INTRODUCTION

National efforts to promote competition in health care are being proposed in response to alarm over rising health care costs and growing federal expenditures. Pro-competition proposals are based on the theory that a large part of health care cost escalation is attributable to the current health care financing structure which insulates consumers from health care expenses and fosters inefficient use of resources. Proponents of competition seek to create conditions under which the users of health care are sensitive to its costs and there is market competition among health insurance plans and providers. Such competition, it is argued, will result in economic forces, rather than further government regulation, acting to restrain costs.

The American College of Physicians is examining the pro-competition proposals because of their possible positive and negative long-term effects on medical practice, the quality of and access to health care, the financing and delivery of health care, and the funding of medical education and research. The College has found that there are many unanswered questions raised by pro-competition health care measures that require serious review. Accordingly, the College recommends that the Congress subject these proposals to the most intensive scrutiny.

SUMMARY OF ACP POSITIONS

1. Creation of conditions so that competitive forces may operate more effectively in the medical marketplace is an important, but untested, objective worthy of serious legislative consideration.

2. By increasing cost consciousness, competition may be enhanced and rises in health care costs may be restrained.

3. Competition may not restrain health care costs and may not ensure that needed services are provided, even if current barriers to competition are removed.

4. Consumers must receive adequate information upon which to make intelligent choices.

5. Government should ensure that conditions for free market competition exist within a framework that assures the public of high quality, accessible health care.
Proposed national pro-competition health care programs must address the issue of how to take care of groups in need who would be denied coverage under a truly competitive system. Precautions will also be needed to prevent problems of adverse selection by consumers and "skimming" by insurance companies.

Competitive health insurance plans should provide certain minimum benefits, including protection from catastrophic illness.

A voluntary system in which Medicare eligible individuals could elect to receive vouchers for the purchase of health insurance is one approach that may increase consumer choice and enhance competition. Such a system should be considered cautiously. It would require safeguards to assure that sufficient information is provided to enable intelligent choices, that vouchers are for sufficient amounts to purchase adequate coverage, and that adverse selection problems are addressed.

The federal government, as the largest purchaser of health care services, and as a major provider of health services, should act as a prudent economic buyer.

Pro-competition proposals should recognize that the federal government should continue to have substantial responsibility for the funding of clinical education which takes place in teaching hospitals.

Because funding for biomedical research may be inadequate under a competitive health care system, consideration should be given to developing alternative means for continued support.

The feasibility of developing a more competitive health care system should be tested through demonstration projects.

RATIONALE

1. POSITION

Creation of conditions so that competitive forces may operate more effectively in the medical marketplace is an important, but untested, objective worthy of serious legislative consideration.

RATIONALE

There is conflicting economic theory as to whether competition can operate effectively in the medical marketplace. Economic theory is not an exact science, and the issues are exceedingly complex. However, the College subscribes to the view that more competition among providers of health care and among health insurance plans could create incentives for cost savings and could exert economic pressures for restraining rises in health care costs.
Both advocates and critics of pro-competition health care reforms agree that competition on the basis of price has not characterized the health care field. Patients are seldom in a position to shop for care, and health is rarely considered in economic terms. The health sector has not exhibited the natural supply, demand, investment, choice, and efficiency characteristics of the market for most goods and services. Governmental programs such as Medicare and Medicaid, the availability of private health insurance—often at little or no cost to the beneficiary—and increased technology have stimulated the demand for health care in the absence of market restraints on supply or prices.

Governmental policy has sought to correct defects in the health care economic market by law and regulation. Regulations have been implemented to control costs, plan growth of health care resources, prevent over-utilization as well as under-utilization of services, and assure access to high quality health care.

Recognizing that rising health care costs continue to be a problem and that many argue that the only alternative to competition is more extensive regulation, the College encourages continued efforts to determine the feasibility of a "competitive" health care delivery system. The College supports efforts to identify barriers to competition and disincentives for economically based choices.

