

Health policy 201– the influence of profit in health care

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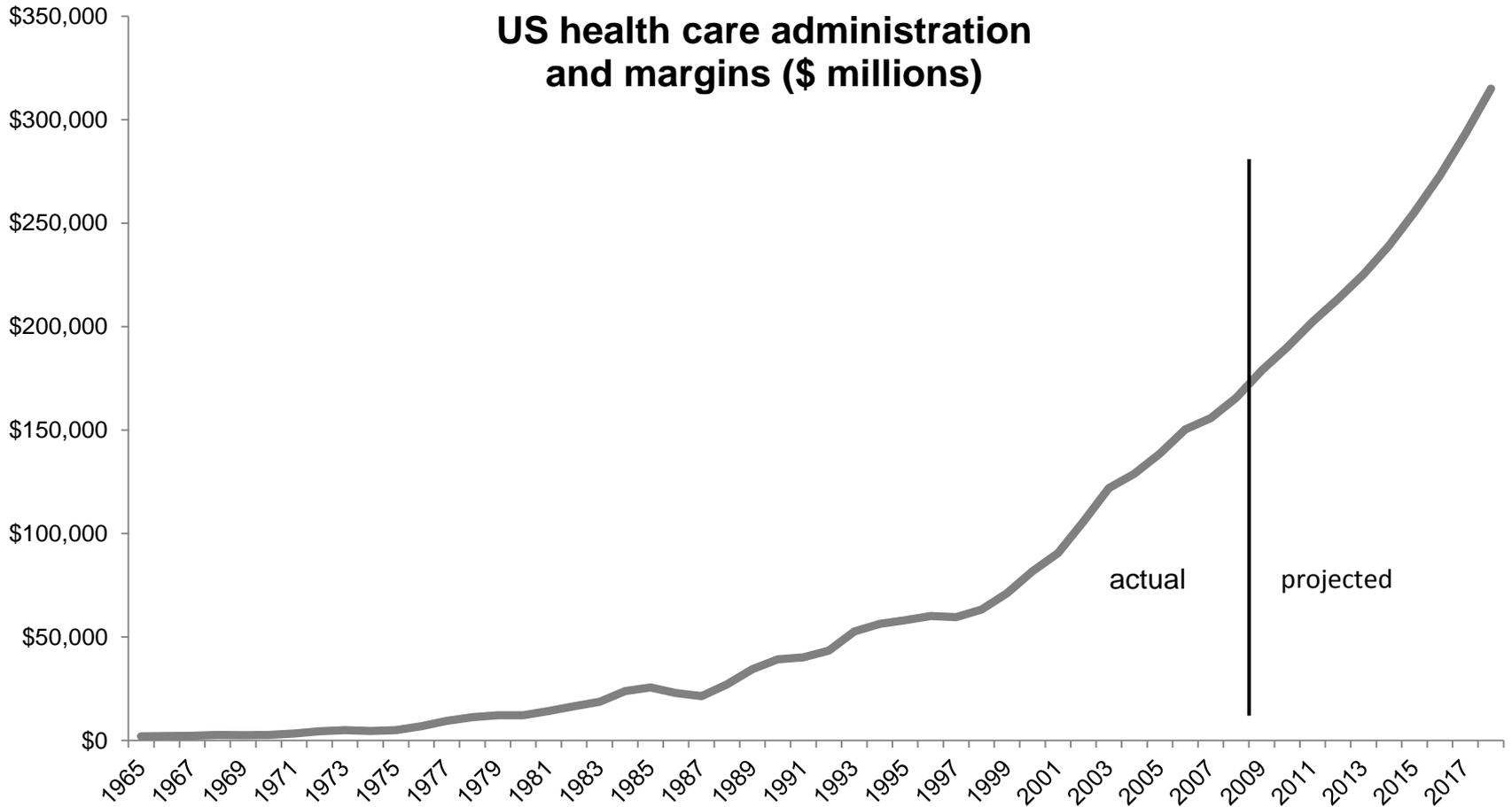
Role of profit in health care

