A Denial a Day Keeps the Doctor Away

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Physicians lose about 17% of Medicaid revenue to billing problems, compared with 5% for Medicare, and 3% for commercial payers; these costs dissuade some doctors from accepting Medicaid patients.

Health insurance contracts account for 13% of US gross domestic product, and impose many different administrative burdens on physicians, payers, and patients. The authors measure one key administrative burden—billing insurance—and ask whether it distorts physicians’ behavior and harms patients.

Doctors and insurers often have trouble determining what care a patient’s insurance covers, and at what prices, until after the physician provides treatment. This ambiguity leads to costly billing and bargaining processes after care is provided, what the authors call the costs of incomplete payments (CIP). They estimate these costs across insurers and states and show that CIP have a major impact on Medicaid patients’ access to medical care.

Employing a unique dataset, the authors show that payment frictions are particularly large in the context of Medicaid, a key part of the US social safety net, but which rarely provides an equal quality of care as other

Figure 1 • Initial Claim Values and Collection Rates across States and Payers

Note: This figure summarizes the variation across payers and states in initial claim values and share of these amounts that are ultimately collected (after accounting for denials and resubmissions). The left column illustrates the variation across states and payers in the initial claim value visits observed in the data. The right column illustrates the variation across states and payers in the share of initial claim value that is ultimately collected by the provider after accounting for denials and resubmissions. For Medicaid, the data show much lower values, and more variation across states, in both claim values and collection rates.
insurance. In particular, Medicaid patients often have trouble finding physicians willing to treat them. The authors find that 25% of Medicaid claims have payment denied for at least one service upon doctors’ initial claim submission. Denials are less frequent for Medicare (7.3%) and commercial insurers (4.8%).

How do these denials affect physician revenues? The authors’ CIP incorporates two concepts: foregone revenues, which are directly measured in the remittance data; and the estimated billing costs that providers accumulate during the back-and-forth negotiations with payers. Bottom line: The authors estimate that CIP average 17.4% of the contractual value of a typical visit in Medicaid, 5% in Medicare, and 2.8% in commercial insurance. The authors stress that these are significant losses, especially considering the relatively low reimbursement rates offered by Medicaid.

Further, the authors reveal that CIP dissuades doctors from taking Medicaid patients in the first place. A ten percentage point increase in CIP is analogous to a tax increase of ten percentage points. By examining physicians who move across states, the authors then estimate that an implicit tax increase of this magnitude reduces physicians’ probability of accepting Medicaid patients by 1 percentage point. This effect is even larger across states within a physician group. Each standard deviation increase in CIP reduces Medicaid acceptance by 2 percentage points.

This work reveals the importance of well-functioning business operations in the provision of healthcare. The key insight, that difficulty with payment collection compounds the effect of low payment rates to deter physicians from treating publicly insured patients, should give policymakers pause.