
Huge hospital markups burden patients

For-profit and public facilities are rapidly hiking prices; nonprofits are limited by law; some **markup services over 700%**

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Drew Sheward was installing a yard sprinkler system for a customer when he felt pain in his stomach.

The next day Sheward, twisting in agony, drove himself to Northside Hospital-Forsyth and had his appendix removed.

Weeks later Sheward, a small business owner who said he cannot afford expensive private insurance, received a hospital bill for \$23,483. This is the hospital's full charge, which only the uninsured and a few other groups are expected to pay.

If he paid in 90 days, he was told, the hospital would reduce the bill by 40 percent, but he couldn't.

"I felt like the doctors had reasonable costs, but I felt like the hospital was trying to steal from me," Sheward said.

Hospital officials say Sheward got a reasonable offer.

"We believe it is competitive in the marketplace and we believe the payment plan we have in place is fair," said Russ Davis, director of marketing and public relations for Northside Hospital system.

Still, Sheward's bill is more than four times the amount Medicare pays for the procedure, said Todd Hill, a medical billing auditor representing Sheward.

And Sheward's case is not unusual.

Markups for hospitals in metro Atlanta ranged from 157 to 702 percent in 2009, according to an analysis by The Atlanta Journal-Constitution of the most recent hospital financial disclosure data collected by the Georgia Department of Community Health.

These hospital bills fall heavily on uninsured patients. Many small business owners like Sheward do not have insurance because the individual plans available to them are much more expensive than group plans sponsored by larger employers.

But the hospital's markups can force even patients with employer-sponsored insurance into debt when they have high deductibles or out-of-network bills.

And hospital markups — the difference between the cost of a procedure and a hospital's full price — play a critical role in driving up medical bills across the country, say health policy experts.

The rapid growth in hospital markups is an issue that has been largely absent from health care reform discussions, the experts say. The Affordable Care Act limits the amount nonprofit hospitals can charge low-income patients, but the law does not address for-profit or public hospitals and enforcing the provision is difficult.

The highest markups for Atlanta area hospitals have more than doubled since 1999, when averages ranged from 124 to 319 percent, according to the AJC's analysis of state data.

Hospital pricing is less transparent than in most industries, allowing prices to rise faster than the costs of services, said Gerard Anderson, director of the Center for Hospital Finance and Management at the Johns Hopkins School of Medicine.

That's largely because people don't shop for medical care and hospitals don't provide cost estimates, Anderson said.

"There is nobody saying to [the hospitals] on behalf of the uninsured and a few other groups that they can't do it," Anderson said.

"You just had a heart attack or your appendix burst, so you can't negotiate a price and you wouldn't know how much it cost even if you could," he said.

The hospital industry defends high markups as necessary to keep financially struggling medical facilities afloat while providing the most technically advanced, and often expensive, service available.

Glenn Pearson, an executive vice president of the Georgia Hospital Association, said the financial burden is created by the losses hospitals take to treat Medicare and Medicaid patients and provide charity and emergency trauma care.

"It's the outgrowth of the structure that's been set up," Pearson said. "The payment system for health care is an absolute disaster."

But the link between uncompensated charity care and markups is tenuous, say some health policy experts.

The data reported by hospitals support this skepticism.

Medical facilities with the highest markups are not the hospitals that provide the most charity care, according to the financial disclosure data.

Of the five hospitals with the highest markups in the Atlanta area, none is among the 10 hospitals that provide the most uncompensated indigent care as a percentage of revenue. Grady Memorial Hospital has a markup of 265 percent, well below the regional average, and spends 28 percent of gross revenue on charity care, more than double the next highest facility.

Anderson has his own explanation for the range of markups.

"Some hospitals are just more greedy than others," he said.

Assistance offered

Rising hospital markups increase costs across the board for patients paying insurance premiums, co-pays and medical bills, say insurance executives and patients' advocates.

Tenet Healthcare Corp.'s North Fulton Regional Hospital marks up its prices an average of 702 percent over cost and South Fulton Medical Center, another Tenet facility, charges an average markup of 618 percent, giving the two hospitals the highest markups in a 10-county metro area.

North Fulton recorded a profit margin of 20 percent in 2009 and South Fulton lost money, posting a negative margin of about 11 percent, according to the data. The median operating profit margin is 3.1 percent for hospitals in the Atlanta area, according to the financial disclosure data.

