

# HSCC 311

## Systems and Trends in Health Care Delivery

### Containing Health Care Costs

## Objectives

- Upon completion of this section, the student should be able to:
  - identify the characteristics of cost containment efforts
  - describe cost containment methods
  - differentiate between supply side and demand side regulations
  - describe policies to contain costs

## Cost Containment

- Governmental regulation
  - Supply-side controls
  - Price controls
  - Utilization controls
- Market-based competition
  - Demand side incentives
  - Supply side regulation
  - Payer-driven competition
  - Utilization controls

## Supply-Side Controls

- Controls consist of:
  - Limiting hospital inputs
  - Restricting physician supply
  - Health planning

## Limits on Hospital Inputs

- Focus on capital expenditures
- Hill-Burton Act of 1946

## Restrictions on Supply of Physicians

- Barrier on foreign medical graduates



## Health Planning

- Aligning and distributing resources
- Health Planning and Resource Development Act of 1974
- Certificate of need



## Price Controls

- Economic Stabilization Program (1971)
  - Wage and price controls
- DRG's



## Omnibus Budget Reconciliation Act of 1989

- Rate-setting mechanism
- Relative value units



## Balanced Budget Act of 1997

- Provisions
  - Medicare Part C
  - Increased Part B premiums
  - Demonstration projects
  - Prevention initiatives
  - Rural hospital initiatives
  - Anti-fraud provisions
  - Program integrity provisions



## Utilization Regulation

- Peer review
- Professional Standards Review Organizations, 1972
- Peer Review Organizations



## Market-Based Competition

- Categories
  - Demand-side incentives
  - Supply side regulation
  - Payer-driven price competition
  - Utilization controls

## Demand-Side Incentives

- Insurance availability
- Cost Sharing

## Supply-Side Regulation

- Consumers have imperfect information
- Technology
- US antitrust laws

## Payer-Driven Price Competition

- Consumers drive competition
  - Employers
  - MCO's

## Utilization Management

- Managed care role
- Developing practice guidelines

## Fee-For-Service Systems

- Expenditures = product of price and quantity of services

## Capitated Systems

- Oriented to the person
- Expenditures = product of costs per person and number of persons
- Determinants of expenditures
  - Unit price for services
  - Quantity of services
  - Cost of service per person
  - Number of persons
  - Payers

## Analysis of Cost Containment Strategies

- Fee-For-Service options
- Capitation options

## Fee-For-Service Options

- 3 types
  - Price options
  - Quantity options
  - Expenditure options

## Price Options

- Hospital side
  - Rate-setting
  - DRG's
- Physicians
  - Freezing payment rates

## Quantity Options

- Aimed at utilization
- Focus on reducing waste
- Certificate-of-need

## Expenditure Controls

- Directly target expenditures
  - Volume performance standards
  - Global budgets
  - Health budgeting

## Capitation Options

- 3 requirements
  - Control of costs per person
  - Number of persons
  - Shifting costs
- 2 strategies
  - HMO's
  - Managed competition



## Strategies for Controlling Costs (Capitated System)

- HMO's growing rapidly
- Incentive to control costs
- Fixed payment to provide care



## Managed Competition

- Pure competition is inefficient
  - Market is complicated
  - Biased selection



## Additional Methods for Controlling Costs

- Rate setting
- Role of private payers



## Rate Setting

- Provides incentives to hospitals
- Service intensity factor
- Limiting inputs
- Reduced payroll expenses



## Role of Private Payers

- Private payer efforts
  - Utilization
  - Self-insurance
  - Payment negotiation



## Policies to Contain Costs

- Third-party payers
- Controlling price and quantity
- Strategies
  - Mandated fee schedules
  - Global budgets
  - Resource rationing



## Mandated Fee Schedules

- Price-setting
- Price freeze
- Unbundling of services



## Global Budgeting

- Spending caps
  - Targeted or mandatory budgets



## Resource Rationing

- Last resort for policy makers
- Limiting access to high-cost hospital and specialty sectors
- Begins with improving access
- Gatekeeper physicians



## In Conclusion . . .