Examples of such barriers may include comprehensive health insurance plans that totally insulate patients from the cost of health care. Another barrier may be federal tax policies that treat employer payments for health insurance as tax free income for employees. Likewise, unlimited treatment of health insurance costs as tax deductible business expenses may reduce the economic incentive for business to shop among health insurance plans. Governmental programs designed to guarantee access to health care also tend to insulate patients from the cost of care. Health insurance plans that are able to raise premiums to offset expenditures have little economic incentive for resisting payment for unnecessary services or excessive charges. For competitive forces to operate more effectively in the medical marketplace, these disincentives should be reduced.

2. POSITION

By increasing cost consciousness, competition may be enhanced and rises in health care costs may be restrained.

RATIONALE

For consumers, health care providers, and third party payers to make rational economic decisions regarding the purchase or provision of health care, as contemplated under competitive health care
proposals, all participants in the process must be aware of and sensitive to costs. Price alone, however, should not be the only factor used to select health services.

If consumers receive economic benefits from wisely choosing health insurance plans, then incentives will exist for health insurance plans to compete on the basis of premiums. Consumer awareness and sensitivity to the cost of health insurance and the cost of health services will result in pressures for cost-effective and efficient delivery of health care. "First-dollar" insurance coverage may discourage competition because it insulates the consumer from health care costs.

Co-payment and deductible insurance provisions are a means not only for reducing health insurance costs, but also for creating consumer economic interest in the cost of services. These may be the most effective means for fostering consumer cost consciousness and may be the most successful way for discouraging unnecessary demands for services. Such provisions, however, should not be set so high that they discourage patients from obtaining needed care. Experience under Medicare has shown that consumers may prefer to purchase additional insurance to offset reductions in coverage due to deductible and co-payment provisions. Choice among health insurance plans offering reduced premiums through co-payment and deductible provisions as well as comprehensive insurance at higher rates should be available for the consumer. The consumer, however, should have sufficient knowledge to shop intelligently.

Cost consciousness is also a responsibility of the providers of health care. Physicians as the "gatekeepers" to medical care have a responsibility for considering cost effectiveness in patient care. The American College of Physicians maintains that high quality health care should be cost effective care. Physician sensitivity to and awareness of costs may be one of the most effective means for restraining increases in the cost of health care. The College, as evidence of its commitment to increasing physician cost consciousness, has published a handbook that presents a logic-based system for the proper use and interpretation of laboratory tests and procedures as an important effort to contain medical costs. Through its ongoing Clinical Efficacy Assessment Project, the College seeks to determine whether procedures and treatments are clinically effective.
3. POSITION

Competition may not restrain health care costs and may not ensure that needed services are provided, even if current barriers to competition are removed.

RATIONALE

Proposals to create more competition in health care would be more likely to result in a shifting of the responsibility for payment, rather than a reduction in national health care expenditures. This may be a desirable fiscal objective for the federal government, but should not be confused with the objective of restraining increases in health care costs.

Proposals to change the tax treatment of health insurance premiums, to require co-payment and deductible provisions, and to provide vouchers for Medicare recipients to purchase their own insurance would shift responsibility for the payment of costs among the federal government, employers, health insurance plans, and the consumer. To the extent that health insurance and personal wealth are insufficient to cover the cost of services, either patients will forego receiving care or physicians and health care facilities will have to absorb the costs.

Price has not generally been the most important factor influencing the purchase of health care. As in the purchase of other professional services, consumers are often more influenced by factors such as quality, reliability, expertise, reputation, and the availability of the professional rendering the service. Consumer choice decisions are also influenced by other less explicable factors. In addition, less than cost effective decisions frequently appear to be made, such as the purchase of first dollar insurance coverage by persons at low medical risk.

