

Making Competition in the Healthcare Sector Work: What Would It Take?

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The Basic Problem: Neither Fish Nor Fowl

- **The provision of medical care in the U.S. lacks cost and quality discipline across-the-board.**
- **There is no real market discipline, and government regulation is partial and not wholly effective (and oftentimes blunt and unsustainable).**

Counting Up the Waste

	Mid-Range Estimate (2011, \$ Bil.)
Failures of Care Delivery	128
Failure of Care Coordination	35
Overtreatment	192
Administrative Complexity	248
Pricing Failures	131
Fraud and Abuse	<u>177</u>
Total	910
% of Total H.C. Spending	34%

Source: Berwick and Hackbarth, *Journal of the American Medical Association*, 2012

The Key Question

The Key Question	What <i>process</i> has the best chance of bringing about continual improvement in the productivity and quality of patient care?	
Competing Views	A Governmental Process	A Market-Based Process
Solutions	<ul style="list-style-type: none"> • Medicare-led “delivery system reforms” (Accountable Care Organizations, Bundling of Payments, Innovation Center) • Governmental Push for Use of Health Information Technology • Comparative Effectiveness Research • Regulated Pricing 	<ul style="list-style-type: none"> • Create incentives for consumers to seek lower-cost care alternatives • Foster competition among suppliers of medical care • Facilitate a model of high-deductible insurance combined with integrated care delivery • More Medicare Advantage and Part D than Medicare Parts A & B
Criticisms	<ul style="list-style-type: none"> • A fully governmental process is susceptible to regulatory capture and protection of mediocre incumbents; arbitrary price setting drives out willing suppliers, inhibits innovation, and lowers quality • Cost control by supply control (queues) 	<ul style="list-style-type: none"> • Cost are concentrated in high-cost patients; consumer incentives play little role in choosing service use in these cases • Markets exacerbate risk segmentation • Relying entirely on markets and prices to allocate resources is inequitable to those with less ability to pay

ACOs in 2016

- 432 MSSP ACOs in 2016
 - 410 in Track 1 (95%) -- bonus payment only
- Gross Program Savings = \$652 million
- Net Program Cost (after bonus payments) = \$39 million
- 31% of ACOs produced savings (measured against a benchmark) beyond corridor (2-3%)
- 25% produced savings within corridor
- 44% increase costs (20%) beyond corridor
- Older ACOs produce more savings
- Physician-led ACOs produce more savings

Health Spending Growth

		Inflation-Adjusted Average Annual Growth Rates	
		<u>2003-2010</u>	<u>2010-2015</u>
<u>Health Consumption Expenditures:</u>			
	Aggregate	2.7%	2.7%
	Per Capita	1.8%	2.0%
<u>Medicare:</u>			
	Aggregate	6.0%	2.9%
	Per Capita	3.8%	-0.2%
<u>Medicaid:</u>			
	Aggregate	2.7%	4.8%
	Per Capita	-0.6%	-0.3%
<u>Private Plans:</u>			
	Aggregate	2.0%	2.7%
	Per Capita	2.8%	1.5%

Source: National Health Expenditure Accounts

The Many Obstacles to a Functioning Market

- **Assymetric Medical Knowledge (Supplier Advantage)**
- **Dominance of Third-Party Payments**
- **Concentration of Spending in High-Cost Cases**
- **Licensure/Protection of Incumbency/Limitations on Innovation**
- **Opaqueness**
- **Excessive Horizontal Consolidation (Non-Competitive, Monopolistic Pricing)**

