

Changes in  
**HEALTH CARE  
FINANCING &  
ORGANIZATION**

# When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

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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.

# Cost Shifting ... Again?

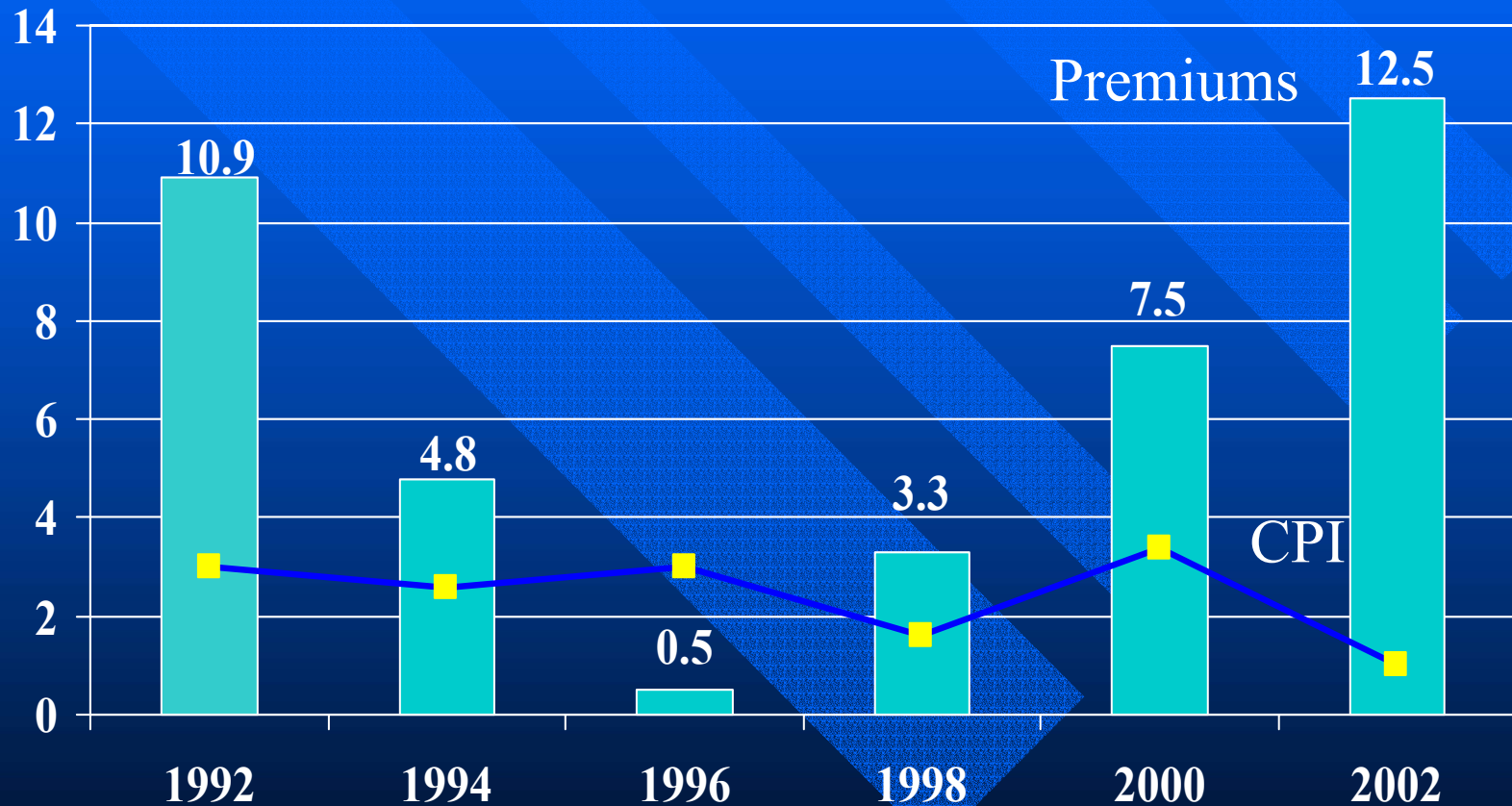
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# Rising Insurance Premiums

