

**STATEMENT OF**  
**Dr. David MacDonald, Family Physician**  
**BEFORE THE**  
**The Committee on Energy & Commerce**  
**SUBCOMMITTEE ON HEALTH**  
**WEDNESDAY, March 15, 2006**

Chairman Deal, Ranking Member Brown, and members of the Subcommittee...

I appreciate the opportunity to testify today about the need for transparency in health care prices. As a family physician, former residency director and LTC, U.S. Army, co-founder of SimpleCare, and President of Liberty Health Group, I have a wide variety of experience. Today the focus is transparency.

Most will never experience what the uninsured/underinsured face when trying to access health. You may be surprised that it could take more than a dozen phone calls before you get an answer to a simple question, "What does 'this' cost?" One can even outline scenarios of care (complicated/ uncomplicated visit; EKG; Echo; etc) and it is still a challenge to get a price. If the educated have a hard time getting a price, imagine how challenging it is for those who know nothing about the system!

I recently visited a prestigious university medical center for a cardiology visit. I received bills that were four times the amount quoted! Also, I observed courtroom proceedings by this hospital for "judgments" of unpaid hospital bills. Those in court were the ones who should benefit from the non-profit status afforded hospitals. We cannot expect hospitals to give away care, but neither should they continue with billing practices that border on extortion.

*"I know what I know; I know what I don't know; but I don't know what I don't know." Robert Ricciardelli*

Nobody would tolerate a "managed grocery" card that enabled you to go the grocery store, purchase various items and then get a bill 30 days later. Either the purchaser of the card would financially collapse because consumers abused the card; or the consumer would become irate when they had to pay their bill. Basically, this is what is happening in health care.

For those who think that providing insurance for everyone is the answer, there are two reports that suggest that this will not be the answer many hope for...

*USA Today/Kaiser Family Foundation/Harvard Survey regarding health care – of those who reported experiencing challenges paying medical bills, 61% had insurance.*

*Health Affairs, 2 February 2005 – 47% of bankruptcies are related to medical bills; yet 75% had insurance at the beginning of the medical challenge.*

Without addressing transparency issues, providing insurance is not the answer. Individuals must still pay their maximum out of pocket charge and other bills not covered by their insurance (Ambulance services). Many believe increasing costs of insurance is because the cost of health care is rising so fast. When health care costs are insulated from free market forces, costs escalate at a rate much greater than medical inflation.

According the *HealthINFLATION* News (3/31/04; Vol. 13, No. 3), inflation for various aspects of health care is as follows:

| <b>Annual Inflation<br/>Health Care Indexes</b> | <b>March<br/>2003</b> | <b>February<br/>2004</b> | <b>Net Increase<br/>in inflation</b> |
|---|-----------------------|--------------------------|--------------------------------------|
| Dental Care                                     | 3.6                   | 5.2                      | 1.6                                  |
| Eye Care  | -0.1                  | 1.4                      | 1.5                                  |

|                          |      |     |      |
|--------------------------|------|-----|------|
| Medical Equipment        | -0.2 | 1.2 | 1.4  |
| Non-prescription drugs   | 1.2  | 1.6 | 0.4  |
| Physician Care           | 3.0  | 3.4 | 0.4  |
| Health Care              | 4.3  | 4.2 | -0.1 |
| Prescription Drugs       | 3.7  | 2.8 | -0.9 |
| Inpatient Hospital Care  | 7.2  | 5.9 | -1.3 |
| Nursing Home Care        | 5.5  | 4.4 | -1.1 |
| Misc. Professional Care  | 3.2  | 1.8 | -1.4 |
| Outpatient Hospital Care | 11.9 | 6.0 | -5.9 |

If benefits were based upon actual costs of health care, we would not have a health care “crisis.” Health care consumers are insulated by co-pays, deductibles, nondisclosure of prices by hospitals, and fear of posting prices by physicians.

Costs are not the only issue to be concerned about. Innovation, quality and access to care are also important. In a free market world, costs should be controlled while increasing access to better quality products. The United States has “invested” in health care more than other countries. Our investments have paid off by the innovative medications and interventions that have been discovered. The United States has more Nobel Prizes than any other nation. In fact, we have more Nobel awards for Physiology and Medicine than all other countries combined! Many are benefiting from the United States’ investment in new technology and medications.

