A New Way to Slice the Doctors' Pie

Surgeons would get less money, family physicians would get more, and Congress would get a headache

THE CURRENT SYSTEM of compensating physicians for their work is completely out of whack. That is the overwhelming conclusion of a watershed report by Harvard economist William Hsiao and his colleagues,* who painstakingly detail what many have long suspected: that the family practitioner is being paid far less for the same amount of work than his peers in the more lucrative fields of surgery and ophthalmology.

Even within specialities, Hsiao and his coworkers learned that invasive procedures are compensated at more than double the rate of services based on cognitive skills. For example, an internist gets $48 from Medicare for an 8-minute electrocardiogram, while the same physician is paid $35 for a 20-minute examination of a patient with chest pains. Even surgeons, who are paid quite handsomely for inserting pacemakers and performing coronary bypasses, are being shortchanged when it comes to consultations and office visits. Says Hsiao: "Physicians are being punished for spending time with their patients, while they are being encouraged to perform unwarranted surgery and unnecessary diagnostic tests."

If a fee schedule based on Hsiao's study is adopted by Congress, wealth would be redistributed. Assuming a "budget neutral world," an average family physician, for example, stands to gain 60% more revenue from Medicare, while the average surgeon or ophthalmologist would lose 40% of his Medicare income. And whatever happens to Medicare reimbursement is sure to be followed closely by private insurers.

Hsiao believes that a more equitable way to compensate physicians would be to base their pay on the amount of resources they put into a service. In other words, a physician's fee should not be built on the current practice of paying what is "customary, prevailing, and reasonable," but on the true "cost" of a service.

How does one define such a cost? First, Hsiao and his co-workers tried to define a unit of work which takes into account not only the time a job requires, but the amount of mental effort, technical skill, and psychological stress it extracts from a physician.

To do this, they asked 2000 doctors to rate a number of tasks by comparing them to a single reference service within their specialty. For example, in general surgery the reference was the repair of an uncomplicated inguinal hernia. This was given a rating of 100. Surgeons were then asked to compare other jobs to the hernia repair. If a lower anterior resection for rectal carcinoma was judged to be 4.5 times more work than the hernia repair, it was given a rating of 450.

Added to these work ratings were values to take into account office expenses (which can consume 50% of some physicians' revenues), malpractice premiums, and the cost of being trained in a speciality. The values do not take into account the skill of individual physicians, nor do they place any value on the benefit of the service to the patient.

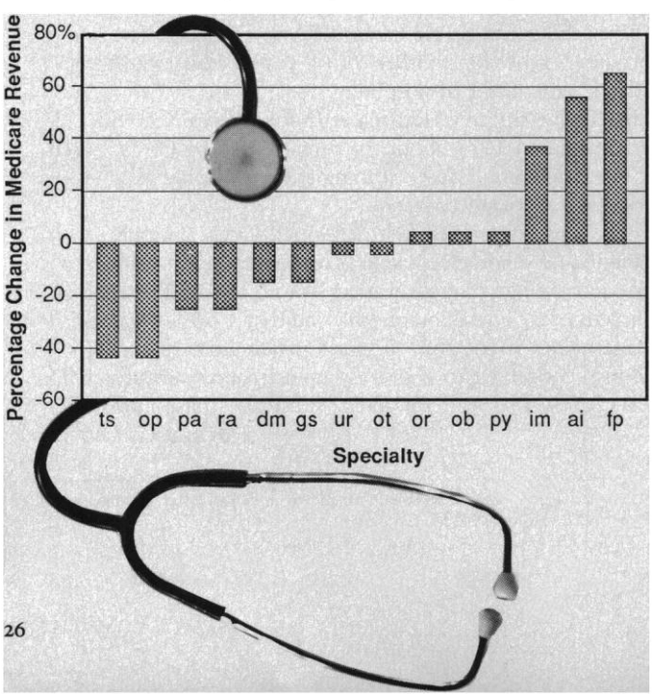
As one might guess, reaction to Hsiao's federally funded, 30-month study has been mixed. "It's long overdue . . . and we believe they did it right," says Robert Graham of the American Academy of Family Physicians. But others in the more richly compensated specialities do not share Graham's enthusiasm. "Our doctors feel just terrible. They feel they've been singled out and painted as bad guys," says Larry Boston of the American Academy of Ophthalmology, who calls Hsiao's conclusions "more than disturbing, they are appalling."

Paul Ebert of the American College of Surgeons questions Hsiao's methodology and suggests that the Harvard economist approached the study with a certain bias: namely that surgical services were overpriced. "If it's a truly scientific study, I don't think you can go in with such assumptions," says Ebert.

Hsiao replies: "The data come from the 2000 physicians that we interviewed. It was reviewed by another 100 physicians. To say that we were biased against surgeons is a ridiculous suggestion."

Regardless of the pain involved, the time may be right for a change in the current system of compensation. Medicare costs have been going through the roof. Between 1975 and 1987, Medicare spending on physicians' services increased 15% a year, thanks largely to doctors performing more services. In 1988, Medicare spent $21 billion on physician services. In 1990, the figure will be $27 billion. William Roper of the Health Care Finance Administration, the agency which commissioned Hsiao' study, predicts: "By the year 2005, total Medicare spending is expected to exceed spending on Social Security, making Medicare the country's largest entitlement program."

Congress is clearly interested in holding the line on Medicare costs. But congressional staffers question whether a compensation system such as Hsiao's will do anything more than redistribute the wealth. If not, overhauling the system might not be worth the political bloodletting it would entail. A new congress will take up the matter in the spring. ■ WILLIAM BOOTH



Winners and losers: *Impact of using a resource-based relative-value scale on medical fees, according to specialty: (from left) thoracic and cardiovascular surgery, ophthalmology, pathology, radiology, dermatology, general surgery, urology, otolaryngology, orthopedic surgery, obstetrics and gynecology, psychiatry, internal medicine, allergy and immunology, and family practice.*

*William Hsiao, Peter Braun, Douwe Yntema, and Edmund Becker of the Harvard School of Public Health and Harvard University. Final Report to the Health Care Financing Administration, 1988.