

10 Feb 2017
by M. Todd Rice, MD

“Would you like the \$9,400 CT scan or the \$450 CT scan?”

We're not all careful. Some of us ride motorcycles on the highway,... recklessly. A nephew ended up at a Level I trauma center in Houston, Texas, in March of 2016 as a result. He was patched up and lived to ride another day. Ten months later, his dad gets the final itemized hospital bill. As doctors in the family, my wife and I opine on medical matters with some frequency. The dad texted us a picture of the bill. As you are sure to expect, the charges were for ridiculous amounts that no one really pays. Most people probably think that these matters just get handled somehow, somewhere, between insurance companies and hospitals, then the patient pays some reduced amount of that massive charge, bewildered but happy to walk away still financially solvent after the threat of a bankrupting and indecipherable hospital bill. For most people, that vague understanding (and narrow fiscal escape) seem to be enough to be able to put the experience behind them. For others, though, we want to understand what the *expletive* is going on?!

As I looked through the 44 items billed to my nephew, there were a few which I could not identify despite my proficiency in medicalese. Some charges stood out as being so excessive that I felt guilt in being associated with hospital systems (which almost without exception follow the billing practices that will be described here). For years, I have been frustrated with the opacity of medical billing, physician “reimbursements,” and the seemingly secretive third party alliances which keep doctors and patients in the dark as to costs, pricing and revenues streams. This has led me to investigate and promote the growing numbers of medical practices and facilities that choose to operate direct-to-consumer with transparent and competitive pricing. Out of curiosity, and in disbelief at the hospital charges, I decided to attempt to find a transparent retail price comparison for each billed hospital item where possible.

Using some simple online searches, I quickly found cost comparisons for radiology and lab tests, as well as some pharmaceuticals. www.pricinghealthcare.com, www.goodrx.com and www.health-tests-direct.com gave me the bulk of the comparisons. For intravenous medications, which are more difficult to find for public consumption, I found some equivalent medications at a veterinary site, www.medi-vet.com. Before you recoil at using a dog medicine, rest assured that these are the same sterile, safe, medical grade pharmaceuticals as those used on humans – some are the same brand that I personally have administered to patients. They just happen to be transparently priced because the veterinarians typically operate outside of the constraints of government and insurance company contracts in honest pricing models.

Tallying the 24 of the 44 charges for which I could identify and find comparison, the hospital charged over \$35,000 while direct-to-consumer retail businesses offered similar services for \$3,200 (a price difference of over 1000%). For example, the \$9,400 CT scan of abdomen and pelvis with contrast is offered for \$450 in Dallas at Southwest Diagnostic Imaging Center (a 2,000% price difference). The \$6.68 generic hydrocodone with acetaminophen pain pill can be readily found at Publix or Safeway or Walmart pharmacies for about a quarter each (a 2,600% price difference). Check out the table nearby for more head-shaking and sigh-inducing comparisons.

Item	Hospital Charge/Chargemaster	Retail Estimate	Difference	Percent markup
Lidocaine 50 ml	\$53.18	\$2.58	\$50.60	1961%
Hydrocodone/APAP 5/325	\$6.67	\$0.24	\$6.43	2679%
NaCl, 1 liter saline solution	\$152.59	\$2.24	\$150.35	6712%
Basic Metabolic Panel, BMP	\$529.20	\$40.93	\$488.27	1193%
Complete Blood Count, CBC with diff/platelets	\$285.55	\$24.79	\$260.76	1052%
PT + PTT, Protine and Prothrombin Time	\$343.98	\$41.97	\$302.01	720%
Red Blood Cell Antibody Screen (Coombs test)	\$292.16	\$36.77	\$255.39	695%
Blood Type, ABO group + Rh factor	\$209.48	\$32.48	\$177.00	545%
Chest X-ray, single view	\$415.64	\$93.00	\$322.64	347%
Cervical spine X-ray	\$982.33	\$150.00	\$832.33	555%
Pelvis X-ray	\$449.82	\$150.00	\$299.82	200%
Forearm X-ray	\$412.34	\$150.00	\$262.34	175%
Wrist X-ray	\$366.03	\$150.00	\$216.03	144%
Femur X-ray	\$504.94	\$150.00	\$354.91	237%
Knee X-ray	\$1,120.14	\$150.00	\$970.14	647%
Ankle X-ray	\$379.26	\$150.00	\$229.26	153%
CT scan head/brain without contrast	\$3,031.35	\$275.00	\$2,756.35	1002%
CT scan thorax (chest) with contrast	\$5,401.79	\$325.00	\$5,076.79	1562%
CT scan cervical spine without contrast	\$4,401.90	\$275.00	\$4,126.90	1501%
CT scan thoracic spine without contrast	\$3,900.75	\$275.00	\$3,625.75	1318%
CT scan lumbar spine without contrast	\$3,245.96	\$275.00	\$2,970.96	1080%
CT abdomen and pelvis with contrast	\$9,475.69	\$450.00	\$9,025.69	2006%
Total charges and difference of compared items	\$35,960.75	\$3,200.00	\$32,760.75	
Average percent markup from retail				1024%

Hospital administrators are sure to retort: “but those tests aren't of the same quality that we offer!,” “these tests are done in emergency and high acuity settings which are expensive!,” “we have very high overhead costs to cover!,” and “we have to make up for those that don't pay their bills!” All of this may be true. True and unprovable? True and irrelevant? True or not, it definitely is not the fault of the billed consumer. A few years ago in Houston, I was pleased to hear economist Tom Woods of the Mises Institute talk on this topic. In response to such arguments, he opined, “your bad business model is not my problem.”

