For hospitals after No Surprises Act, physician subsidies are 'the new contract labor'

By Tara Bannow Oct. 30, 2023 STAT News

Physician staffing firms, flailing in the wake of a federal law banning surprise bills, are demanding extra payment from hospitals to stay afloat. Hospitals, desperate for doctors to staff their facilities, have little choice but to comply.

It's a big topic of conversation on for-profit hospital earnings calls. Just last week, major hospital chains said those expenses, known as physician subsidies, were up 20% to 40% from last year. And experts say it's just as bad at not-for-profit hospitals. It's a complicated problem that's gotten worse just as contract labor expenses — hospitals' hallmark problem of the past three years — ease up.

"This is the new contract labor," said Whit Mayo, senior managing director with Leerink Partners. "This is the new cost issue that the industry is having to deal with."

It's happening partly because companies like Envision, which employ the doctors that staff many emergency departments and operating rooms, can no longer pad their bottom lines by "balance" billing patients for anything their insurance doesn't cover. The No Surprises Act banned that practice at the beginning of 2022. For patients, that law has mostly eliminated what were oftentimes enormous surprise bills from out-of-network doctors who saw them at in-network hospitals. On the other hand, it played a big role in Envision's bankruptcy and the folding of American Physician Partners, events that have had industry-wide ripple effects.

But providers and analysts who study the industry also blame health insurers, who they claim are now emboldened to withhold reimbursement and cancel contracts. They say that was especially true while the federal process for resolving out-of-network price disputes was on hold.

Ryan Stanton, an emergency room physician in Kentucky, said his 13-physician practice currently has over $100,000 tied up in health insurance denials. He said Anthem Blue Cross and Blue Shield, for example, is holding the majority of its level five claims — those for the most complex and expensive treatment — for further review. Anthem said it's doing so because it has determined that Stanton's practice bills at the highest cost level far more than is typical.

"It's the only industry where you can provide a high-level service and then those that are responsible for paying for it are like, 'Hmm, I guess not. I'm not really interested,'" said Stanton, a spokesperson for the American College of Emergency Physicians.

Part of the reason doctors need the subsidies, Stanton said, is that some hospitals see lots of patients who are uninsured or have government-sponsored insurance, which pays less than commercial insurance. His practice doesn't currently need subsidies because it's staffing a hospital with a lot of commercial patients, but when the team starts working at a different hospital, it plans to ask for a subsidy.

"People want the best, and it's in an area that can't support the highest-qualified, board-certified emergency physicians," he said. "But you still want it, so there has to be that support to say, 'We're willing to build it so they will come.'"

HCA, the country's largest hospital chain, with over 180 hospitals, disclosed on last week's earnings call that its physician subsidy payments grew 20% year over year. The company has paid roughly $3 billion in physician subsidies this year alone, said Mayo, the Leerink analyst. Another 20% increase next year would equate to another $600 million, he said.

It's hard to say how much the subsidies are because it's such a wide range and varies depending on the size of the practice and the types of providers. Ashley Graver, a vice president with the health care consultancy Coker Group, said she's seen hospitals pay $300,000 to $15 million in physician subsidies. Brian Tanquilut, a health care equity analyst with Jefferies, said he recently learned hospitals were paying about $240,000 in subsidies per anesthesiologist, up from about $80,000 a decade ago.

In addition to the physician subsidy issue, which pertains to contracted doctors, HCA is losing money on its employed doctors. Earlier this year, HCA brought in-house about 5,000 doctors who were formerly contracted through a joint venture with Envision. They're emergency room physicians, anesthesiologists, hospitalists, and radiologists, and they make up the majority of physicians within those specialities working in HCA's hospitals, Tanquilut said

HCA executives said last week that those doctors aren't bringing in as much revenue from insurers as expected. Because of that, they are expected to cost the company $50 million every quarter through 2024.

Universal Health Services, another investor-owned hospital chain, told analysts on its earnings call last week that physician subsidies are up by as much as 40% this year, which far exceeds the company's projection. Steve Filton, UHS' finance chief, said UHS is now hiring some of those doctors instead of contracting to avoid subsidies.

"The industry has largely had to reset itself since the No Surprises Act passed and the impact of that on the profitability of these physician services," Filton said. "The impact of the lower billings is playing its way through the system."

It's not just the physicians driving the need for subsidies, it's advanced practice providers like certified registered nurse anesthetists, who are registered nurses trained to provide anesthesia. There's an even bigger shortage of CRNAs than doctors, partly because many have taken to travel nursing since the pandemic, Graver said.

"It does feel like it's headed down a path that is not sustainable," Graver said. "Subsidies are increasing across the board. I don't know what the resolution will be, but something has to give."

About the Author Reprints

Tara Bannow

Hospitals and Insurance Reporter

Tara Bannow covers hospitals, providers, and insurers.