Thus, increased competition in health care could result not in lower prices, but in increased costs as providers and health insurance carriers seek to compete by offering more comprehensive services or benefits in response to consumer demands. Choices among competitive health insurance plans may be made more on the basis of which plans offer the most benefits, than on price as envisioned by competition theorists.

Such competition may not ensure that needed services are provided. Cost effective or profit-making functions could be expected to expand under greater competition. However, many services now performed at less than actual cost could be jeopardized. Maternity and obstetrical services and other functions now performed by not-for-profit hospitals could be threatened as competition intensifies from profit-making
facilities not offering these services. Although considerations of profitability should not supplant community interests, increased competition could create exactly such pressures.

4. POSITION

Consumers must receive adequate information upon which to make intelligent choices.

RATIONALE

Consumers must be provided with sufficient information upon which they can make intelligent decisions in choosing among health insurance plans. Incentives are needed for employers and insurers to provide factual, reliable, and understandable information. Current competitive health care proposals provide no incentive for employers to encourage employees to choose less expensive plans. Employees choosing a less expensive plan may necessitate more paperwork for the employer who, under some proposals, must refund the difference in cash or provide other benefits, thus creating a disincentive for the employer to promote such choices.

In order to encourage employees to make informed choices among competing health insurance plans, employer contributions should be identical regardless of the plan chosen. Although consumers generally cannot shop for health care when they are ill, rational choices among health insurance plans can be expected if consumers are provided with adequate information and an annual opportunity to change plans.

5. POSITION

Government should ensure that conditions for free market competition exist within a framework that assures the public of high quality, accessible health care.

RATIONALE

If competitive forces are to be given a chance to operate to control costs, it will be necessary for the federal government to act to protect the public, health care providers, and third-party payers from unfair competition. Protection must be available from collusive and monopolistic practices. Such governmental responsibility may result in more, not less, government regulation.

State governments will continue to have responsibility to prevent competition from unqualified practitioners, from health insurance plans without the means to provide promised benefits, from facilities that provide unsafe or ineffective care, and from enterprises that seek to exploit or to deceive.

Current pro-competition health care measures are designed to promote competition among health insurance plans. They do not seek to
remove legal restrictions that define the nature and scope of health services. The American public must be assured that high quality health care will continue to be available from competent practitioners. State licensing laws and state practice acts must continue to ensure that only qualified professionals provide care within their areas of expertise.

6. POSITION

Proposed national pro-competition health care programs must address the issue of how to take care of groups in need who would be denied coverage under a truly competitive system. Precautions will also be needed to prevent problems of adverse selection by consumers and "skimming" by insurance companies.

RATIONALE

Unless provision is made to provide health insurance coverage for all residents of a community or region, there will be substantial portions of the population who will be denied access to health care. Groups at high risk of utilizing health care services and those without sufficient financial means should not be deprived of health insurance protection.

Competition provides incentives to offer low cost insurance to the healthy and to reject or offer high cost insurance to those at high medical risk. Adverse selection problems will result as the healthy seek low cost and low benefit plans, and those needing greater insurance coverage are forced to pay higher premiums. Competition among insurance plans should be structured so that all competitive plans are based on a wide-based sharing of risks. Insurance companies should not be allowed to select or "skim" only the best customers. Financial protection from the cost of health care will be needed to assure that services are available for the poor, the elderly, the incompetent, aliens, the unemployed, and those at high medical risk. Problems of adverse selection and the possible unavailability of health insurance for segments of the population most in need of insurance protection are not adequately addressed in several current pro-competition proposals. The College believes that these issues need to be addressed in any national debate on developing a more competitive health care system.

7. POSITION

Competitive health insurance plans should provide certain minimum benefits, including protection from catastrophic illness.

RATIONALE

To assure the public that adequate health insurance coverage is provided, standards will be needed for competitive health insurance
plans. A choice among a variety of health insurance plans should be encouraged, but all plans must meet certain qualifications and provide certain minimum benefits. Enforcement of standards could be accomplished by state insurance departments. However, establishment of standards for qualification and determination of minimum benefits may well require increased regulations by the federal government, not decreased regulations as pro-competition theorists propose.