Bad Business Models

Where did the hospitals' bad business model come from? Why are things the way they are? How did such a convoluted, if not collusive, system ever develop? Why do insurance costs keep rising? Books and innumerable articles have been written from a multitude of perspectives to explore those questions. The short answer might be that after more than fifty years of continual intervention into medicine by third parties (insurance corporations, lucrative hospital “non-profit” corporations, legislative bodies, and innumerable government agencies), patient and physician have been removed from as much of the health care interaction as possible. The primary participants have no idea what anything costs. The numbers are decided and exchanged behind closed doors with secret contracts negotiated by teams of lawyers and high-powered executives. There is no downward pricing pressure because the costs are well obfuscated from those that incur them (the physicians ordering the tests and medication) and those that pay them (the hapless patient that pays her insurance premiums in perpetuity, then the co-pay at time of service, then the deductible, and perhaps even a residual percentage of the bill) . Who knows how much money has been spent or where it went? To make matters worse, every economic incentive is to charge more.

In business, everyone understandably desires to receive as much for their product or service as the consumer or market will pay. But by hiding true costs, it is possible to eke out more than the consumer would knowingly agree to. (Imagine buying a vehicle and driving it off of the lot without any idea what you would be billed... many months later.) Admittedly, hospitals incur costs for the uninsured, under-insured and for emergency care that may be poorly reimbursed despite the hospitals' tax benefits, direct taxpayer funding and government grants. They have an incentive to increase prices to recoup potential revenue losses, but also to accumulate very large cash flows to buy up competition, purchase physician practices, and to build new facilities all around town.

But who really pays those massive hospital charges? Probably few, and maybe nobody. One might think that insurance companies would balk at such extreme charges, but they don't pay those rates, either. By listing very high base charges (which can be found in every hospital's typically illusive chargemaster), the hospital can show a generous concession to the negotiated fees with insurance companies and government payers. The insurance company, in return, can show its supposed advocacy to customers by how much it "saved" them in inflated hospital charges, thereby justifying higher premiums and deductibles. This distorted and distorting arrangement is the foundation of the cycle and incentive structure of ever-increasing prices in health care. Although I hate to admit it, physician groups are guilty, as well. To the extent that we participate in third-party billing, we too, will and must price services very high as a starting point to a low negotiated "reimbursement" by insurers and the government. Thus, a patient will commonly get a \$2,000 bill for anesthesia services in my field of medicine, while the recovered payment to the group may only be a few hundred dollars, or less.

So, what's the solution?

Some may be ready to concede that mandating health "coverage" by law has not bent the cost curve of health services – nor has any previous legislative intervention of decades past. If the incentive structures and hidden costs described above are accurate, one might determine that forcing full participation in a highly flawed system can only worsen its inefficiencies and distortions. A few years ago at a meeting of the Free Market Medicine Association in Oklahoma City, one of its founders, Dr. Keith Smith, told us, "medical services are not expensive. Health 'coverage,' on the other hand, is very expensive." When one is able to distinguish between the two, it becomes evident that in order to introduce downward economic pressures to our out-of-control health care prices, honest and transparent direct-to-consumer pricing must be at the core of the solution.

Today, as patients and physicians alike seek more truthful, ethical and affordable pricing models, there is a growing trend towards Direct Primary Care and transparent pricing of medical and surgical services. While every aspect of Big Medicine and its myriad lobbyists may oppose such moves, these drives to transparency are at least part of the solution in bringing down costs, extracting expensive but low-value middle men and bureaucracy, putting control back in the hands of consumers, providing information to patients for honest evaluations of quality and value, and re-establishing the one to one relationship of patient and physician. So, the next time you need medical services, you may not be asked the question, "would you like the \$9,400 CT scan or the \$450 CT scan?," but if the situation permits, you just might benefit from doing some shopping.

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(*the author's views do not represent the views of his academic or employment associations... guaranteed!)

