



AN ASSOCIATION OF
MONTANA HEALTH
CARE PROVIDERS

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To: Members of the Joint Human Services Appropriations Subcommittee
From: Bob Olsen, MHA Vice President
Re: Hospital-based physician clinics

The Committee discussion today included a request for information pertaining to hospital-based physician clinics. The request was not directed to MHA, but the service is an outpatient hospital service, and we offer this information for your consideration.

What is a Hospital-based Clinic?

A provider-based clinic exists when the main provider – the hospital- creates or acquires a clinic for furnishing services of a different type from those of the main provider. In this case we mean physician services. The governing federal regulations can be found at 42CFR413.65.

What Criteria Must a Hospital Meet?

A clinic is hospital-based if it meets several criteria aimed at showing the clinic is a bona fide outpatient hospital department. The criteria include:

- Operate under the hospital license and be integrated financially.
- Demonstrate clinical integration and provide access to all hospital services.
- Demonstrate public awareness that the clinic is part of the hospital.
- Hospital must show it manages, controls and supervises clinic; and
- Hospitals must meet their EMTALA anti-dumping obligations.

Why Are Payments Higher Than a Doctor's Office?

When a physician delivers care in their private office they bill the services and are paid under the RB/RVS fee schedule. A single bill is created, and the payment is compensation for the entire service. A hospital-based clinic services results in two bills. One bill covers the physician service. The physician bill shows a site of service outpatient hospital instead of private office. This results in a lower payment since the physician bill does not include RVUs for practice expense. The hospital bills its part of the service, which normally includes an exam room, supplies and related services. This bill is paid under hospital rules. The two payments, taken together, sometimes exceed what a private physician office is paid.

But the payment isn't always greater at the hospital. When a patient is seen in a hospital-based clinic and then hospitalized the service is bundled into the DRG payment. Further, some cancer drugs supplied by private physicians are paid at much higher rates than when provided by a hospital.

Why Do Hospital-based Clinics Exist?

Hospitals create and acquire physician clinics for a variety of reasons. Billings Clinic resulted from the merger of the hospital and the large multi-specialty clinic. The merger intends to improve clinical treatment and align the financial incentives of the hospital and the medical staff. While the per-case payments appear higher the merged facility provides more effective control of utilization, avoids duplicating equipment and services. These features decrease the overall cost of medical care.

Other hospitals have created clinics to improve recruitment and retention of physicians into small towns. More often doctors don't want to bear the financial risk and administrative responsibility for solo or small group practices. A hospital-based clinic transfers the risk and administrative work onto the hospital while freeing the physician to focus on delivering care.

Hospital-based clinics preserve access to health care. A hospital-based clinic comes under the overall operation of the hospital. For a non profit hospital this means full access for Medicaid beneficiaries to physician care. In one community the hospital clinic is the only primary care provider that accepts new Medicaid patients.

What Happens if Medicaid Cuts Payments?

A hospital based clinic that exists now would continue to exist if Medicaid payments were cut to the same amount paid to a private physician office. Effective January 1, 2007, the Department did reduce payments to hospital-based clinics as part of an effort to reign in Medicaid spending. As is true with all hospital care, if Medicaid payments fall short of cost the hospital has to shift the unpaid costs onto other payers, reduce services or otherwise restrict access to care.

Poor payments from major payers like Medicare and Medicaid will have a chilling effect on the creation of, or existence of hospital-based clinics. But such a policy may not be as cost effective as it might seem at first glance. Low payment also won't help solve the problems a hospital-based clinic aims to address.