“Medi-Car”, “Obama-Car”, and the Demise of the American Auto Repair Industry

An Allegory of American Healthcare

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NOTE: *The author has practiced primary care medicine for 25 years, built and operated a small-town primary care clinic, and founded Challenger Corporation, an online physician education company. This is his description of what the car repair business would be like if mechanics were doctors.*

In the early 20th century health care and automotive repair were similar service industries, supplied by thousands of small businesses all over America. In 1938 a teenager named Joe enjoyed working on cars. When he finished school, Joe got a loan and opened his own repair shop. He did good work for a fair price. Customers told their friends and neighbors. Soon Joe was getting busier, so he hired a receptionist and a junior mechanic. Life was good.

Then came World War II. Labor was scarce because most men were fighting overseas. Factories needed to attract workers, but couldn’t raise pay due to the wartime wage freeze. So they offered fringe benefits such as auto repair insurance.

Soon Joe heard from customers how they were being reimbursed by their insurance--even for routine things like brake jobs and oil changes. That seemed odd. Wasn’t insurance for catastrophes, like a wreck or a blown transmission? At the time, car maintenance consumed less than 5% of GDP, and nobody needed insurance just to maintain their car. But car repair insurance soon became a standard employee benefit, increasingly promoted by federal legislation.

One day, quite by accident, Joe’s receptionist billed a customer’s insurance $250 for a $25 brake job. Joe was surprised when he got a check for $250, no questions asked. So he raised his prices. The insured customers didn’t care as long as someone else was paying. Joe had found the insurance cookie jar. Thus was born the “consumer-payer disconnect,” the seed of much mischief to come.

As repair costs increased, employer-provided repair insurance became more and more popular, allowing mechanics to raise prices further, in a never-ending cycle. By the 1960’s repair costs were so high it was difficult for seniors on fixed incomes to keep their cars running. So Congress created Medi-Car.

Seniors were often confused by the insurance claim forms, so Medi-Car soon required mechanics to bill Medi-Car directly. This further isolated customers from pricing and payment issues. The “consumer-payer disconnect” was now enshrined in law for Medi-Car, which soon became America’s largest auto-repair insurer. All the mechanics signed up with Medi-Car, smiled, and dug deeper and more often into the cookie jar.

Soon the mechanics were parking shiny new Cadillacs in front of mansions next to their bankers. Joe and his fellow mechanics and all their insured customers were happy. But Congress was not happy. Medi-Car was becoming a real budget-buster.

Joe never expected this gravy train to last forever. He figured Medi-Car would stop paying for non-catastrophic expenses, and require customers to pay for major repairs and then seek reimbursement. He'd have to haggle about prices again, and compete with Fred, the mechanic down the street. He might have to downsize, but he'd be OK.

But that's not what happened. Congress seemed afraid to tell seniors they'd have to shop for an affordable auto mechanic, compare prices, and maybe even negotiate. Instead of restoring accountability and competition, Congress empowered Medi-Car to "control costs" by fixing prices and creating payment rules. Again, Joe was confused. Wasn't that what the Central Committees were doing in the Soviet Union? And wasn't it not working very well there? That's what he'd learned in high school anyway.

Now Medi-Car required Joe to provide a "CMT code" (Current Mechanic's Terminology code) for every item billed. With CMT codes, Medi-Car could tell exactly what they were paying for, and set prices and payment rules. Unbeknownst to Joe, Medi-Car bought their CMT codes from the American Mechanics Association. Joe was still an AMA member then, and trusted the AMA to look out for his interests.

Though he lost control of his prices, by signing the Medi-Car contract Joe kept his senior customers. He grumbled, though, because after every job he had to search through a "CMT code catalog," bought from the AMA, to find the CMT codes for the bill. Otherwise, Medi-Car wouldn't pay.

So now Medi-Car could control costs, right? Alas, Medi-Car had overlooked something: humans are smarter than monkeys, and even monkeys can find their cheese when you hide it under a coconut. The mechanics soon figured out how to manipulate the CMT codes so as to maintain their revenues.

So Medi-Car added ADX codes (Auto Diagnosis Codes) to accompany the CMT codes. That way they could construct more elaborate rules to reduce or refuse payments. And when that didn't work, they added "modifiers" to make things even more tricky. For example, before Medi-Car, Joe's bills had been simple:

Front brake job. Labor: $60. Parts: $28. Total: $88.

