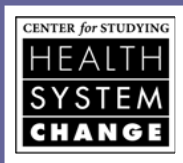




Competition from Specialty Facilities: Is it a Positive for Health Care?

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More Competition: A Positive or a Negative?

- Development of specialty facilities increases competition in health care markets

- Whether it is beneficial depends on the basis of the competition
 - Innovation in delivery
 - Selection of highly paid services and patients
 - Creation of physician conflicts of interest



Background: The Competitive Principles

- Static principle
 - Savings from shift to low-cost producer

- Dynamic principle
 - Progress comes from outsiders who innovate
 - Innovators force existing entities to improve
 - Especially important in health care

- Theory of second best
 - Unregulated competition not necessarily the best policy



Specialty Facility Potential for Competitive Benefits

- Lower-cost (higher quality) delivery
 - Fewer barriers to innovation
 - Returns to specialization
 - Sometimes achievable in general facility
 - Benefits of more engaged physicians

- Press general facilities to perform better

Potential for Harm

- Exploiting reimbursement distortions
- Capitalizing on conflicts of interest
- Disruption of general facility cross subsidies
- Potential for creation of excess capacity
 - Higher costs
 - Lower quality

Pricing Distortions (1)

- Distortions by type of service
 - Most profitable: cardiovascular and orthopedic services
 - Less profitable: medical admissions
 - Patterns are longstanding
 - Not the result of payers' intentions
 - But more response to distortions today
 - Health care more competitive/entrepreneurial

- Important factor in distortions is differences in productivity trends

Pricing Distortions (2)

- Distortions by site of service
 - Different methodologies by site
 - Erratic pattern of differences
- Business implication: financial success obtainable without innovation
 - Specialize in profitable services
- Policy implication: Invest in increased pricing accuracy



Conflicts of Interest from Physician Ownership

- Over-prescribing of services
- Selective referral of patients by insurance type
- Longstanding policies to address conflicts
 - Acceptance of conflicts in FFS payment for physicians' own services
 - Degree of over-prescribing limited by physician time
 - Avoid conflicts where ancillary services involved
 - Potential for over-prescribing much greater
 - Anti-kickback rules
 - Stark rules



Disruption of Pattern of Cross-Subsidies

- Uncompensated care

- Services where payments do not cover costs
 - Standby facilities, e.g. burn unit
 - Training

- Notion of “level playing field”

Potential for Excess Capacity

- Concerns unique to health care
- Inadequate competition to eliminate excess capacity
 - Costs of excess capacity reflected in reimbursement rates
- Potential for inducement of service use

Conclusions

- Some benefits from dynamic competition

- But distortions in playing field threaten notion that competition will be beneficial

- Policy priorities
 - Address ownership issues
 - Reduce pricing distortions
 - Reduce dependence on cross subsidies