References, accessed between Feb 8 and Feb 10, 2017

<http://www.medi-vet.com/Sodium-Chloride-Saline-0-9-1000-ml-p/11241.htm>
sodium chloride 1 liter bag IV fluid \$2.24

<http://www.medi-vet.com/category-s/2133.htm>
lidocaine 2% \$2.58

<https://www.health-tests-direct.com/ordering-page>
basic metabolic profile (panel) \$40.93, complete blood count (CBC) with differential \$24.79, PT and PTT combined \$41.97, red blood cell antibody screen (Coomb's test) \$36.77, blood type ABO and Rh factor combined \$32.48

<https://pricinghealthcare.com/prices/SouthwestDiagnosticDallas/CT%20Scan>
CT scans \$275-\$450, see cite for specifics

<https://pricinghealthcare.com/prices/SouthwestDiagnosticDallas/Diagnostic%20X-ray>
plain film diagnostic xrays \$93-\$150, see site for specifics

<https://www.goodrx.com/hydrocodone-acetaminophen?drug-name=hydrocodone%2Facetaminophen>
multiple pharmacies under \$15 for sixty tablets = <\$0.25 each

Done

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REV CODE HCPCS	BILLING DESCRIPTION	QTY	AMOUNT	CHARGE NUMBER	DATE
	LIDOCA50MLMDVIJ	1	53.18	5321772	03/28/2016
0250 J3490	HYDR/APAP5/325 +	1	6.68	5327554	03/28/2016
0250 J8499	HYDR/APAP5/325 +	3	20.04	5327554	03/29/2016
0250 J8499	LOCM 1ML	75	1,066.50	5358209	03/28/2016
0255 Q9967	NACL .9 1L IVF	3	457.77	5412670	03/28/2016
0258 J7030	BACITRANCN1GMOI+	1	8.58	5334294	03/28/2016
0259 A9150	POV-IODSKNCL4TS+	1	12.02	5337122	03/28/2016
0259 A9150	SSD 50GM CR +	1	83.56	5337272	03/29/2016
0259 J3490	KT SYR DUAL CT	1	103.19	8032562	03/28/2016
0270	SUTURE TRAY	1	324.39	8216041	03/28/2016
0270	BSC METABLC PNL	1	529.20	4100166	03/28/2016
0300 80048	DRG SCRMLTCLS	1	319.73	4100104	03/28/2016
0300 80300	ALCOHOL ETHYL	1	277.83	4102055	03/28/2016
0300 80301	CBC/DIFF&PLATLT	2	571.10	4105028	03/28/2016
0300 85025	PROTHROM TIME	1	141.12	4105610	03/28/2016
0300 85610	PTT	1	202.86	4105700	03/28/2016
0300 85730	RBC AB SCRIN	1	292.16	4106016	03/28/2016
0300 86850	BLD TYPE ABO	1	104.74	4106080	03/28/2016
0300 86900	BLD TYPE RHO D	1	104.74	4106100	03/28/2016
0300 86901	CHEST SINGLE VW	1	415.64	4901010	03/28/2016
0320 71010	SPINE CRV 4/5VW	1	982.33	4902050	03/28/2016
0320 72050	PELVIS 1 VIEW	1	449.82	4902170	03/28/2016
0320 72170	FOREARM 2 VWS	1	412.34	4903091	03/28/2016
0320 73090	WRIST 2 VWS	1	366.03	4903100	03/29/2016
0320 73100	FEMUR 2 VWS	1	504.94	4903551	03/28/2016
0320 73552	KNEE 4 VW MIN	2	1,120.14	4903570	03/28/2016
0320 73564	ANKLE 2 VWS	1	379.26	4903600	03/28/2016
0320 73600	CT HD/BRN WO CM	1	3,031.35	5050450	03/28/2016
0350 70450	CT THORAX W/CM	1	5,401.79	5051260	03/28/2016
0350 71260	CT SP CERV W/O	1	4,401.90	5052125	03/28/2016
0350 72125	CT SP THOR W/O	1	3,900.75	5052128	03/28/2016
0350 72128	CT SP LUMB W/O	1	3,245.96	5052131	03/28/2016
0350 72131	CT AB/PEL W/CM	1	9,475.69	5054177	03/28/2016
0350 74177	PT EVAL LTD	1	468.93	5705200	03/29/2016
0424 97001 GP	SURG LVL II	1	1,453.36	6100402	03/28/2016
0450	INJ T/P/D IVP	1	125.83	6100774	03/28/2016
0450 96374	INJ ADD SEQ IVP	1	125.83	6100775	03/28/2016
0450 96375	SEQ IVP SAME DR	1	125.83	6100776	03/28/2016
0450 96376	ER VISIT LVL V	1	3,437.04	6100527	03/28/2016
0450 99285	MORPHIN 10MG IJ	1	45.04	5327744	03/28/2016
636 J2270	ONDANSETRO1MGIJ	8	141.04	5322936	03/28/2016
636 J2405	TRAUMA III-PART	1	9,801.00	6109007	03/28/2016
683 G0390	OBS 216SD 1/HR	5	825.45	6240656	03/28/2016
762 99218	OBS 216SD 1/HR	16	2,641.44	6240656	03/29/2016
762 99218					
TAL			57,958.12		