- Money talks: Profits before Patient Safety
 - <http://www.youtube.com/watch?v=tmp2n-vFdwk>
- Profits in health care are not wrong
 - <http://www.youtube.com/watch?v=OeHYEebpJpQ>

Role of profit in health care

- US unusual among industrialized countries to allow for-profit health plans and providers
- Movement from largely nonprofit providers, plans in US to privatize
- “commodification” of health care
- Mirrors private sector ascendancy across sectors, government
- Both hospitals and health insurance plans, and growing
- In surveys, Americans expect nonprofits to be more trustworthy, fair and humane but lower in quality
 - 72% expect nonprofits to cost patients less vs. 18% believe for-profits cost patients less

Profit is rising



Source: National Health Accounts, CMS, HHS

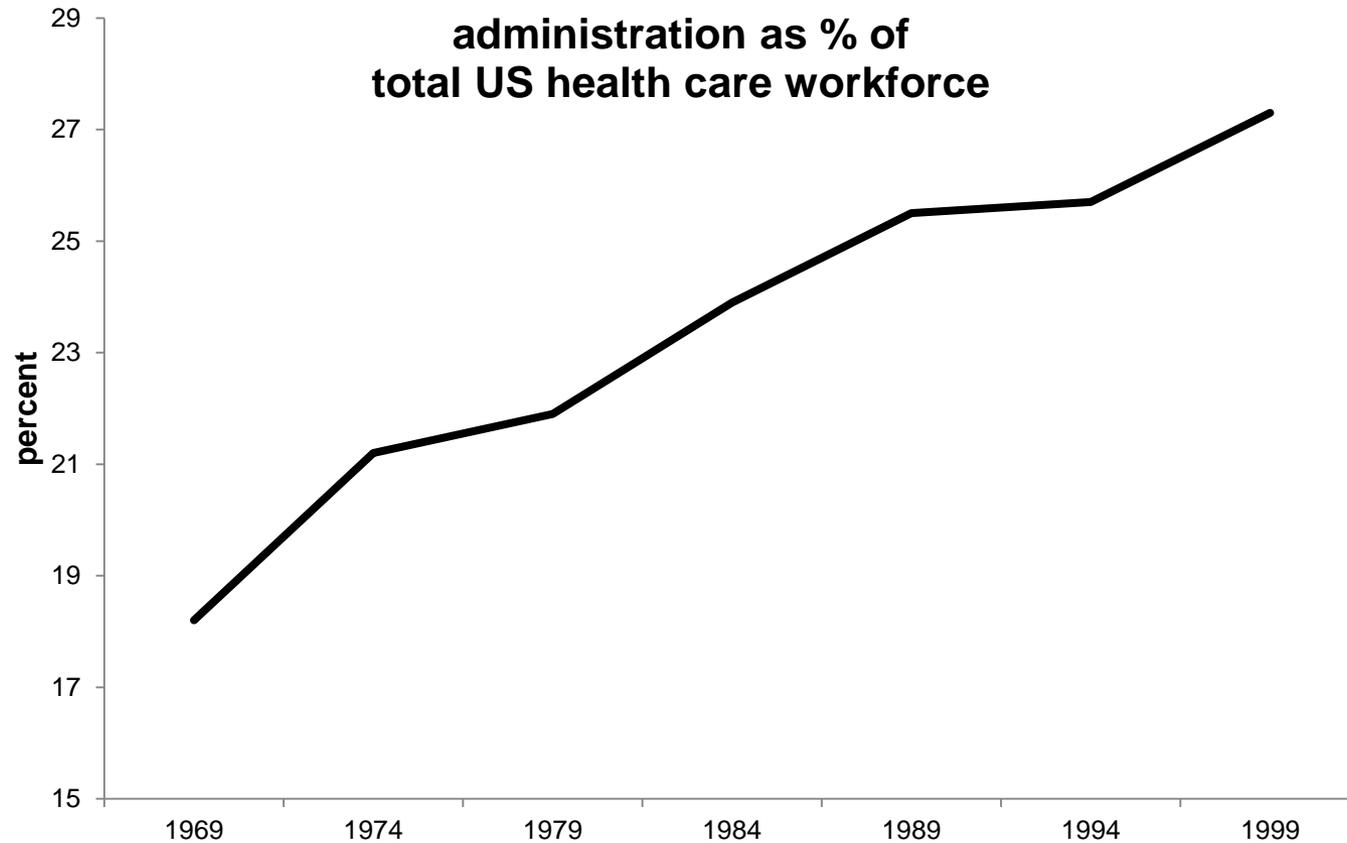
Pros and cons

Reasons	Concerns
Efficiency	Efficiency
Ability to raise capital for investment	“perverse” incentives
Innovation	Lack of transparency
More flexible	Accountable to citizens, not stockholders
Exempt from political instability	Private use of personal data
Market discipline	Stewardship of public funds
Tax revenue	Undue influence of private sector in policymaking
	Intellectual property, trade secrets
	Fragmentation
	Concentration of wealth

Quality of care: nonprofit vs. profit

- Investor owned managed care plans provide lower quality care than nonprofit plans
 - Across all 14 standards measured
 - i.e. immunization rates for 2 year olds 64% vs. 72%
- Higher administrative costs in health plans linked to worse quality
 - i.e. increase of admin ratio of 10% associated with decrease of 7.4% in use of beta blockers after heart attack
- Mortality is higher in for-profit hospitals than nonprofits
- For profit hospitals are more likely to offer profitable services and drop less lucrative care
- Investor owned hospitals have similar care costs to nonprofits but 19% higher administrative costs
 - Converting all US hospitals to nonprofits could have saved \$6 billion in 2001

Efficiency?



Source: Woolhandler et. al., NEJM 349:768, 2003

Scrutiny of nonprofit hospitals