Minimum benefits should include coverage for the costs of medical and surgical services, as well as institutional and home health care. Benefits should adequately protect consumers from the costs of catastrophic illness. Purchasers of health insurance should be protected against becoming impoverished by the cost of health care. Many current health insurance plans do not now provide such coverage, and substantial additional costs could result.

Insurance for preventive health care is also not currently available in all plans. Current evidence, however, indicates that preventive health care results in reduced morbidity and mortality. The College believes that preventive health care has an enormous potential for containing health care costs, but the short-term impact may be to increase the cost of health insurance. The College suggests that any competitive health insurance proposal should include provision for preventive health care. Failure to provide preventive health care under a competitive system could adversely affect public health if patients are discouraged from seeking early detection and treatment of disease. An understanding of the extent of current consumer demand for preventive health insurance provisions and a clearer definition of preventive services would be desirable before public policy decisions are made regarding minimum benefit requirements. A review of the experience of selected health insurance carriers currently offering such options would also appear to be beneficial.

The College advises that there are a number of disparate issues involved in the concept of competition in health care that should be closely examined for their possible impact on the provision of needed preventive health services. Such issues include first-dollar coverage; reimbursement for services such as vision care, dental care, treatment for alcoholism and mental health problems, and counseling on the relationships between personal habits and health status; and reimbursement for cognitive skills.

The interests of public health may need to be balanced against competitive economic incentives for choosing the lowest cost health insurance plans. Minimum benefit packages will need to be defined, but further study will be needed to clarify the nature of what those benefits should be. Minimum benefits should not be set so low that patients will be discouraged from seeking needed care.
8. POSITION

A voluntary system in which Medicare eligible individuals could elect to receive vouchers for the purchase of health insurance is one approach that may increase consumer choice and enhance competition. Such a system should be considered cautiously. It would require safeguards to assure that sufficient information is provided to enable intelligent choices, that vouchers are for sufficient amounts to purchase adequate coverage, and that adverse selection problems are addressed.

RATIONALE

Vouchers to be used for the purchase of health insurance could offer Medicare eligible individuals freedom to select health insurance coverage that would be better suited to their individual needs. Private insurance carriers and health maintenance organizations may even be able to offer the same or better coverage at less cost. Participation in a voucher system, however, must be on a voluntary basis. Strict regulations would be needed to assure that the elderly, disabled and dependent are not misled or coerced into purchasing inadequate or overly expensive insurance.

The present Medicare program provides a comprehensive health insurance package, enables patients to select their own physicians, and provides a wide ranging system in which treatment can be received and payment provided for services rendered in a variety of settings throughout the country. Opportunities to participate in this program should be continued, and participants must be assured that they remain covered by Medicare unless they actively choose otherwise.

Because of the importance of such a decision, particularly for the Medicare eligible population which is generally at a higher risk of needing health care, it is essential that adequate and understandable information be provided.

Vouchers should at least equal the amount needed to purchase coverage equivalent to that provided under Medicare. Based on the demonstrated preference of Medicare recipients for comprehensive coverage as indicated by the purchase of supplemental insurance, it is unlikely that most Medicare eligibles would purchase low option plans. It appears more likely that vouchers would be used to purchase comprehensive health insurance plans, with the burden of the additional costs of coverage being borne by individuals. While a voucher system might contain costs under the Medicare program, it may well generate substantial increases in national health care expenditures as more comprehensive insurance plans are sold. Adverse selection problems could cause average costs for those remaining under Medicare to rise.
The College highlights that there may be serious inherent problems in applying a voucher concept either to Medicare or to Medicaid eligible populations. Nationwide implementation of a voucher system could create serious uncertainty and anxiety among enrolled beneficiaries; unnecessary duplication of administrative efforts; and increased opportunities for deception, fraud and abuse. Differences among states regarding coverage provisions and eligibility requirements would make administration of a voucher system for Medicaid extremely difficult. Changes in state Medicaid eligibility requirements could result in widespread confusion as patients move in and out of qualification for the program. The College, therefore, stresses that a voucher system should be carefully tested on a limited scale before it is considered for nationwide application. Development of the voucher concept should proceed with extreme caution.

