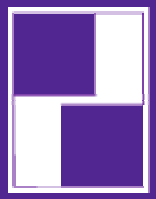

Changes in
HEALTH CARE
FINANCING &
ORGANIZATION

Defining "Defined Contribution" 2002: Research and Practice

May 15, 2002
Washington, DC

AcademyHealth

These materials were commissioned by the Robert Wood Johnson Foundation for use at the invitational meeting *When Public Payment Declines Does Cost-Shifting Occur? Hospital and Physician Responses* and to stimulate discussion and understanding of the hospital and physician responses to reductions in public payment. In the event that the Foundation and the authors intend to submit these commissioned materials or revisions thereto for publication, we request that the materials not be cited or circulated without the permission of AcademyHealth.

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Providing Insights that Contribute to Better Health Policy

Hospital and Physician Cost Shifting: Conceptual Framework

Paul B. Ginsburg
November 13, 2002

Increased Interest in Phenomenon

- Medicare payment rate reductions from BBA
- Prospect of Medicaid reductions from state fiscal crises
- Evidence of increased leverage by hospitals
- Sharp increases in insurance premiums

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A Conceptual Framework

- Definition of cost shifting
- Models that support or do not support cost shifting
  - Foregone opportunities to raise prices
  - Leaving the textbook
- Conditions where cost shifting most likely

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Definition

- Criterion of usefulness to policymakers
- Change in administered price leads to compensating change in price to private insurers
- "Price shifting, "margin shifting" and "cost shifting"
- Price discrimination less compelling as definition

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Policy Implications under Polar Assumptions

- Absence of cost shifting
  - Reduce provider profits/incomes
  - Limit ability/willingness to provide uncompensated care
  - Spur efforts to reduce costs
  - Reduce provider capacity
- Complete cost shifting
  - Higher private insurance premiums
  - Higher product prices, lower wages, lower profits in economy
  - More uninsured people

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Provider Market Power

- Necessary for cost shifting
- Varies over time and by market
- Difficult to assess without taking risks
- Is departure from maximization necessary for cost shifting?

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Nonprofit Hospitals: Vague Mission

- Meet needs of community
- Heterogeneous boards
  - Business leaders
  - Political and religious leaders
  - Staff physicians
  - Potential for lack of clear direction
  - Pressure from some to limit price increases

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Nonprofit Hospitals: Separation of Ownership and Management

- Longstanding issue in corporate America
- Likely even more significant in hospitals
- Should not expect maximization

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What About Investor-Owned Hospitals?

- Constrained by competition from nonprofits
- "Good citizen" requirements

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Physicians: Alternatives to Neoclassical Model

- Models quite distinct from those for hospitals
  - Small practices managed by the owners
  - Hours of work a part of the model
  - Many maximizing models provide basis for cost shifting
    - But often in wrong direction

Physicians: Alternatives to Neoclassical Model (cont'd)

- Evidence on behavior
  - Prices sometimes below maximizing level
  - Physicians induce demand for services
  - Target income hypothesis
  - Model includes relative incomes
- Basis for cost shifting
  - Decrease in administered price>>increase in private price

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Key Policy Issue on Physician Services is Beneficiary Access

- All models predict attempts to shift patient mix in practice
- But all physicians cannot succeed in doing this

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Conclusions

- Significant conceptual basis for cost shifting
- Research needs to be attentive to potential for cost shifting
  - Degree of provider market power
  - Varies over time and by geographic area
  - Sharp increase in rates from rural hospitals
- Level of administered prices
- Whether cost shifting is important should be critical for policymakers

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