

CENTER *for* STUDYING

HEALTH

SYSTEM

CHANGE

Providing Insights
that Contribute to
Better Health Policy

Specialty Hospitals: Market Impact and Policy Implications

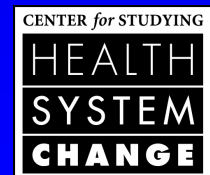
FTC/DOJ Hearings on Health Care
and Competition Law and Policy

March 27, 2003

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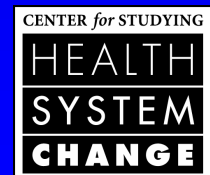
The Center for Studying Health System Change (HSC)

- Independent, objective research
 - ▶ Changes in private markets
 - ▶ Effects on people
 - ▶ Implications for policy makers
- Fully funded by The Robert Wood Johnson Foundation
- www.hschange.org

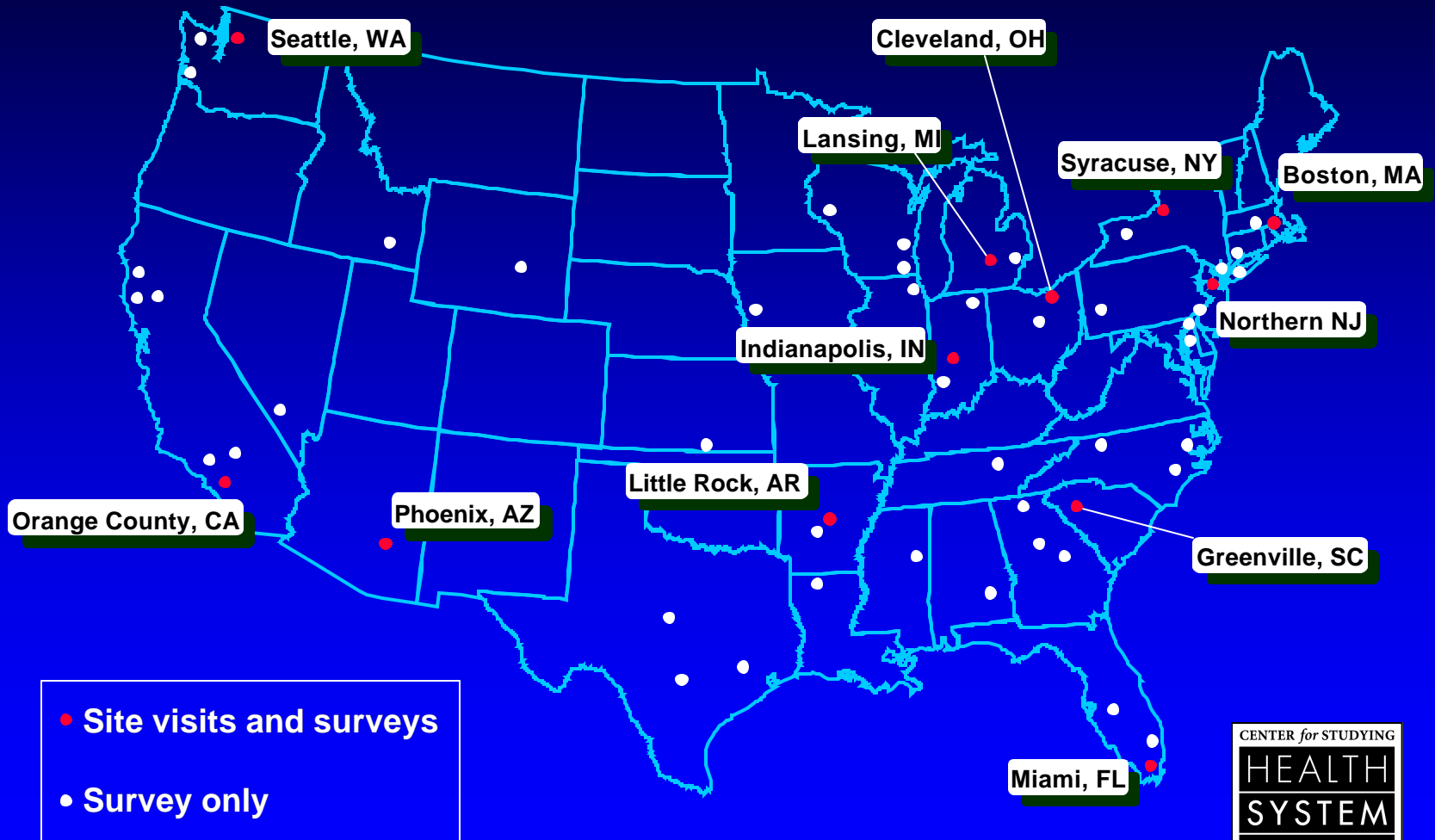


The Community Tracking Study (CTS)