9. POSITION

The federal government, as the largest purchaser of health care services and as a major provider of health services, should act as a prudent economic buyer.

RATIONALE

The federal government pays approximately 29 percent of all health care costs of the United States. Even with the substantial federal budget cuts enacted in 1981, the Congressional Budget Office projects that federal spending just for Medicare and Medicaid will total approximately $58.3 billion in 1981 and will rise to $85.0 billion by 1984. The federal government is also a major provider of health services. Billions of tax dollars are spent annually in federally operated health service facilities operated by the Veterans Administration, the Indian Health Service, the Public Health Service, the Department of Defense, and other federal agencies. As such a large purchaser and provider of health care, it is incumbent upon the federal government to seek to purchase supplies and services in the most cost effective manner. Development of pro-competition health care proposals should take into consideration the potential economic impact on the marketplace of the federal government. Proposals to achieve health care cost reductions through competition cannot be expected to succeed without the participation of such a major purchaser and provider of services.

New mechanisms may need to be developed for the federal government to determine what services it will purchase and at what prices. Where the federal government does not purchase services directly, but instead reimburses providers for services rendered, the government may need to provide the means so that its "buyers by proxy" (Medicare and Medicaid recipients) can act as informed economic buyers.
10. **POSITION**

Pro-competition proposals should recognize that the federal government should continue to have substantial responsibility for the funding of clinical education which takes place in teaching hospitals.

**RATIONALE**

Proposals to revamp the health care financing system on the basis of competition do not adequately provide for continued support of medical education. Teaching hospitals provide opportunities for education and clinical training in addition to patient care services. Although it can be argued that patients benefit from the skills and attention available at teaching hospitals, it is highly unlikely under a competitive system that patients or insurance carriers would be willing to pay additional costs for sustaining medical training programs. If academic medical centers are forced to compete solely on an economic basis with non-teaching facilities for the provision of patient care, an alternative means of financing medical training may need to be developed.

11. **POSITION**

Because funding for biomedical research may be inadequate under a competitive health care system, consideration should be given to developing alternative means for continued support.

**RATIONALE**

Biomedical research is currently supported in part from revenues derived from the provision of patient care services. Increased price competition in the delivery of hospital patient care, however, would tend to favor those institutions that do not engage in costly research activities. Under competitive health care proposals there will be little incentive for patients or health insurance carriers to pay for such research. Yet, biomedical research will be needed for continued advances in medical science.

Development of improved methods of clinical practice and research to determine clinical efficacy are also mechanisms whereby cost effectiveness can be realized. Federal support for such research resulting in improved clinical practice and quality of care will ultimately result in cost reductions. Consideration should be given to direct governmental subsidies, required contributions from qualified health insurance plans, or other means of support.
12. **POSITION**

The feasibility of developing a more competitive health care system should be tested through demonstration projects.

**RATIONALE**

Pro-competition economic theory has been neither tested nor proved to be valid with regard to health care. Restructuring the entire health care financing system would have tremendous repercussions on what services are delivered; how and by whom services are provided; how health care professionals are educated, trained and compensated; how facilities are planned and financed; and other major considerations. Before such a massive shift is instituted, the feasibility of competitive programs and their costs and benefits should be determined. The College strongly urges testing on a small scale through demonstration projects, rather than an abrupt and comprehensive overhaul of the entire system.

The College notes that there are interesting and potentially important voluntary experiments related to hospital reimbursement and cost containment currently underway across the country. These experiments may help to realize the objectives for which pro-competition proposals are being developed. Such efforts, therefore, should not be constrained by the implementation of pro-competition measures.

