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December 5, 2014

Robin Lunge, Director
Health Care Reform
Agency of Administration
109 State Street
Montpelier, VT 05609

Dear Robin:

On behalf of the physician members of Health*first*, I am writing to respond to the report recently issued from your office: Report on Payment Variation in Physician Practices. Health*first* appreciates the time and effort put in to this report. However, we do have some concern that while the report raises some important issues, it does miss the mark in a number of ways. We offer these comments to be constructive in our collective efforts to address the problem outlined by this report.

1. **The data reviewed was too narrow to draw definitive conclusions.** Primary Care services were the only comparison CPT codes considered while primary care accounts for less than one-quarter of total billings for professional services. In fact, the great majority of payments to physicians are for specialty care.[i] Based on our review of allowed charges found on bills to our patients, we know that variation is far more dramatic in specialty care than it is in primary care. To review pricing variation in primary care codes that account for less than one-quarter of total physician reimbursement focuses on only a fraction of the problem and the question posed by the legislature.

2. **The data relied upon is outdated.**
   a. In 2012, the commercial insurance market in Vermont was not nearly as concentrated as it is now and many independent physicians were reimbursed on par with physicians employed by the state's dominant hospital under certain plans, such as BCBS TVHP, which at that time had 16% market share.[ii] Much has changed since then. BCBS placed independent providers on the much lower BCBS "community" fee schedules for their TVHP plan in January 2014. Meanwhile, market share for BCBS in the commercial market has increased from 66% in 2012 to approximately 75% today.[iii]
   b. Fletcher Allen, now UVMMC, moved its self-funded employees from Vermont Managed Care (VMC) under which all providers were paid the same, to BCBS in 2013, resulting in an immediate substantial disparity in pay that did not previously exist..
   c. Fletcher Allen then closed VMC altogether in January 2014. Again, under VMC all physicians were paid the same, but with FAHC closing VMC, independent physicians were moved to a (lower) MVP community fee schedule in Northern Vermont, and Fletcher Allen negotiated a higher reimbursement for services provided by hospital-employed physicians.

By not using more recent data or altering the methodology to survey commercial insurers for rate schedules in order to understand the market as it currently exists, you did not capture the sharp increases in payment variation wrought by these changes in the commercial insurance market, even within the context of primary care payments.

3. **Conclusions don't articulate the fact that the state's "academic medical center" is also the dominant hospital provider.** UVM Medical Center accounts for 50% of hospital market share based on net patient billings[iv] and commands significant pricing power in the commercial insurance marketplace. This dominant hospital also employs over 50% of the hospital-employed physicians in the state.[v] Thus, it is very surprising to see UVMMC carved out of the hospital grouping when reimbursement rates between hospital-employed and independent physicians are being compared. Carving the state's largest hospital out of the analysis leads to the report's curious conclusion that "payers in Vermont do not reimburse hospital-owned office practices higher on average than physician-owned office practices." When all hospitals including UVM Medical Center are considered in the analysis, it's clear that private insurers do reimburse hospital-owned office practices higher on average than physician-owned office practices. A more complete

treatment of the issue would have at least reviewed the data both ways, as it is highly debatable whether the distinction of the state's dominant hospital as an academic medical center is even relevant to the discussion of differential reimbursement for professional services. Academic hospitals receive federal GME payments to support their educational mission, medical school tuition from enrolled students, and facility fees to support their special overhead and services – all specific and separate payment streams from physician fees for professional services, which are the subject of this report. Meanwhile, independent physicians regularly teach residents in their practices without receiving additional payments.

4. **Data still shows disparity in reimbursements**. Even with these limitations, the data still shows that physicians employed by the state's largest hospital system are reimbursed by commercial insurers at significantly higher rates than physicians in independent practices for providing the exact same services. These higher reimbursement rates are unrelated to quality, efficiency, or other measures of health care effectiveness. We believe that this final point should have been included among the report's conclusions.

Despite our concerns, *Healthfirst* is pleased that the Agency of Administration recommends continued focus on the issue of payment variation as the Green Mountain Care Board and the legislature move forward with their reform agendas. Health*first* is committed to addressing the adequacy of reimbursement to independent practices in the near-term and will be working with the Board and the legislature to design and deploy a solution. A solution is critical to ensuring that independent practices survive and continue to provide Vermonters the option to have small, personalized, community-based providers meet their health care needs.

Sincerely,

Amy Cooper
Executive Director, Health*first*

Cc: Al Gobeille, Chair Green Mountain Care Board
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[i] Accountable Care Coalition of the Green Mountains Medicare ACO claims data from CMS - 2013
ii BISHCA 2011 Provider Reimbursement Report -www.leg.state.vt.us/reports/2011ExternalReports/273808.pdf, page 5
iii Blueprint for Health Report, October 1, 2014. Table 5, page 25.
iv FY2014 Summary of Vermont Hospital Budgets – GMCB, slide 7.
v FY2014 Summary of Vermont Hospital Budgets – GMCB, slide 11.