But hospital charges say little about how much a patient at a Tenet Healthcare facility will pay for a procedure, said Deborah Keel, president and CEO of North Fulton Regional Hospital.

No North Fulton Regional patients pay the full markup, she said.

Under the company's Compact with the Uninsured Program, all uninsured patients receive a discount, Keel said. If patients still cannot pay their bills, the hospital works out long-term, interest-free payment plans.

"To compare charges, that's nice, it's something a lot of watchdogs like to do, but if you come to this hospital and you're uninsured you're going to be taken care of and it will be under our compact for the uninsured," Keel said.

Tenet hospitals do offer better financial assistance programs in a more transparent fashion than many other facilities, said Holly Lang, the hospital accountability project director for Georgia Watch, a consumer advocacy organization.

Of 34 metro area hospitals she surveyed last year, South Fulton Regional Hospital provided the most comprehensive and consumer friendly assistance for indigent patients, Lang said.

But that does not mean the hospital's high markups are not an issue for patients, she said.

"To put a discount of 50 percent on a procedure that's been marked up 700 percent, that's still a markup of 350 percent and that's still a problem for many patients, especially when the average markup across the state is about 240 percent," she said.

Patient rights advocates are not alone in describing markups as a problem.

The increase in hospital prices has played a major role in inflation of medical costs, said Carl King, the head of insurer Aetna's national networks and contracting services.

Hospitals are struggling with a broken payment system, King said, but Aetna is asking hospitals across the country to consider lower markups and to find profits in efficiency instead.

"[Markups] translate directly into higher prices for our customers and patients who use those hospitals," King said. "It's real money."

'The problem is huge ...'

Tenet operates for-profit hospitals, but tax-exempt, non-profit hospitals also mark up their services.

Southern Regional Medical Center's average full charge is 332 percent above costs and Saint Joseph's Hospital of Atlanta's full charge is 314 percent more. Both are nonprofit.

The AJC calculated the markup percentage using cost-to-charge data reported by hospitals to the state. The data is based on the hospital's average cost for each procedure and the average charge billed to patients.

But, while these charges show what hospitals bill, they do not reflect what most patients pay, as the Tenet example demonstrates.

Tenet sets the markup as a starting point for reimbursement negotiations, especially with insurance companies, said Carol Britton, director of hospital communications at Tenet Healthcare. That's the industry practice.

Hospitals are reimbursed by insurance companies, Medicare and Medicaid for only a portion of what they charge.

Federal and state agencies reimburse hospitals treating Medicare and Medicaid patients at a flat rate per procedure. Government reimbursement is usually about 80 percent of the cost of services for Medicaid and 85 to 90 percent of the cost of services for Medicare, hospital and insurance administrators agree.

Federal rules prohibit hospitals from passing the rest of the cost to the patient.

Insurance companies use the volume of customers they insure as leverage to negotiate lower reimbursements. Insurance companies generally pay 30 percent to 60 percent above cost, said King, of Aetna.

Even Georgia's 1.8 million uninsured residents often pay substantially reduced rates if they qualify for a hospital's financial assistance program. These charity programs vary, but generally they use income guidelines and other factors, such as whether a patient is pregnant or the victim of crime, to determine eligibility for various levels of assistance.

But thousands of uninsured patients are charged the full amount either because they do not qualify for assistance or they are unaware of assistance programs and do not apply.

Insured patients pay far less, but they are not completely shielded from high markups. Patients with large deductibles or those who receive a service from an out-of-network provider can be buried under in debt or forced into bankruptcy, said Mark Rukavina, executive director of the Boston-based Access Project, a nonprofit group that helps patients resolve medical debt problems.

"The higher the bill and the higher the markup, the more likely people are going to have a problem paying the bill," Rukavina said. "The problem is huge and millions of Americans are struggling to pay their medical bills."

A study published in the American Journal of Medicine in 2009 found more than 60 percent of bankruptcies were related to medical issues.

An unexpectedly high medical bill can be especially frustrating for patients who have insurance, took the time to assure their doctors and hospital were in their insurer's network, but are billed for portions of a procedure, for example, anesthesiology, performed by an out of network provider.

This can create a bill that includes the hospital's full charge for the out-of-network services, Rukavina said.

"That is happening on a regular basis, so that's important for a person with insurance" said Pat Palmer, founder of Medical Billing Advocates of America, a patient advocate company in Roanoke, Va.

"It all trickles down to the consumer."

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