HEALTH REFORM, THE HOSPITAL, AND THE LAW

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Key Themes of Health Reform

- Expand coverage
  - Largely by expanding private sector coverage
- Reduce costs
  - Cutbacks in payments
  - Innovative payment mechanisms
  - Encourage innovative provider organization
- Promote Electronic Health Records
  - Standardization
  - Subsidization

Expanding Coverage

- More enrollees could give payers more purchasing power
  - Research by Lakdawalla and Yin finds that Medicare Part D expansions allowed insurers to negotiate lower rates
  - Will expansion of hospital coverage have similar effect?
  - Will this intensify hospital quest for "countervaling power?"
- But expansion of coverage may be limited to small group and individual market
  - Could encourage growth of smaller insurers
  - Could intensify competition and give providers alternatives if large purchasers demand deep discounts

Reduce Costs through Fee Reductions

- Payment reductions *appear* inevitable
  - Formulaic payment reductions for MDs were built into the MMA of 1997
  - Every year, AMA successfully lobbies for restoration of cuts
- If payment reductions materialize, hospitals and doctors will be forced to make up for losses
  - Reduce capacity
  - Exit
  - Consolidate to obtain greater power over private prices
  - Improve efficiency
- First three responses can lead to higher market concentration and greater antitrust scrutiny

Reduce Costs through Innovative Payments

- "Episode of illness" payments are favored by policy analysts
  - Lump sum paid to central office that must allocate funds to individual providers
  - Similar to PHO or IDS, but payment is per episode rather than capitated for year
- Necessitates vertical control
  - Research in 1990s ambiguous about anticompetitive effects of vertical mergers
- Encourage medical credentialing
  - Likely to lead to exclusive dealing/tying complaints by excluded providers

Reduce costs through Innovative Organizations

- Legislation may actively promote IDS
  - Mid-size markets may only have room for one or two IDS; e.g., Milwaukee
  - Antitrust exemptions will be on the table (Shortell called for such exemptions in his 1990s IDS proposals)
- Unusual market configurations may emerge
  - Competitive IDSs with "dumping ground" fringe
  - Role for community health centers? Medicaid providers?

Electronic Health Records

- Sold as way to aid medical decision making
- Just as important for management
  - Critical for implementing incentives and evaluating performance
  - PHOs and IDSs will depend on them
- Integration facilitates EHR through standardization and transactions cost economics
  - Central office solves problems created by markets
  - Could be used to justify integration
  - Basis for numerous agency enforcement actions against MD groups (failure to integrate EHR a key element in many cases)
- Will health reform remove the EHR justification?
  - Government standards and subsidies allow independent providers to operate at arms length

Bottom Line on Health Reform

- *If* we have health reform
  - Policy makers will expect new organizations to emerge
  - Antitrust agencies will be expected to accommodate these changes
- Medicare payments to providers will almost certainly fall
  - Provider markets will necessarily evolve in ways that lessen competition
- Something will have to give
  - Less money in a system implies less capacity
  - Antitrust enforcement will either intensify or be legislated away