

The Dismal Math of Fee Reductions

By John B. Pinto

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There's an old, old tale still circulating about Morris-the-loudmouth-mechanic. He was removing the cylinder heads from the motor of a car, when he spotted the famous heart surgeon Dr. Michael DeBakey, who was standing off to the side, waiting for the service manager to come take a look at his Mercedes. Morris shouted across the garage, "Hey, DeBakey! Is dat you? Come on ova' here a minute."

The famous surgeon, somewhat surprised, walked over to where Morris the mechanic was working on the car. Morris straightened up, wiped his hands on a rag, and asked argumentatively, "So Mr. Fancy Doctor, look at dis here work. Like you, I also open hearts, take valves out, grind 'em, put in new parts, and when I finish this baby will purr like a kitten. So come you get da big bucks, when you an' me is doing basically da same work?"

Dr. DeBakey leaned over and whispered to Morris, "Try doing it with the engine running."

Indeed. The difficulty—and relative value—of all medical care, and particularly ophthalmic surgery, has been remarkably deflated from both within the profession (witness the Lasik fee wars) and without (Medicare's ongoing, stealthy fee erosion.)

It was in that spirit that I opened my e-mail a couple of weeks ago and found a request from Lucy Santiago, Executive Director of the American Society of Ophthalmic Administrators, asking me and a few other consultants for our ideas on the fairness of the latest, pending fee cuts. As this article goes to press, those cuts are still pending. Here's what I wrote back.

"Dear Lucy:

"This follows up your kind request for my impressions of the summary impact of proposed fee reductions on the typical ophthalmology practice. I have drawn up the following scenario for review by you and others in a position to influence policy.

"Imagine a solo ophthalmologist. He's facing a 5% or even 10% cut in cataract fees. He is moderately successful compared to the average surgeon and is doing about 25 cases a month. Our imaginary surgeon has a pretty typical 65% practice overhead. His expenses are rising about 3% a year. Here's a table showing how his numbers sort out today—and keep in mind this is looking at cataract fee changes only as an isolated impact. It doesn't address cuts for any other Medicare services.

MONTHLY FIGURES	2001 Base Year Before Fee Reductions	Scenario One: 2002 5% Cataract Fee	Scenario Two: 2002 10% Cataract Fee

		Reduction	Reduction
Cataract case volume	25	25	25
Typical allowable cataract fee	690	656	621
Cataract fee collections	17250	16400	15525
Non-cataract fee collections	25000	25000	25000
Total fee collections	42250	41400	40525
Practice expenses (overhead)	27463	28287	28287
Practice profit	14787	13113	12238
Profit reduction	0	1674	2549
	0%	-11.3%	-17.2%

“Lucy, as you know, the typical, geriatrics-oriented ophthalmology practice today is an extremely small and correspondingly fragile business entity. Profit margins are typically in the range of 35%, although that margin has been falling steadily in the past two decades...20 years ago, expense margins were 35%. I forecast that “normal” margins will fall to 25% or less within a decade.

“From the chart above, you can see the leveraged impact that innocuous-sounding fee reductions have on the typical practice. A 5% fee cut, is actually more than an 11% pay cut for the typical eye surgeon. A 10% fee cut—in the cataract arena alone—translates to a nearly 20% cut in net income. If eye surgeons were not so busy taking out your and my grandmothers’ cataracts this week, they would be marching on Washington right now. (And should be, still!)

“Let’s explore the cost side of this largely mom-and-pop enterprise. As a service business, ophthalmology is particularly labor intensive, facility-intensive and technology intensive. All three of these cost sectors have escalated sharply.

“In even the best-run, steady-state practices, with zero net revenue growth, operating costs are going up at least 3% per year. Recently proposed patient confidentiality and other regulatory burdens, on top of the existing labyrinth of claim submission protocols, are pushing many eye care organizations to the brink of operational overload. For even the most committed surgeons, the focus on patients is eroding year-by-year as the doctor’s time and attention is increasingly devoted to paperwork and urgent budget meetings, pulling precious minutes from each patient’s individual appointment slot. Against these rising costs and burdens, ophthalmology has already taken disproportionately large fee hits in recent years. Seen in perspective over nearly the last decade, there has been an average weekly \$1 drop in fees...week after week of deflation. This has been corrosive on patient care, and especially corrosive on surgeon morale. Even for those surgeons who have a little cushion—perhaps because their lifestyle costs are reined in—are demoralized by the sense that their skills are no longer as valued.

“As you know, nearly half of the cataract surgeons in America have made efforts in the past several years to augment their position and offset these falling Medicare fees by adding elective services such a vision correction surgery to their practices. Until the current recession, these efforts were really helping. The resulting cash flows allowed many surgeons to stay the course and continue to offer cataract care, even though the economic rationale for doing so was falling. However, now that both fees and case volumes of vision correction surgery have dropped with the economic tide, it would not be overstating the case to say that a significant percentage of America’s eye surgeons are now having to re-evaluate their ability to continue to provide the current level of geriatric eye care. And, as we all know from the ophthalmic manufacturing and

medical supply communities, the adoption of new technology has ground to a halt. Much of that disruption to innovation could be permanent.

“If I may, Lucy, I’d like to end on a subjective and personal note. Twenty-five years ago I took a detour on the way to medical school to help physicians run their businesses better, and in turn provide better care. The first doctor I ever served was polio pioneer Dr. Jonas Salk, and since then, I’ve served four Nobel Laureates, hundreds of clinics and hospitals, and thousands of dedicated surgeons. I’ve done field work in virtually every state in this nation, in Europe, Canada, South America and even the Kingdom of Tonga. In that period of time, I’ve have been privileged to witness, first hand, some of the best and the brightest medical minds of the country and the world at work. I’ve coached doctors as young students, lived as a guest in their homes, stood next to them in surgery and helped them retire gracefully.

“Ophthalmologists are among the most highly vetted and highly trained thoroughbreds of the American healthcare system. And yet, I can report to you, Lucy, that the stamina and morale of the typical American eye surgeon is reaching a breaking point. Mature surgeons are bolting for the door, and newly-minted surgeons are awakened to the growing evidence that society-at-large—as reflected in allowable 3rd-party fees—is progressively devaluing their work. If the present trend continues, the brightest minds and steadiest hands will no longer be found in medicine, and they certainly won’t be found in ophthalmology.

“The clear vision provided by cataract surgery—which, astoundingly, is nearly 100% effective in restoring diminished sight—is now, at present fees, the bargain of the century. It used to be you could buy a pretty nice car for what it cost to have cataract surgery...The routine 35,000 mile tune-up on our family car last week cost \$1156...nearly twice the cost a surgeon’s fee for cataract surgery. I am convinced that if we continue to push the current fees into the “blue light special” category, we will be heading down a very unpleasant and an ironically costly path.

“I am hopeful that you and your colleagues at the Society, in concert with others around the country, are able to turn the tide before it’s my turn—or my congressman’s turn—to have cataract surgery.”

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Perhaps Morris finally got his wish.

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