Health policy 201– the influence of profit in health care
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

US health care administration and margins ($ millions)

Source: National Health Accounts, CMS, HHS
## Pros and cons

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

administration as % of total US health care workforce

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