- Half of US hospitals are nonprofit, all but one in CT, but Waterbury and St. Mary's are being bought by a for-profit Texas company
- Nonprofit hospital tax breaks \$ billions /year
 - Not providing equal charity care or community benefits
 - Some pay CEO more than total care for uninsured
- Many non-profit hospitals part of larger health systems with for-profit partners
- Scandals about nonprofit hospitals acting more like for-profits moving toward higher scrutiny
 - YNHH
 - Illinois hospital nonprofit status revoked
- IRS now requires community benefit reporting
- ACA requires charity care notices, policies
- More regulations, standards likely
- May push more hospitals to for-profit status

Conversions

- As previously non-profit health plans and hospitals convert to for-profit status, series of state laws require setting aside assets for community health purposes
- Based on value of tax breaks over the years due to nonprofit mission
- Has typically funded foundations dedicated to improved health, public health, covering uninsured bills, supporting safety net
- CT conversions
 - ConnectiCare, BCBS to Anthem → public health, advocacy foundations
 - Sharon Hospital → community foundation

Managed care tools

- Gatekeeping
- Limited provider panels, selective contracting
- Utilization review
- Prior authorization
- Reduced provider rates
- Higher consumer costs to reduce spending, ie.out of network providers, name brand drugs, etc.
- Generally credited with leveling off cost increases 1990's, but one time savings
- Backlash – led to managed care reform bills
- Didn't necessarily address the problems

Trends

- Market consolidation – hospitals, practices, and health plans – to increase market clout in negotiations with each other
 - In most states, one insurer has half the total business
 - Expected to accelerate under profit pressures of reform
- Raises costs and reduces options for consumers
- Inadequate state regulation
- Anti-trust concerns rising
- Concerns about physician and hospital interests in for-profit providers – i.e. specialty hospitals, labs
- Strong lobbying interests, spending skyrockets, state and federal level