But now, with Medi-Car, that simple bill had to look like this:

Item	ADX Code	Modifier	CMT Code	Price
Evaluation & Management – intermediate complexity	410.00	25	66213	20.00
Replace front left brake pads:	410.01	50	61358	$12.50
Resurface front left brake drum:	411.12	51	61754	$5.50
Replace front right brake pads:	410.02	50	61358	$12.50
Resurface front right brake drum:	411.13	51	61754	$5.50
Left front brake pads (parts):	410.01	50	92173	$5.00
Right front brake pads (parts):	410.02	50	92174	$5.00
Brake fluid (supplies):	410.09	--	85261	$3.00
Flush front brake system:	410.09	--	23711	$7.00
Calibrate/adjust front brake system:	410.09	26	23915	$12.00
Total:				**$88.00**

If he didn't pair the *precise* ADX code, with just the right "modifier," from the thousands in his code book (e.g., 410.01: "critically worn left front brake pads"), with *every* CMT code on a bill, *exactly* according to Medi-Car's rules, Medi-Car refused to pay. Because the rules were complex and vaguely written, Joe's bills were more often rejected than paid. He and his receptionist spent countless hours "correcting" and resubmitting bills.

Since he had to spend so much time on billing, Joe wasn't able to fix as many cars. To compensate, he increased his fees again. That didn't help with Medi-Car, because they only paid their fixed price anyway. The private insurance companies paid his higher fees, but that wouldn't last long. And with prices ever higher, his uninsured customers let their cars get in really bad shape. "Cost shifting" had begun.

Joe and his fellow mechanics now spent a *lot* more time on billing and collections. But once again, they found the cheese. For example, Medi-Car paid a basic "diagnostic fee" for each shop visit. So instead of doing a complete brake job at one visit, many mechanics would require customers to bring their car in *four times—once for each wheel!* Now Medi-Car was paying not only for car repairs, but also for the "countermeasures" to combat their "cost control" measures. Joe's customers were paying with added inconvenience. And Joe was paying with strained customer relations.

Now Medi-Car *really* needed to cut costs. So they came up with even more elaborate rules to frustrate Joe and his staff. For example, if the brake pads had been replaced *anywhere* in the previous 180 days, they wouldn't pay. But Joe had no way to know the customer's pads had been replaced at Fred's Garage 179 days previously!

This situation spawned an entire new industry of "automotive billing and collections agencies." These businesses offered to handle all of Joe's billing and collections hassles for 10% of revenue. But the agencies couldn't keep up with Medi-Car's sleight-of-hand either. All they did was collect the "easy bills," and then look for more mechanics to fleece, instead of figuring out how to collect the "hard bills."

Finally, Medi-Car was winning its war with mechanics. After losing most of his revenues for several years to one incompetent billing agency after another, Joe was going broke. But it was a Pyrrhic victory. Medi-Car's costs were still escalating, due to the inefficiencies and counterproductive countermeasures they had spawned.

In desperation, Joe hired Tony, a "billing specialist." Tony had just graduated with a degree in "automotive coding" from one of the automotive coding schools that were popping up all over the country. Now, *finally*, Joe could get back to taking care of customers! But he couldn't help notice the irony: in addition to cutting the efficiency of his shop by half, Med-Car's "cost control" measures had now created an *entirely new business sector* (automotive billing & collection agencies), *and an entirely new profession* (automotive coding) for our repair industry to support! And more would come.

Unfortunately, since Tony was a highly trained specialist, Joe had to pay her twice as much as his receptionist, Jill. Now he could barely pay himself. In desperation, he raised his fees yet again. That didn't affect what Medi-Car paid him, but at least he got more from the private insurance companies (more "cost shifting"). Business actually went down, though, because his uninsured customers just let their cars rust.

Then the private insurance companies got wise: Medi-Car was paying less, while they were being charged more due to cost-shifting. A representative from BCBS (Blue Carb Blue Shocks, the biggest private insurance company) showed up one morning and demanded Joe sign a contract. He'd have to accept *their* fee schedule and payment rules if he wanted to continue serving their customers.

By now Joe was nearing retirement age. Frustrated, he turned the business over to his son. Joe Junior yearned to tell BCBS to "shove it." But he was in a pickle. Many of his best customers had BCBS, the "Cadillac of car repair insurance." He couldn't afford to lose those customers. So he stuffed his pride and signed the contract.

Soon all the major insurance companies followed suit. That seemed unfair to Joe Jr., since the major insurers had millions of customers. That gave them tremendous bargaining power against "little guys" like Joe and his fellow mechanics. He felt powerless. Surely the American Mechanics Association would help.

But the AMA had other priorities. With mechanics hurting financially, fewer and fewer could afford the AMA's pricey membership dues. Meanwhile, the AMA needed to pay for its new high-rise headquarters and growing cabal of highly paid executives. Not to worry... the AMA had found the mother lode. On the one hand, they were making millions selling CMT codes to the government and insurance companies. Meanwhile, they were making millions more selling books, courses and software to desperate mechanics, to help them cope with the ever-more-complicated codes and billing rules.

