Why Hospitals Bill High


Victor Lustig

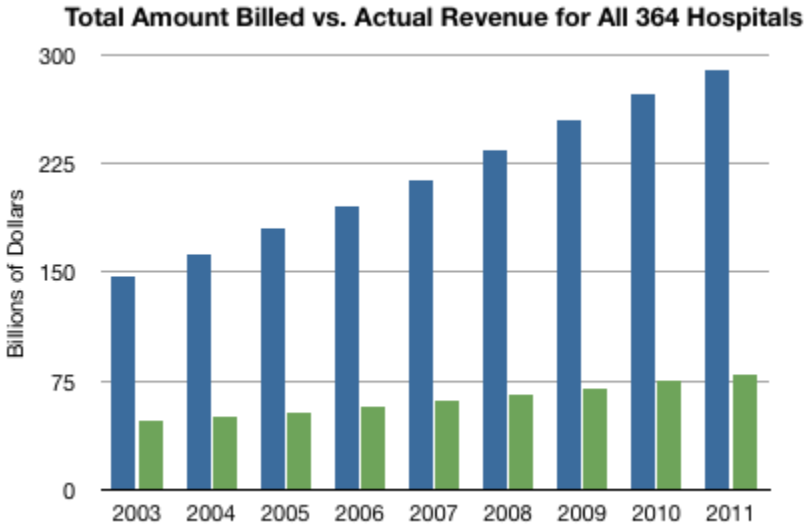
The scheme behind turbocharged hospital bills is to provide false value and hidden revenue streams……a Victor Lustig wet dream

By Bill Rusteberg

Hospitals bill high for several reasons. One is not the expectation of receiving "payment in full". Instead, the scheme behind turbocharged hospital bills is to provide false value and hidden revenue streams for health care conspirators working in tandem.

Making Money on The Spread Through False Value

The illustration below visualizes the difference between billed charges and actual paid charges. The difference, i.e, The Spread, is enormous and upon which third party intermediaries earn billions of dollars in fees.



(Source: Hospital Financial Analysis (A NineYear Study of the Annual Financial Reports of Nearly 400 California Hospitals) By David Belk MD and Paul Belk PhD)

False value through “steep PPO discounts” help insurance companies sell their product. “Look at the steep discounts we negotiated for you!” tout insurance company representatives. “Without insurance, you would have been up a creek without a paddle!”

Enormous revenue streams are shared between multiple third party intermediaries through either disclosed “shared savings” or secretive fee arrangements based on a percentage of discount between billed charges and actual paid charges. The higher the billed charges, the higher these egregious fees, or kickbacks, to silent partners.

The Weslaco ISD lawsuit against Aetna is a fascinating read as it exposes one of the industry’s best kept secrets – fees derived off hospital charge master rates. (Weslaco ISD vs Aetna) In this case, these fees include “shared savings” off PPO network discounts. According to the pleading, Aetna charged Weslaco ISD 9.7% of savings as a network access fee. In other words, Aetna’s PPO contracts, negotiated by Aetna with willing providers, was “sold” to Weslaco in return for a percentage of the discount (in addition to other administrative fees). The higher the charge master rates, the higher the fees to be earned by Aetna. These provider access fees were effectively embedded in the claim side of the ledger, inflating claim costs by 9.7%. With medical trend averaging 9% per year, one could reason that a significant portion of Weslaco’s annual medical spend, about 18.7%, can be directly attributable to managed care contracts that almost always include an annual escalator clause.

Here is another article that is just one more example of fees earned off the charge master spread – Lawsuit Exposes Insurance Industry’s Best Kept Secret.

The most egregious part of this “Bill High” scheme, and the one costing plan sponsors the most, pertains to outlier clauses in Managed Care contracts. Under these contracts of adhesion, outliers are based on billed charges. Once the outlier is reached, typically $100,000 in billed charges, plan sponsors lose most of their managed care contract’s purported discounts all the way back to the first dollar. Instead of receiving a 50% discount or more, plan sponsors end up with only a 10-15% discount at best. A turbocharged bill of $100,000 can accrue faster than a melting raspa in South Texas or a speeding bullet in Chicago.

Plan Sponsors Have A Fiduciary Duty

Plan sponsors should carefully review their plan’s costs in all areas, a basic fiduciary duty under ERISA. Industry fee schedules based off billed charges should be avoided as should provider reimbursement agreements based on discounts off imaginary numbers.

Otherwise, welcome to Lustig’s world of deceptional reality.

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