Percent Change



SOURCE: Kaiser Family Foundation Employer Surveys

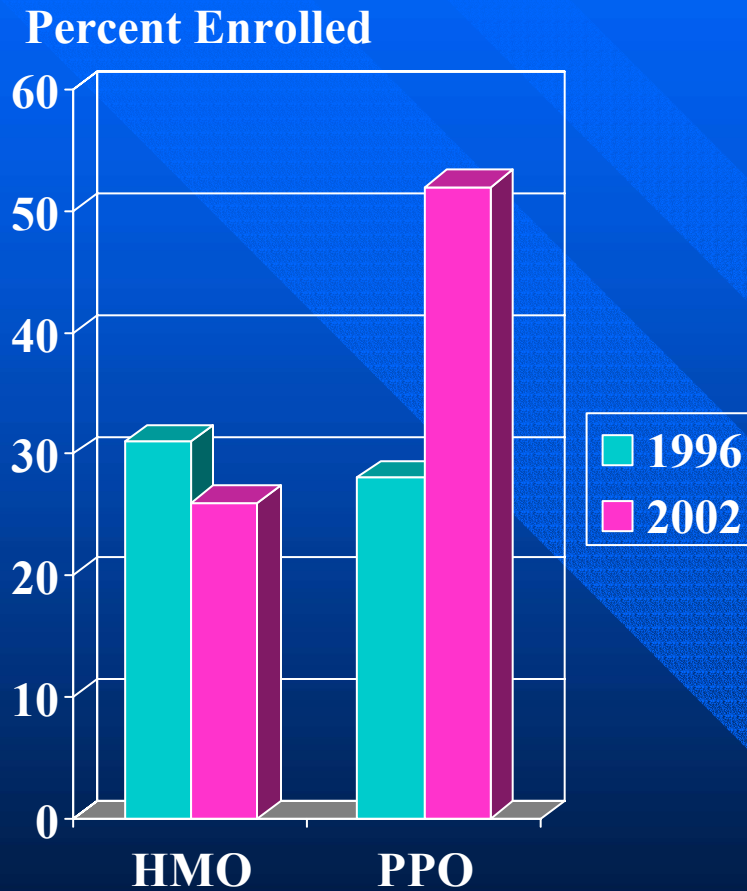
# Likely Culprits

- Managed care backlash?
- Provider consolidation?
- Cost shifting?

# Managed Care Backlash

- Selective Contracting
  - Limited panels of providers
  - Volume for price
- Demand for choice
  - Growth of PPOs and POSs
- Utilization management
  - Vocal opposition from providers (& consumers)
  - Didn't work anyway

# The Backlash



- The average number of docs in an HMO nearly quadrupled between 1990 and 2000.
- The percent of HMOs that pay for treatment outside their networks tripled to 63%.

SOURCE: Fortune (October 14, 2002)

# Provider Consolidation

- More hospital providers
  - Less rapidly increasing prices
- Formation of marketwide networks
  - One stop negotiating, but
  - Fewer competitors



## FTC Commissioner's Concern

“In the past year, the Commission has reached settlement with five groups of physicians for allegedly colluding to raise consumers’ costs....The alleged conduct I have describes is naked price fixing, plain and simple.”

-- *Timothy J. Muris, Chairman, FTC*  
*Chicago, IL November 7, 2002*

# Elements for Cost Shifting?

- Market power
- Unexploited market power
  - Providers have systematically not been charging managed care firms all that they (profitably) could

# Gold Standard Evidence of Cost Shifting

- Prices
  - Not profit margins
- Causation
  - Un-sponsored care up *because* profits up?
- Provider actions
  - Not state aggregates

# Gold Standard ...

- Dynamic element
  - Explicit link between lowering a Medicare/Medicaid price and successfully higher prices paid by managed care firms
- Why now?
  - Need to cost shift, or
  - New ability to do so?

# What to Worry About?

- Worry *less* about potential cost shifting
- Worry *more* about potential declines in competition among health care providers
- Worry *a lot more* about the decline of selective contracting