Like Medi-Car, once the private insurers had their CPT and ADX coding requirements in place, they too proceeded to "reduce costs" with complex rules to decrease or refuse payments. That wouldn't have been so bad if they all used the same rules. But *every insurer imposed a different set of rules*. It was impossible for Joe Jr. and Toni, his billing specialist, to keep up.

So Joe hired Anne, an "insurance verification and pre-authorization specialist"-- yet another entirely new, highly trained and well-paid profession created by Medi-Car's "cost control" measures. Joe's personnel costs had now tripled. It was costing him more *just to get paid* than he was paying himself and his mechanics *to do the work!*

Even with all this help, Joe would often go unpaid for expensive jobs. The most egregious tactic was the requirement for "compliant documentation." For example, one of Joe's customers had an accident, requiring a $4,000 repair. But instead of payment, Joe received a letter from BCBS stating, "After reviewing your records, we cannot find documentation the rear bumper bolts had been tightened within the previous 3 years, per policy requirements. Therefore, the 40% of the car within 6 feet of the rear bumper is not covered. Furthermore, because the policy-holder told the officer at the scene that he was 'just going to visit my mother on Mother's day,' the trip resulting in this accident does not appear to have been transportationally necessary. Therefore this accident is not covered. If you wish to appeal this decision, please dial 1-800-WAITFOREVER and press option 4. You will then hear an announcement that you are 127th in line, and after 2 hours of 80's disco music, you will hear another message requesting you dial 1-800-WAITFOREVER and press option 4. Thank you for your business. We look forward to serving you in the future."

As you might imagine, by now Joe Jr. was increasingly stressed, depressed, and disillusioned. He often wondered if his life was real... or was he living in the Twilight Zone? Nothing made sense any more. Why was he spending the majority of his time and energy playing cat-and-mouse games with faceless bureaucrats, when all he wanted to do was fix folks' cars?

His relationships with his staff and customers became strained. He was no longer able to diagnose and advise his customers on the telephone. With all the billing, coding, documentation and complex rules to follow, he was forced to spend every working minute on "billable activities" just to stay afloat. Meanwhile, his customers had no idea of the stress he was under. They assumed he was just greedy or grumpy. He sensed a loss of respect in the community.

Sadly, Joe realized his breed was dying out. To stay in business, mechanics were increasingly forced into large, "multi-specialty car clinics" in the larger towns and cities. That way they could obtain "economies of scale." Guys like Joe could no longer afford the army of insurance verification specialists, lawyers, accountants, billing specialists and coding specialists required to comply with the never-ending tsunami of laws, rules and regulations.

Although mechanics' incomes had been declining for decades, car care was now gobbling up 17% of GDP, nearly 4 times what is cost before WWII. It got so bad that some people had to sell their homes to pay for car repairs. If you were unfortunate enough to be uninsured, a transmission failure could result in bankruptcy. People were even shipping their cars overseas for repair. By 2010, you could take your car to Thailand, have a nice beach vacation, *and* get your transmission rebuilt, all for half the cost of having it repaired in the US.

Something had to change. President Obama promised to fix auto care. Instead, he signed into law thousands more pages of rules and regulations and created another 100 bureaucracies to further "cost control," dictate, micromanage, complicate and constipate every aspect of the auto repair industry. Congress behaved like drunken sailors on a sinking ship, shooting more and bigger holes in the hull to "let the water out." Finally, at age 57, Joe Jr. admitted defeat and closed his shop.

Please recall how this story began: "In 1938 a teenager named Joe enjoyed working on cars. When he finished school, Joe got a loan and opened his own repair shop. He did good work for a fair price." That is still possible in America for mechanics, painters, plumbers, cosmetologists, accountants and lawyers. But for doctors and patients, those days are gone.

Epilogue: For many decades now, healthcare costs have escalated much more rapidly than inflation, as a direct result of bad legislation. At every step, instead of correcting past mistakes, Congress has layered on more bad legislation. Consequently:

1. Neither doctors nor patients, pharmaceutical companies nor technology makers have the slightest clue about the true value of tests, technologies and treatments. And generally, no one cares as long as someone else is paying.
2. More time and resources are spent determining what can be paid for, and by whom, and according to what rules, than is actually spent providing care.

3. Healthcare now costs many times what it could and should cost in a competitive economy.

We cannot have affordable healthcare and a prosperous economy, unburdened by exorbitant healthcare costs, until:
1. Doctors and other medical suppliers compete based on quality and price.
2. Patients are responsible for managing their health and their healthcare expenses.
3. The real definition of "insurance" is restored: protection against catastrophic events.

To believe otherwise is to ignore the lessons of recent experience, and to continue down our current path toward national bankruptcy.