



The Physician and the Snowplow

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In the Northeast, the dearth of snow this year offers an insight into the workings of the dismal science (economics). Many of us employ a snowplowing service to clear our driveway. The contractual arrangement is that we pay them a flat fee for the season, and they agree to plow our driveway whenever the snow accumulates more than four inches.

The other week we received about 2 inches of snow and I was surprised to see that my driveway had been plowed. It seemed our service plowed out of guilt, rather than necessity. This got me thinking about the medical profession's fee for service model where they are paid by the procedure. What if my plowing service adopted the same business model as the medical community? What might be the unintended consequences?

Since we never know how much snow will fall each season, there would be a natural inclination to plow more frequently. It would also seem reasonable that more plowing would occur not because the driveway would be impassable, but because more frequent plowing was more profitable. In the end the justification for this arrangement would be that your driveway never looked better in the winter.

Now consider the snowplow service may have an ownership interest in paving and landscaping businesses that can repair damage done by the plow. Using a fee for service model coupled with ownership of associated businesses demonstrates how easily the cost of getting out of your garage in the winter could become prohibitive.

As you may expect, a customer uncomfortable with the rising costs would be in a position to rein in the frequency of plows. They could ask not to be plowed unless the new snow reached a depth of 6 inches. This option, however, is not available to the patient.

Since the majority of practitioner compensation is from third party payers such as the government or insurance companies, the option of direct consumer intervention to control pricing is muted. What happens is that the economic fallout from the fee for service model tends to show up in several areas; none of which are at the practitioner level.

Government at all levels is financing more than 50% of health care costs. The spiraling federal deficit is one symptom of the fee for service model. Stagnating employee pay is another symptom as an increasing percentage of employee compensation goes to cover health insurance premiums. A significant portion of double digit annual increases in health insurance premiums can also be tied to the fee for service model.

America's largest health insurer, UnitedHealth Group is changing its compensation model for physicians and hospitals; emphasizing goals based compensation at the expense of fee based charges. If their model is successful, it may mark the beginning of the end of a medical arms race that America can no longer afford.

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