Center for Health Policy at BROOKINGS

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Leonard D. Schaeffer Center for Health Policy & Economics

Fostering Competition in Health Care

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Context for Policy to Foster Competition

- **Not a partisan issue**
  - **Support in both parties for greater competition in health care**
- **But still very challenging**
  - **Strong opposition from stakeholders who benefit from lack of competition**

Much More than Antitrust Policy (1)

- **Antitrust policy has had success**
  - **But it has limits**
    - **Consolidation from past mergers and organic growth**
    - **Limited resources at FTC and DOJ**
    - **Important merger types not yet addressed**
      - **Cross-market mergers**
      - **Vertical integration**

Much More than Antitrust Policy (2)

- **Three additional policy areas**
  - **Maintain and enhance competitiveness of markets**
    - **Example: Site neutral payments**
  - **Promote entry of new competitors**
    - **Example: Eliminate Certificate of Need laws**
  - **Prevent anti-competitive practices**
    - **Example: Ban use of anti-tiering and anti-steering clauses in contracts between providers and insurers**

MAKING HEALTH CARE MARKETS WORK: COMPETITION POLICY FOR HEALTH CARE

ACTIONABLE POLICY PROPOSALS FOR THE EXECUTIVE BRANCH, CONGRESS, AND THE STATES

APRIL 2017

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Site-of-Service Differentials (1)

- **Purpose: Funding hospital standby costs**
- **Expansion of physician employment by hospitals**
  - **Specialties commonly practiced outside of hospital**
  - **No basis for sharing standby costs**

Site-of-Service Differentials (2)

- **Result**
  - **Subsidize hospital employment of physicians**
    - **Can pay physicians more and accept lower productivity**
  - **Higher payments by insurers**
    - **Facility payments**
    - **Higher negotiated rates for physician services**
  - **Reduce competition**
    - **Many specialist physicians compete with hospitals**
    - **Employed physicians unlikely to refer to other hospitals**
    - **Undermine formation of physician organizations that can pursue ACO/bundled payment contracting**

Site-of-Service Differentials (3)

- **MedPAC proposal**
  - **End extra payment for services commonly provided outside of hospital**
  - **2015 legislation ended payment for new physician facilities based off campus**
    - **Useful but limited**

Tax Treatment of Employer-Sponsored Health Insurance (ESI) (1)

- **Enormous subsidy**
  - Marginal income tax rates for federal and state
  - Employer and employee payroll taxes
  - Budgetary cost of $250 billion per year
- **Large implications for design of health insurance**
  - More comprehensive benefits
  - Broader provider networks
  - Less resistance to provider prices
  - Employees pay through lower wages

Tax Treatment of Employer-Sponsored Health Insurance (ESI) (2)

- **Limit the amount of premium excluded from taxation**
  - **Preserve incentive to offer coverage**
  - **Limit impact on health care spending**
- **Cadillac tax has similarities**
  - **Slated to take effect in 2020**
    - **But vulnerable to further postponement**