Market and Regulatory Responses to Provider Market Power

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Outlook for Increasing Provider Consolidation

- Expectation of new models of financing and delivery
  - Scramble to line up partners before competitors do
- Resemblance to early 1990s
  - Hospitals acquiring competing hospitals to keep Columbia-HCA out of market
  - Hospitals acquiring physician practices to assure referrals under managed care

Shared Vision on Payment Reform

- Reduced role for fee for service
- Provider accountability for entire episode or per capita spending
- Incorporate quality into payment
  - Pay for value
- Motivate/support providers to coordinate care and manage chronic disease

Organizational Structures to Implement Vision

- Accountable Care Organizations
  - Medicare model
  - HMO-based model to broaden provider risk sharing
- Hospital-physician collaborations to accept bundled payment
- Patient-centered medical homes
- Traditional HMO models with capitated payment

Consistent Approaches by Public and Private Payers

- Medicare initiatives push for consistency
  - Pioneer ACO requirements
  - Comprehensive Primary Care Initiative
  - Similar Medicaid initiatives—often through MCPs
- Private payer initiatives comparable
  - ACO-like contracting, bundled payment
  - Higher PCP payment in context of medical homes

Provider Leaders Receptive to Changes

- Potential for improved patient outcomes
- Outlook for sharp Medicare payment rate cuts
  - Upside through broader payment units
  - History of lead up to Medicare DRG payment
- Potential new roles for insurers
  - Vendors to providers
  - Support for provider-sponsored plans

Motivations for Consolidation

- Highly challenging environment for smaller providers
  - HIT requirements, quality reporting
  - Payment reforms
  - Limited capital to invest in reengineering
- Younger physicians interest in salaried platform
- Seeing acceleration of hospital mergers and hospital employment of physicians

Hospital Motivations to Employ Physicians

- Increase referrals
- Engage physicians in quality and efficiency initiatives
- Acquire practices before competitors do
- Increase leverage with health plans

Competitive Implications of Physician Employment

- Higher payment rates for physician services
  - Higher rates for hospital services as well
- Fewer freestanding facility competitors
- Reduce opportunity for physician-led ACOs
  - Physician-led ACOs shift patients to higher value

Market Responses to Concentration (1)

- Narrow network insurance products
  - Initial models just exclude highest-priced providers
    - Could become narrower as they evolve
    - CalPERS offering limited to Sutter
  - Rapidly growing offerings in small group market
  - Could be very popular in context of insurance exchanges
    - Fixed contribution to population with modest incomes
    - Less need for “one size fits all” products

Market Responses to Concentration (2)

- Tiered network products
  - Broad network of providers with point-of-service incentives to use preferred tier
  - High-performance networks of physicians
    - Attempts at sophisticated measurement of quality and cost
      - Measures still not credible with physicians
      - Potential to benefit from multi-insurer databases
    - Modest patient incentives

Market Responses to Concentration (3)

- Tiered network products (contd)
  - Limited traction to date with hospitals
    - Dominant hospital push back
    - Need for more refined approaches
      - Tier by service line
    - Larger potential than narrow networks

Market Responses to Concentration (4)

- Reference pricing
  - Aggressive tiering model
  - Much stronger incentives for patients
  - Focus on high-volume procedures
  - Easy to understand
  - Does it avoid hospital pushback?

Consumer-Driven Plans

- Limited incentives on provider choice
  - Virtually all inpatient stays exceed deductible and out-of-pocket limits
  - Most relevant for outpatient tests and procedures
    - For those not expecting to exceed deductible
    - Consumers need pricing information
      - Simple enough to be usable
      - Conform to confidentiality agreements

Role of Price Transparency (1)

- Political attractiveness of policy initiatives
  - Doing something with little cost
  - Most initiatives fail
    - Irrelevant and low-quality information
    - But failures not visible
- High-quality information can influence policy
  - But not consumer choices
  - Massachusetts Attorney General reports on hospital prices

Role of Price Transparency (2)

- Need for information tailored to consumers
  - Prices paid by their insurer
  - Provisions of their policy
  - Potential with Fair Health for out-of-network care
- Consumers can shop actively without price information
  - Deductibles by hospital tier
  - List of hospitals with price below reference price

Role of Price Transparency (3)

- Effect of transparency on competition in concentrated markets
  - Incorporated into antitrust policy for some time
  - Importance depends on how much information already known
    - Reactions to hospital price publication
      - Insurers more likely to know
  - Many opportunities to give patients incentives without revealing contracted prices

Foster Development of Physician Organizations

- Physician-led ACOs more likely to succeed
  - Shift volume to lower-cost hospitals and freestanding outpatient facilities
  - No conflicted incentives concerning reducing admissions
- Provides alternative to employment by hospitals
- Overall makes market more competitive

Potential Tools for Foster Physician Organizations

- Loans for creation/expansion of organizations
- Innovative contracting
  - CareFirst's PCMH model
    - Upside incentives for lower aggregate costs
    - Virtual PCP organizations
    - Provision of data on patients' care use
- Purchases of practices
- Vendor of services to larger practices

Policy Initiatives to Foster Market Solutions to Consolidation

- Regulation of hospital contracting practices
  - Requirement of placement in preferred tier
  - All or none contracting with hospital system
  - Ban MFN contract requirements
- Tax treatment of employer-sponsored insurance
- Provision of multi-payer data at provider level
- Support for physician organizations

Targeted Regulation of Out-of-Network Prices

- Out-of-network care in noncompetitive situations
  - State caps for hospital-based physician charges
    - Link to Medicare rates
- Broad limits on charges for out-of-network care
  - Medicare Advantage policies
  - Potential to constrain network prices without detailed regulation

All-Payer Rate Setting

- History of state rate setting
  - Cost reductions in 1970s and 1980s in many states using approach
  - Medicare DRG payment and managed care led to decreased interest
    - Hospital opposition led to repeal in most states
    - Less receptiveness to regulation overall
    - The Maryland exception
  - Current status: Maryland and West Virginia

Potential for Rate Setting in Future (1)

- Related to success of market approaches
  - Will market approaches be effective
  - How consumers (voters) feel about approaches
- Runs counter to current political atmosphere concerning regulation
- But could happen in some Blue states
  - Vermont is closest

Potential for Rate Setting in Future (2)

- Challenges not present in 1970s
  - Current rates for Medicare, Medicaid, commercial very different
    - Grandfathering differentials a likely requirement
  - Need to support rather than retard provider payment reform
    - Payment reform requires going beyond traditional authority
    - Flexibility during time of transition

Potential for Rate Setting in Future (3)

- Potential flexible approaches
  - Rapid review/approval of ACO and bundled payment contracts
    - Allow higher rates if they come from sharing savings
      - So reduced admissions (or savings on post-acute care) could lead to higher per case rates

Concluding Thoughts

- Upside in developments in financing and delivery has downside in increasing consolidation
  - Proceed with developments and address the consolidation
- Many opportunities for market approaches to offset growing provider leverage
  - Important government role in fostering these market approaches
  - Rate setting is the “stick in the closet” if the market cannot do the job