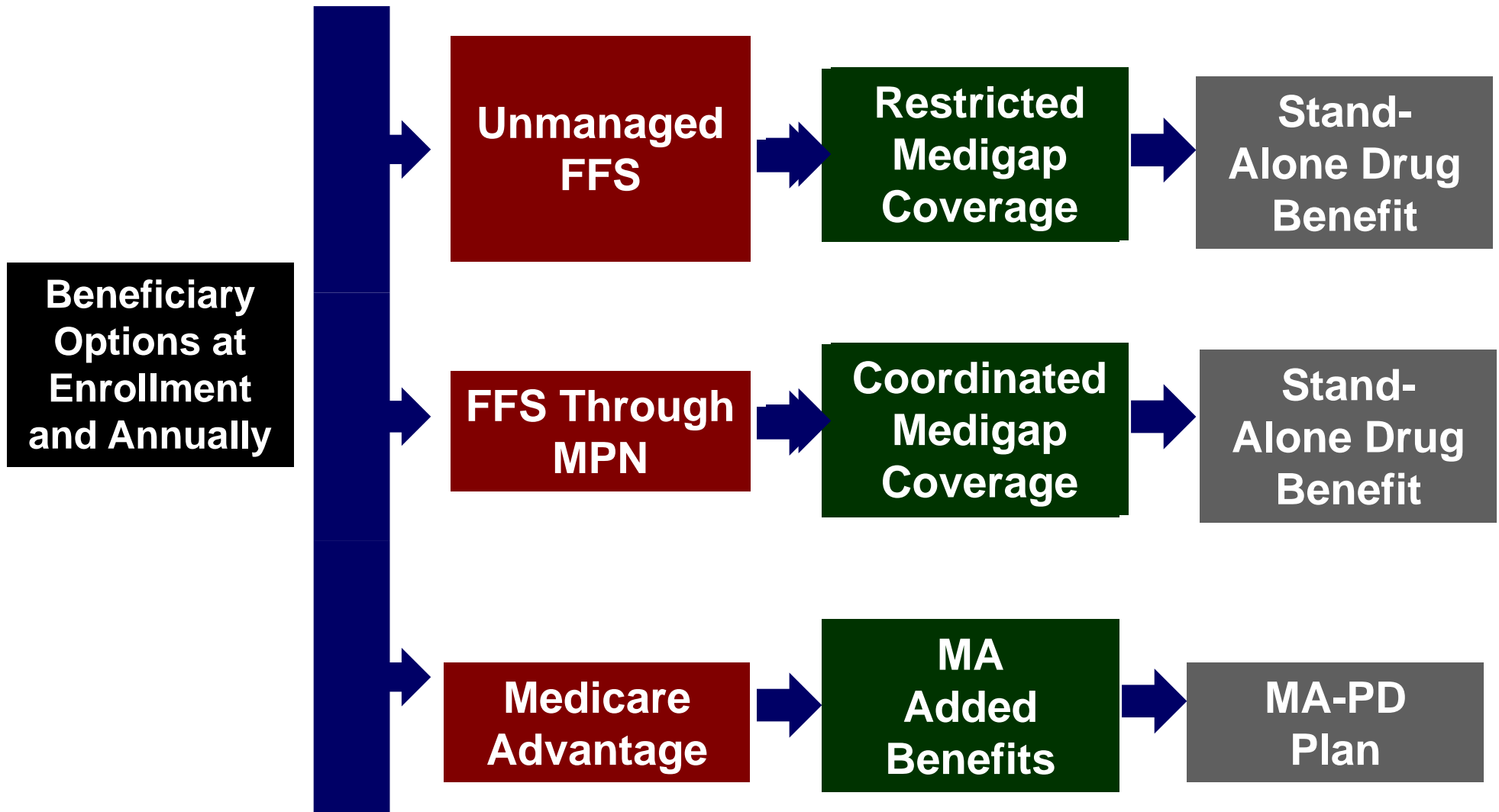
Insurance Deregulation Won't Fix the Problem

- **Insurance Deregulation Agenda:**
 - **Exemptions from ACA's Essential Health Benefits**
 - **More Flexibility for Age-Rating/Lower Premiums for Younger/Healthier Consumers**
 - **Allowance for Short-Term, Limited-Duration Plans**
 - **Association Health Plans**
- **These ideas would shift premium payments among consumers, but would not foster stronger market competition among providers of medical services.**

