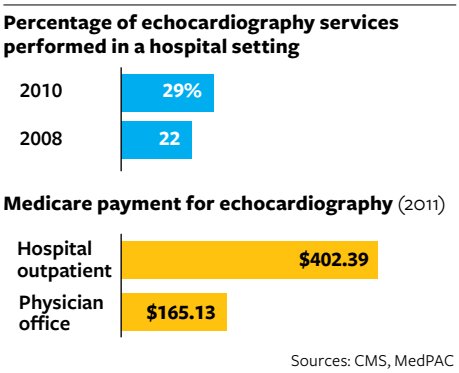
Heart specialists' move to hospital employment could be expensive for patients with private insurance, even if it does end up saving the government money. Cardiologists affiliated with hospitals generally have more leverage in negotiations over pay rates for all of their services than they do as independent practitioners. And private insurers typically pay higher rates for hospital imaging tests than in-office ones, just like Medicare. That difference could hit the pocketbooks of patients with high deductibles or coinsurance requirements.

But despite those liabilities, the doctors and Medicare officials are optimistic about the unanticipated trend. A recent survey of cardiologists who have switched found that 87 percent say they are as happy or happier now that they work for hospitals. Medicare is "not trying to drive one kind of delivery model," Blum says, but he points out that the overall decreases in testing may reflect a shift in incentives toward better care and away from profitable procedures. As Medicare investigates payment paradigms that reward greater cooperation among providers, the integration of physicians and hospitals could prove to be a plus.

For Erb, the inconveniences of a hospital bureaucracy have been outweighed by the stability of his new position. He collects a steady salary, he works regular hours, and he doesn't have to worry about how he's going to make payroll this month. "At this point in my career," he said, "I don't miss those kinds of pressures." ■

Greener Pastures

Cardiology is migrating from private practice to a hospital setting, where Medicare payments for a common imaging procedure are higher.



Sources: CMS, MedPAC

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