The computer is the best example of the power of free market forces controlling technology costs. Computers are consistently less expensive while the features and options continue to improve. Innovative technology is responsive to free market forces. Health care technology may be more expensive initially but should become progressively less expensive when exposed to market forces.

Liberty Health Group has experienced success in controlling costs in most aspects of health care delivery. Lab tests, surgical procedures, and diagnostic studies are less expensive with transparency and an engaged consumer. When the consumer has knowledge of costs and quality, they make

decisions tailored to their preferences. Some may prefer a more expensive option because of better quality or service. Others may prefer less expensive options and save money for future medical needs. Transparency in prices should not be confused with socialism (all prices are the same). In fact, the freedom to charge different prices rewards innovative services.

The ones who suffer the most from hidden costs are the uninsured and underinsured. Hospitals routinely charge 400% more for the uninsured/underinsured. It is impossible to determine what a hospital receives from insurance carriers for comparable visits or procedures. Supposedly, insurance carriers represent large purchasing groups that justify deeper discounts. *42 million uninsured are a significant purchasing group and should be afforded the same discounts as insurance carriers! False scales can never be justified!*

Here is an example of the prices an uninsured individual faced when hospitalized in California. I compared CMAC/ Tricare pricing to the hospital prices. The hospital would not tell what they accepted from other insurance carriers for similar care and services. Our goal - pay an amount accepted from an insurance carrier. The billing department was not cooperative and resisted giving any information.

| <u>Lab Tests (code)</u>      | <u>CMAC/Tricare Pricing</u> | <u>Hospital Prices</u> |
|------------------------------|-----------------------------|------------------------|
| 80053                        | \$16.09                     | \$229                  |
| 84484                        | \$14.98                     | \$218                  |
| 82805                        | \$43.19                     | \$480                  |
| 83520                        | \$19.70                     | \$234                  |
| <b>Summary of some tests</b> | <b>\$229.62</b>             | <b>\$2832</b>          |

| <u>Procedure Codes</u> | <u>CMAC/Tricare Pricing</u> | <u>Hospital Prices</u> |
|------------------------|-----------------------------|------------------------|
| CT Scan (71260)        | Global \$348.05             | \$2,614                |
| HHN (94640)            | \$12.90 X 31 = \$399        | \$125 X 31 = \$3875    |
| ER (99285)             | \$149.20                    | \$419                  |
| EKG tracing (93005)    | \$17.93                     | \$329                  |
| Pulse Oximeter (94760) | \$4.75                      | \$328                  |

*The discrepancies are glaring and beg an explanation!* Our goal was to resolve this matter without legal intervention. Even

if the CMAC/Tricare numbers are low, there cannot be such a wide disparity between the hospital bills and the CMAC/Tricare maximum allowable charge. The hand held nebulizer (HHN) therapy bill and pulse oximeter bills are almost unbelievable! Sadly, this is not an uncommon example.

The notion that hospitals must charge more to make up for the "abuse by the uninsured" is not supported by sound ethical or business discussions. A study by Alwyn Cassil, Center for Studying Health System Change, focused on the frequency of ER visits 1996/97 – 2000/01. They found a 16% increase (108 million/year) in ER visits. Those with insurance or Medicare accounted for 66%. The self-pay or those not charged accounted for 10%. Medicaid/Cash patients reported waiting longer and rated the service they received lower than insured patients. The uninsured were not a major factor for increased crowding in the ER.

It is imperative that hospitals reveal the amount they accept from insurance carriers for a procedure, lab, or service. Mandating they post a price will not resolve the disparity. The result be like the Average Wholesale Price (AWP) used for pharmacy prices, or the shadow that "discounts" create – neither one is practically useful. AWP is a meaningless business term. A 30% "discount" of an inflated price is often worse than 100% payment of a legitimate price.