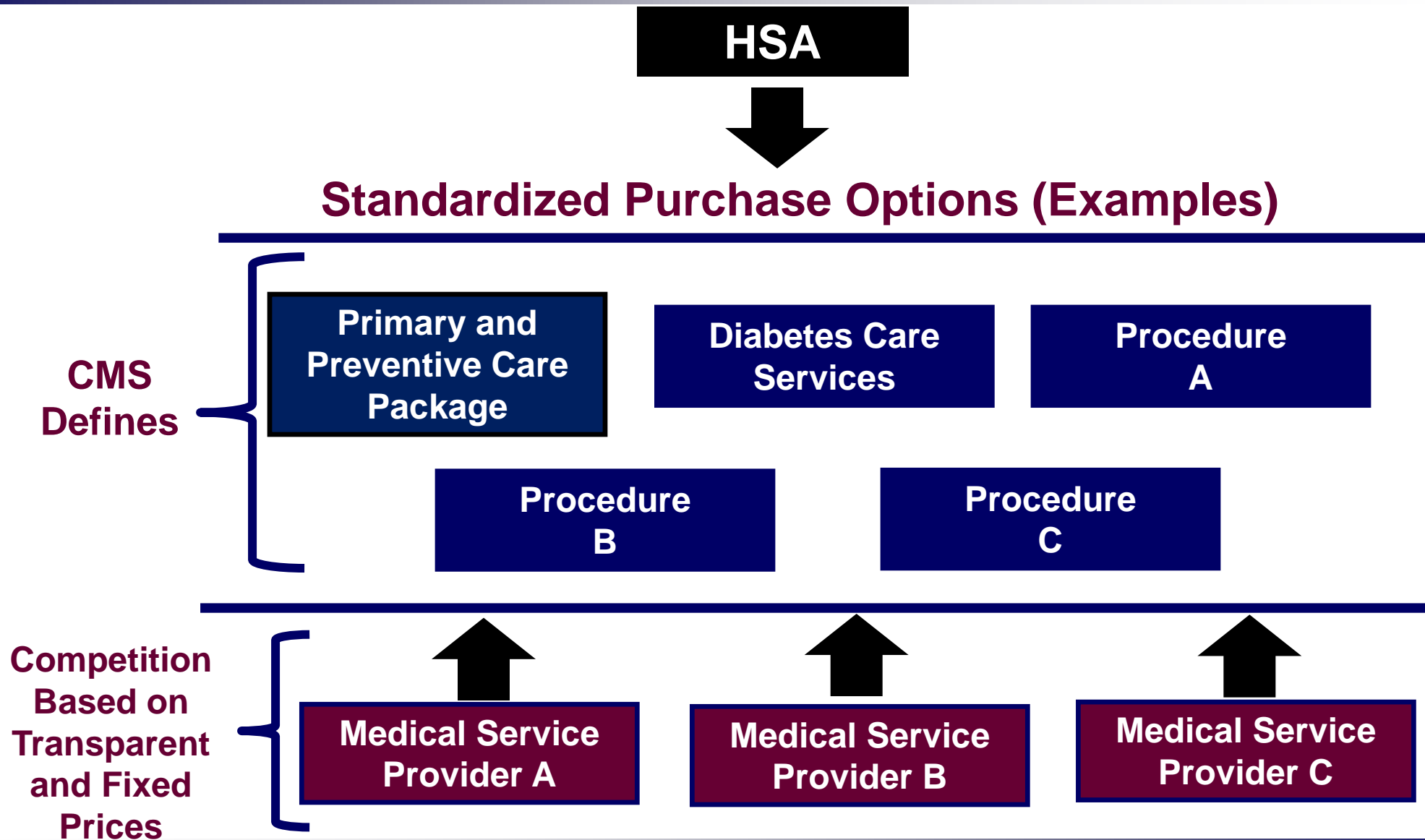
Keep/Replace the Cadillac Tax

- **Largest Tax Expenditure: \$4.6 Trillion Over Ten Years**
- **Regressive: Average Per Household of \$3,160 for Top 20 Percent, \$980 Per Household in Middle Quintile**
- **Leads to Excessive Insurance Coverage, Suppresses Wage Growth**
- **Employer Plans Cost 35% More Than They Would Without the Tax Break**

