

Why it costs you so much to see a specialist – and what the government should do about it

August 14 2017, by Stephen Duckett



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Australians pay too much when they go to medical specialists. The government can and should do more to drive prices down. A current [Senate Inquiry on out-of-pocket costs](#) will hopefully lead to some policy action.

The problem is clear to anyone who has had to see a specialist recently. About [85% of GP visits are bulk billed](#), but the rate of bulk billing for visits to a specialist is much lower, at around 30%. The out-of-pocket costs can be very high, [hurting patients](#).

To work out how to reduce the out-of-pocket costs for specialist care, we first need to identify why they are so high. There are four potential reasons.

1. Government rebates?

It may be that rebates for some procedures or for attendances are set too low. Rebates are set by [government](#) and may bear no relation to the actual cost of providing a service. Unlike in [Canada](#), there is no obligation in Australia for government to consult with medical practitioners before setting fees.

But this explanation cannot account for the very high variation in fees. If high levels of billing above the nominated fee were due to inadequacies in the fee paid by government, then this would apply to all specialists equally. But in fact, some specialists charge more than others.

2. Supply and demand?

It may be that a specialist's ability to charge a substantial out-of-pocket premium is simply the result of high demand for a particular service in a particular location.

Certainly, if the market for specialist care was functioning perfectly, supply would adjust to meet demand. But the reality is that specialist care is not a perfect market. Even with the increase in the number of medical graduates in Australia over recent years, there are still shortages

of specialists in rural and remote parts of the country.

Here, the government needs to do more. It should consider whether specialists' productivity can be improved, or whether other health professionals could perform roles in areas of short supply. The Grattan Institute's 2014 report, [Unlocking skills in hospitals: better jobs, more care](#) outlined some options such as [nurses performing endoscopies](#) or [providing sedation](#), work mostly now done by medical specialists such as gastro-enterologists.

Left to their own devices, specialists tend to establish their practices in more salubrious, city locations. There's no guarantee newly accredited specialists will set up shop where their services are needed most. So the government should offer some carrots and wield some sticks to encourage new specialists to practice in rural and remote areas.

Carrots could include subsidies and other support for the first few years in rural or remote practice. Sticks might include restrictions on access to Medicare billing in areas of existing over-supply in particular specialties. This would not preclude specialists establishing practices in over-supplied areas, but rather would limit public subsidies in those areas and thus provide an incentive for newly-minted specialists to go where the need is greatest.

Medicare already provides differential rebates for general practice in different parts of the country (rural and regional compared to inner city). Why not do the same for specialist practice?

3. Market power?

High specialist charges and consequent high out-of-pocket costs may simply be the [result of specialists using their market power to maximise their income](#). Even in areas of reasonable supply, specialists may be able

to charge high fees because they benefit from established referral patterns. That is, local GPs, clinics and hospitals may refer patients to particular specialists almost by habit, without paying heed to the fees they charge. Patients may not be aware of these fees until they're committed to being treated by that specialist.

A good way to respond to market power is to strengthen the market, to use competition between specialists to drive prices down. And the first step to improving competition is to increase transparency about prices charged.

The government – and perhaps private health insurers too – should publish information on specialists' fees: the proportion of visits that are bulk billed, how each specialist's fees compare to the average of specialists in, say, a 10-kilometre radius, and so on.

The government should further discourage higher fees by eliminating a rebate when fees are significantly above the standard rebate. For example, rebates might be paid only if the specialist fee is less than twice the standard rebate.

4. Skill-based premiums?

The fourth reason there may be high out-of-pocket charges is that some specialists are able to charge a premium for skill – or at least they might claim that is the basis for their high fees. Unfortunately, patients have no way of knowing whether this skill-based premium is warranted.

Again, transparency can help here. Governments and private health insurers should publish information which would help patients and their GPs assess whether a specialist's outcome-based premium is warranted.

There are, of course, challenges associated with publicly reporting

indicators of specialists' quality of care. Agreement would need to be reached on what the key quality indicators for a range of procedures are in each specialty. Imperfect measures can be gamed, or discourage specialists from treating high-risk patients. And not all differences in performance metrics reflect actual differences in performance.

But opportunities for gaming or over-interpreting performance metrics could largely be removed by reporting performance within broad bands – for example: the bottom 25%, the central half, and the top 25% of performers. In the first instance, reporting should simply state whether, based on the specialist's record, future performance is likely to be of a high standard.

Excessive costs for [specialist care](#) hit patients in the hip pocket and can discourage some from seeking appropriate treatment. Driving these costs down would make Australia a fairer and healthier nation.

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