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Why Do Doctor Bills Vary Widely?

The Primary Goal of Healthcare Reform is Cost Containment

Guest Post by Holly DeMuro, CPC

Healthcare costs in the United States have skyrocketed in recent decades. Recently, the Huffington Post ran an article discussing major disparities in the cost of simple procedures like an appendectomy. These dramatic differences in costs have many people scratching their heads asking how it is possible that fees can vary so dramatically for the same procedure. While the Huffington Post article was referring to hospital charges, the same question applies to doctor bills as well.

Disparities in the cost of healthcare services between physicians in the same specialty and the same geographic region can have a major impact on a physician’s practice. This means that physician’s practices must be cautious when setting their fee schedules, particularly in light of the fact that patients are becoming more and more savvy about healthcare options.

I am certainly not implying that a physician should undercharge for services, but rather that providers must focus creating a methodical fee schedule. In other words, providers must create a fee schedule that can be justified to patients while returning maximum reimbursement.

What is a fee schedule?

First, let’s start by understanding what the term *fee schedule* means. There are actually two related meanings. For the physician, a fee schedule is the list of charges or fees that the doctor wants to be paid for services. Think of this as a price tag for every different service in a doctor's office. For the insurance company, the fee schedule is a list of the amounts the insurance will allow in payment for the doctor's services.

"Reasonable and customary" fees

Insurance companies create their fee schedules according to a calculation called a "reasonable and customary" fee. This is fancy jargon for a calculation according to the prevailing average cost of each service within a geographic region.

Unfortunately, each insurance company has its own calculation, and therefore insurance fee schedules can vary dramatically. Worse still is the fact that most insurance companies do not disclose their method of calculation.

These facts make it very difficult, if not impossible, for providers to abide the so-called "reasonable and customary" fees. In the end, physicians have no choice but to charge rates high enough to exceed the maximum possible payment and take a contract adjustment in hopes of maximizing revenue.

Unfortunately, patients do not understand the concept of contracted rates or contract adjustments. Not only can high fees negatively impact the physician's reputation, they can also make it more difficult for the physician's staff or billing service to collect patient balances. Furthermore, high fees can be a terrible burden for patients without insurance.

So, how I set a reasonable and customary fee schedule?

Let's start with the most important thing to know. Although the doctor and the insurance have a contract saying that a certain rate will be paid, the insurance will never pay any more than the physician charges.

This means that if you send a charge to the insurance for an amount lower than they would normally allow, the insurance will pay you the lower rate. This is why you must set your fee schedule high enough to accommodate the highest-paying insurance company.

Simplify with Medicare

The next thing to consider is simplicity. Physicians generally treat a lot of different patients with various insurance policies.

Technically, the insurances are required to give you a copy of their fee schedule upon request, and it is a good idea to obtain that fee schedule to check that the insurance is paying correctly. But– considering that the practice will have a lot of diversity in insurance mix, insurance fee schedules change, and various factors like modifiers and place of service affect reimbursement – it is difficult to maintain a separate fee schedule for every insurance company.

The simplest way to calculate a fair fee schedule is to start with Medicare. Medicare's fee schedules are determined by the U.S. Government.

Their fee schedule (or amount that they will allow for service providers rendering services) calculates the amount of work involved in a particular procedure times a conversion factor that accounts for the cost of being a doctor in a particular geographic region (similar to a regional cost of living). The conversion factor is publically available in the Federal Register.

How do I use Medicare's fee schedule in reference to commercial insurance companies?

Now, Medicare is by no means the highest fee schedule, so you should not use it for commercial insurance billing without some modification. Still, with a little tweaking, Medicare's fee schedule is a great place to start. The Medicare fee schedule is available on all local Medicare websites and is generally updated every year with new calculations.

It is important to use your local Medicare fee schedule because the conversion factor (the multiplier) used to calculate the payments varies by geographic location, and the goal here is to maximize revenue.

For example, since it is more expensive to work in New York City, the doctors receive a higher payment rate than doctors in a small Midwestern town with a lower cost of living. So if you use the wrong geographic location's fee schedule, you may lose out on valuable revenue.

Two times Medicare

In order to exceed other insurance's fee schedules and avoid underpayments, a good rule of thumb is to multiply Medicare's fee schedule by 1.5 to 2 times for each CPT code. For example, if Medicare allows $100 for procedure code 99215, your fee schedule would be $100 x 2 = $200.

Two times Medicare is usually just about right. It is not too high, but it is high enough to exceed other insurance's higher-than-Medicare fee schedules so you do not run the risk of receiving underpayments.

Using the Medicare fee schedule as a starting point in establishing a practice fee schedule makes a complex task easy. It also helps you to simplify annual fee schedule maintenance. Further, as Medicare's rates are publicly available, you have a clear and concise way to explain your costs to patients while charging commercial insurances an appropriate rate that will maximize revenue.

This is a guest post by Holly DeMuro, CPC. Holly has 15 years of experience consulting in business management, medical billing and coding, and healthcare information technology. She is certified as a Professional Coder by the AAPC. To learn more, visit her blog at healthcareisbusiness.blogspot.com, or check out her profile on Linkedin.

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Manny Oliverez, CPC, is a 20-year healthcare veteran and the CEO and co-founder of Capture Billing, a medical billing services company located outside of Washington, D.C. He teaches the nation's physicians, administrators, and medical practices how to maximize billing and revenue cycle management processes. Manny also frequently posts articles and videos on his award-winning healthcare blog. For more information on Manny and his company, please visit his website, or call (703)327-1800. And if you're on LinkedIn, please look for him there too. **READ MORE**

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