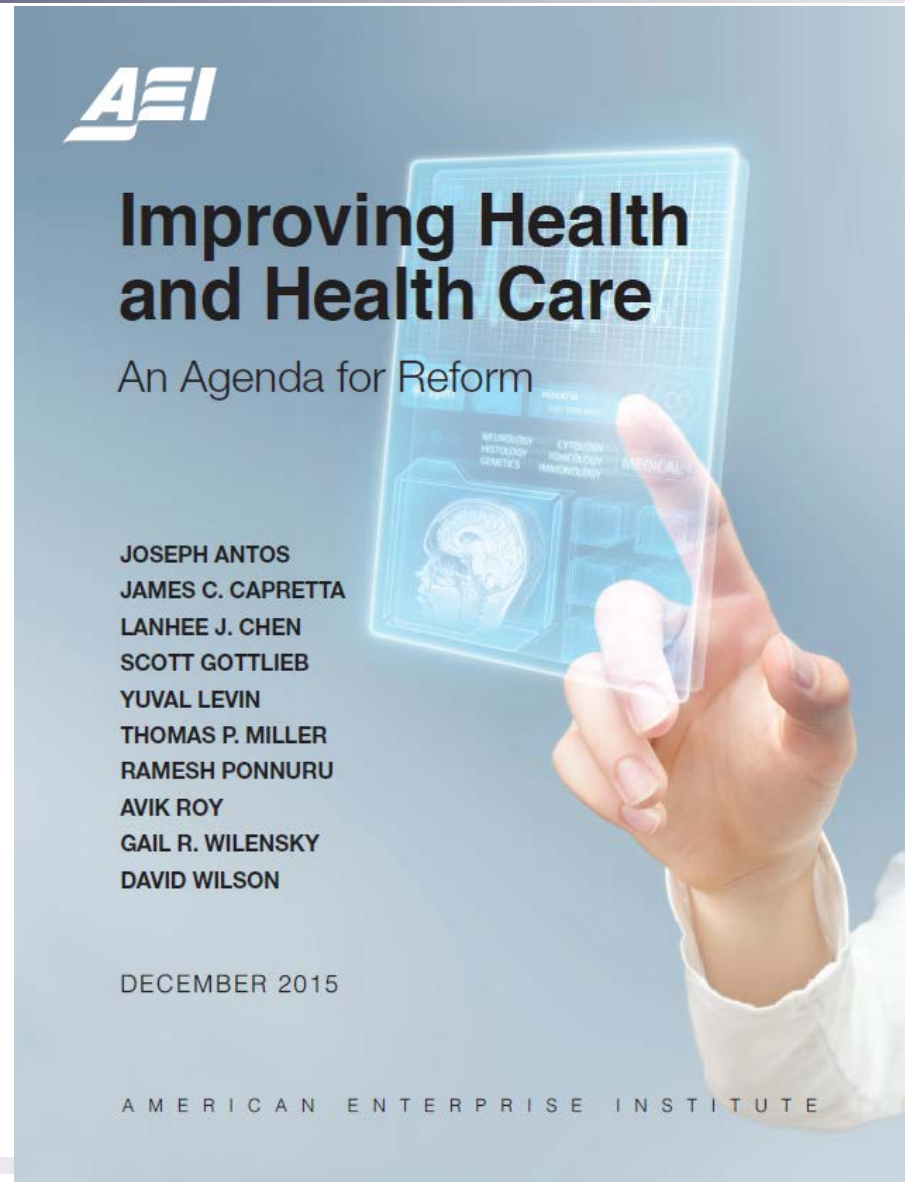
Restructured Choices for Medicare Beneficiaries



HSA: Standardized Clinical Packages



Available at AEI.org



AEI

Improving Health and Health Care

An Agenda for Reform

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