- Longitudinal study of health system change
 - ▶ Tracking markets since 1996
- Community focus
 - ▶ 60 communities that are nationally representative
- Multiple data sources
 - ▶ Surveys of households and physicians
 - ▶ Site visits



The CTS Sites

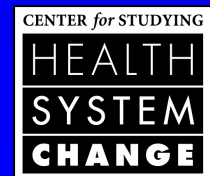


Outline of Today's Talk

- Specialty hospitals: prevalence and key characteristics
- Market context: drivers and competitive response
- Implications for cost, quality and access to care

Specialty Hospitals: A Growing Phenomenon

- Rapid growth in CTS study sites between 1996-1997 and 2002-03
 - ▶ 11 free-standing specialty hospitals
 - ▶ Joint ventures
 - ▶ Hospitals within hospitals
 - ▶ Both general acute care hospitals and entrepreneurial firms are involved
- Physician ownership is common
- Focus on cardiac care, orthopedics and general surgery
- Variation in scope of emergency services provided



Key Drivers of Specialty Hospital Growth

- Retreat from tightly managed care and return to revenue-enhancing strategies
- Disproportionately high reimbursement for certain procedures
- Squeeze on physician income
 - ▶ Facility fees can supplement declining professional fees
 - ▶ Frustration over hospital control of management and investment decisions that affect productivity
- Growth of entrepreneurial firms focused on developing specialty hospitals

General Hospitals' Competitive Response

- Pre-emptive strike: establish own specialty hospital to avoid physician defection
- Can't Beat Them, Join Them: joint venture with local physicians
- Fight back:
 - ▶ Economic credentialing of physicians
 - ▶ Discourage plans from contracting with competing facilities

Implications for Cost, Quality and Access

- “Focused factories” promise improved quality and lower costs
- But outcome is dependent on specialty hospital effects on:
 - ▶ Per-case costs and quality
 - ▶ Relationship between supply and demand
 - ▶ Price
 - ▶ Patient mix
 - ▶ Access to other, less profitable services

Effects on Per-Case Costs and Quality

- Ability to generate lower per-case costs and higher quality depends on:
 - ▶ Ability to improve care delivery process
 - ▶ Ability to secure and maintain high patient volume

Effects on Supply and Demand

- Capacity greater than demand?
 - ▶ Demand curve difficult to predict
 - ▶ Excess capacity is rarely taken out of health care markets and contributes to underlying health care costs
- Supply-induced demand
 - ▶ Particularly problematic when physicians are owners and there is excess capacity
 - ▶ Implication: inappropriate utilization that is cost-increasing and diminishes quality

Effects on Price

- More competitors and more capacity should spur greater price competition
- But price effect constrained by:
 - ▶ General hospitals' negotiating rates for owned specialty facilities as part of larger system
 - ▶ Desire to maintain cross-subsidies for less profitable services

Effects on Patient Mix

- Potential for specialty facilities to succeed financially without any impact on costs or quality if cream-skimming, targeting:
 - ▶ Patients with better reimbursement
 - ▶ Easier to treat patients
 - ▶ Better paid services

Effects on Access to Care

- Improved access to certain services, for certain patients
- But general hospitals risk losing ability to cross-subsidize less profitable services
 - ▶ Disproportionate effect on Medicaid and uninsured patients

Conclusions

- Specialty hospitals are a major factor shaping the competitive dynamic in local health care markets today
 - ▶ Both independent facilities and general hospitals are competing for this business
- Raise important questions about effects on costs, quality and access to care

Policy Options

- Several policy levers to address growth of specialty hospitals and effects on markets:
 - ▶ Medicare payment policy
 - ▶ Court decisions re anticompetitive behavior
 - ▶ Regulation of specialty hospitals (e.g., Stark, ED requirements)
 - ▶ Alternatives to cross-subsidies to preserve access to essential services