

# Medicare's "False Flag" Price Revelations

G. Keith Smith, M.D.

The Centers for Medicare and Medicaid Services (CMS) recently released a list of hospital charges and Medicare payments, an event widely covered in the press. But the figures are wrong.

While most of the newspaper reports focused on the gigantic differences between what hospitals charged and what they were paid, the real story is the irrational and nonsensical pricing set by CMS central planners. Also notable is that while this story appears to bash the hospitals to some degree, the true amounts they receive from Medicare are hidden, as *the prices released don't include uncompensated care kickbacks or the provider tax rebates.*

Withholding these amounts from the final numbers makes the payments to certain hospitals (physician-owned facilities like the McBride Clinic Orthopedic Hospital, which don't accept this taxpayer money) look high compared with corporate and not-for-profit hospital payments, as actual payments to the latter for the procedures and diagnoses are much higher than CMS figures reveal. It's bad enough that the hospitals lie about their income, but now the federal government is colluding with their act, while posing as the great champion of price transparency.

*The New York Times* asks the right question: "Why are the hospitals charging so much more than they know they will receive?" On average, the charges billed are three to five times the payment.<sup>1</sup> The hospital industry claims that this overcharging is justified to combat the discounts demanded by insurance carriers, and that hospitals providing large amounts of "indigent" care are charging more to offset these "losses."

*The Times* did not consider the true answer to the question. In actuality, these giant hospital bills provide the red ink necessary to maintain the fiction of the not-for-profit (tax-exempt) status of these creators of personal bankruptcy. They also provide the basis for claiming larger DSH (disproportionate share hospital) uncompensated care payments to the extent that the hospitals claim they don't collect on their giant bills.

The reason why *the patient with no insurance or no money at all is likely to receive the highest bill of all* is the hospital's effort to maximize the take from the taxpayer!

There is a simple reason that the CMS pricing makes no sense. True prices *emerge* from a market economy. They are not imposed. The Surgery Center of Oklahoma posts prices at [www.surgerycenterok.com](http://www.surgerycenterok.com), but I won't know whether our pricing is "right" until someone starts competing with us. Prices send signals to the marketplace, signals indicating relative shortages and surpluses. That the prices for various hospitals in the same community are not even close shows the truly fatal conceit of the CMS central planners.

But here's the bigger question: Why did CMS release this information, and why now? I think that it is no mistake that the cost of health care was never discussed during the ObamaCare debates. Getting everyone "coverage" was the focus. Now that "coverage" is mandated, cost is center stage. Why?

Imagine that you own an insurance company that has a good relationship with the federal government. Imagine that you have been successful in getting your government pals to mandate the purchase of your product (health insurance). This is now a great

revenue stream. How do you maximize your profits? How do you maximize your net?

You ratchet down the price paid for "care," ideally to a price where few physicians or facilities will see patients or participate. Presto! You have fewer claims to pay, and they are cheap! Lots of premiums roll in, very few claims are paid out, and profits mount. Simple math.

This is, of course, how HMOs and Medicaid work. HMOs collect premiums, pay so poorly that few physicians will participate, and then actually pay some doctors a bonus to the extent that care is denied. This creates huge profits for the home office.

Medicaid vendors are typically paid a price per head. In Arizona, for instance, this number is about \$8,000/head per year. If the physicians are paid a pathetic amount, few will participate, and this will result in subtle price rationing. Few claims are submitted, and long lines form.

This is the whole idea behind ObamaCare. Make everyone buy insurance, then use the IPAB (Independent Payment Advisory Board) to step in to make sure that prices paid are below the market-clearing price, using this low price as a rationing tool. "Best practices" will also eliminate many medical services that people need and want, and the "health researchers," if they want to keep their government grants, will find whatever they are paid to find, for example, that mammography or prostate screening is not necessary. This has already begun. My personal favorite rationing tool is "pay for performance," which assures that the sickest of patients, those most desperately needing care, can't get near a physician, as doctors increasingly shy away from complicated patients who might damage their "profile."

You would think that a bankrupt program like Medicare would be looking for the best deals available. This CMS revelation shows the effects of years of lobbying by the hospitals and other connected players: prices all over the place. Hospitals are paid 40 percent more for physician services than private physicians are paid. Wouldn't you think that in order to save 40 percent, Medicare would seek out the private practitioners and shun the hospital-employed doctors? Chemotherapy administered by a hospital is paid at a 40 percent greater rate than at a private physician's clinic. So why is Medicare forcing patients into hospital chemo units by cutting physician's payments below the cost of the drugs? And why does CMS pay the big hospitals twice our on-line prices for the same surgeries?

Medicare and Medicaid are not about getting care for the poor and elderly as much as they are about funneling money to connected cronies in the medical industry. This revelation from CMS reveals just as much about the government as it does about the hospitals.

But I doubt that was the intention.

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## REFERENCE

- 1 *New York Times*. Hospital billing varies widely, government data shows. *New York Times*, May 7, 2013. Available at: <http://tinyurl.com/nreon5c>. Accessed May 20, 2013.