**BACKGROUND**

Several legislative proposals to promote competition in health care have been introduced in Congress during the last three years. The Administration has indicated that competition will be an integral part of its program to deregulate the health care field, and an Administration pro-competition proposal is currently under development.

"Pro-competition" health care measures are based on the theory that given a choice among health benefit plans and given the availability of a tangible benefit for choosing a plan with fewer health benefits, the consumer will not have an incentive to over-insure, but instead will accept financial responsibility for certain first-dollar health care costs. Faced with increased costs, the individual can be expected to generally use fewer health services. Employers and other sponsors of insurance plans are expected to exercise their purchasing power to reduce costs by negotiating special arrangements with providers and facilities. Plan subscribers generally would be limited to obtaining services provided under such arrangements. Cost reductions would also be achieved through provider contracts, closed panel arrangements, negotiated fee schedules, and a greater reliance on large group practices where costs theoretically could be lowered through strict internal control.
Proponents of pro-competition legislation point to the dramatic increases in health care costs and the growing magnitude and share of expenditures for health care paid by the federal government. Public pressure to reduce or restrain these costs are believed to necessitate some federal action. The status quo is said to be no longer possible. Pro-competition legislation is being offered as the alternative to greater regulatory activity.

Efforts to promote competition have raised questions regarding the application of antitrust law in the health care field. As efforts to implement competitive proposals and to deregulate the health care industry take shape, the importance of these questions will increase. Because of the broad implications of this issue upon many aspects of health care delivery, this issue may warrant further consideration.

H.R. 850, the National Health Care Reform Act of 1981, has been introduced by Representative Richard A. Gephardt (D-MO). This bill would provide a federal "health care contribution" for all citizens and resident aliens of the United States. Contributions would be in the form of cash or credits for the unemployed, exclusions from gross income equal to employer contributions for employees, tax credits for the self-employed, and vouchers for Medicare recipients. Health care areas would be established and grouped in terms of urban or non-urban for the purpose of determining federal contributions.

Senator David Durenberger (R-MN) has introduced S.433, "The Health Incentive Reform Act of 1981." This bill would use tax law to encourage large employers to offer at least three health insurance plans to employees. Employers would be required to make equal contributions on behalf of all employees, but employees choosing a less costly plan would be eligible to receive the difference in tax-free cash or other benefits. Employer contributions in excess of the "maximum contribution" would be taxable income to the employee.

Senator Orrin Hatch (R-UT) has introduced S.139, "The Comprehensive Health Care Reform Act." This bill provides that current tax benefits to employers and employees relating to employment-based health insurance plans would be conditional upon the presence in the plan of certain measures designed to contain costs and provide catastrophic illness and preventive care benefits. Large employers would be required to offer employees a choice of at least three competitive plans, one would have to contain provisions for co-payment of inpatient hospital expenses of at least 25%. An employer's contribution per employee would have to be the same for each plan offered. Employees choosing plans with a premium costing less than the employer contribution would be eligible to receive the excess as tax-free income or other benefits. To provide availability of catastrophic illness insurance and preventive care benefits to all persons who are not covered by employment-based insurance or a government program of health care (e.g., Medicare or Medicaid), the bill requires every carrier to offer these coverages under a pooling arrangement. Premium cost to the individual could not exceed 125% of the premium cost of comparable group health benefits in the area.
Several other pro-competition measures have also been introduced in Congress, including a recently revised proposal (H.R. 4666) by Congressman Gephardt and Willis D. Gradison (R-OH), that would offer Medicare eligibles the option of participating in a voucher plan. On September 30 - October 2, 1981, hearings were held on the issue by the Subcommittee on Health of the House Ways and Means Committee at which approximately 75 people presented testimony, including representatives for the AMA and ASIM. Further Congressional hearings on competition will be necessary in both the House and the Senate.