It is unconscionable to allow this two-tiered billing practice to continue. I have spoken to Hospital Administrators who fear the wrath of the "Medicare Fraud Squad." They are concerned that they cannot accept less than their billed rate from the uninsured/underinsured. A transparent price would eliminate this fear. Furthermore, it does not seem logical to give insurance carriers a price break when they pay their executives multiple million dollar salaries. Sliding scales do not produce transparency.

Liberty Health Group has success with outpatient costs. We have seen progressively less expensive lab tests, diagnostic tests, medication costs controlled, and renewal rates that are consistent with medical inflation (2-4%). New technology and medications will always be more expensive. The individual should be allowed to decide if the more expensive medication is worth the money.

Small businesses are also affected by non-transparent pricing. They are challenged to keep up with premium inflation that is triple medical inflation. Many business owners cannot afford to continue to offer benefits. Mandating coverage does not resolve the problem posed by non-transparent prices.

The Department of Treasury and IRS issued guidance that gave small businesses more leverage in their health benefits options by expanding the use of Health Reimbursement Arrangements (HRA), Section 105 of the Internal Revenue Code (June 2002). The employer credits pre-tax money to their employees that may only be used for qualified medical expenses. Unspent money can accumulate for future medical needs.

Cafeteria plans (Section 125 of the Internal Revenue Code) are similar. The employer and employee can contribute pre-tax money into these accounts for qualified medical expenses. These plans work best for predictable medical expenses. However, unspent money in the Cafeteria plans does not accumulate. As a result, there are end of year spending sprees with the remaining money.

Health Savings Accounts (HSA) are another exciting option. The employer and employee may contribute to these plans that include a pre-tax medical account and a qualified high-deductible policy. In my experience these plans are rich in concept but disappointing in application. The main reasons they are disappointing are: a lack of transparency regarding pricing (HSA holders pay "retail" prices at the doctor and hospital); and

renewal rates are disproportionately high after 2-3 years into the plan.

When employees have control of a portion of their health care dollars, they will shop for health care. Preventive services are more likely to be used, less expensive medication options will be pursued, and routine care/immunizations are not neglected.

Legislative efforts that would help control costs, increase access to care, and encourage saving unspent money for unpredictable medical events might focus on the following:

1. Hospitals:

- a. Remove the fear Hospital Administrators have expressed regarding the "Medicare Fraud Squad" evaluating and assessing fines.
- b. Assess non-profit status of hospitals who continue to expect payment from the uninsured that is 400% higher than what is accepted from insurance carriers.
- c. The word "profit" must be defined. There are "for profit" hospitals that are efficient, less expensive than comparable hospitals, and treat all in the ER. Society would be much better served by a "for profit" hospital that posted prices than a non-profit hospital that charges those who need help the most 400% above an acceptable insurance payment.
- d. *Something to ponder...Why can hospitals own physicians but physicians cannot own hospitals? Is there ethical superiority of one relationship to the other?*

***"You must deodorize profit and make people understand that profit is not something offensive, but as important to a company as breathing"***

***Sir Peter Parker***

***Chairman, British Rail***

***"End of year spending sprees by the Federal Government is an egregious waste of tax payer's dollars." ...unknown***

2. Pharmacy prices:
  - a. Disclose rebates and all financial benefits related to pharmacy issues.
  - b. Average Wholesale Price (AWP) is a meaningless number for most discussions. The question is rather simple, "What does the drug cost?"
3. Insurance costs: Eliminate restrictions for purchasing health insurance across state borders.
4. Physician fees: Encourage physicians to "post their prices" without fear of fines. I posted my prices since 1997 without any legal problems. Those concerned about a "two-tiered system" must agree that our health care delivery system currently has a "two-tiered system" that favors the insurance carriers and discriminates against the uninsured. This must end!

Transparency issues in health care are vital for the success of any health care delivery system. Costs are controlled, access improved, and innovation appropriately rewarded when prices are transparent and free market forces are allowed to work. I know from the front lines of health care that we could rapidly and dramatically improve health care for the uninsured and underinsured with non-discriminatory, transparent pricing.

*"We do not have to see eye to eye to walk hand in hand."*

*Phillip Gambel*

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