THE BUCKEYE INSTITUTE

Improving the Value of Health Care through Competition
Testimony Before the Ohio House Health Committee

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Thank you, Chairman Merrin, Vice Chair Manning, Ranking Member Boyd, and members of the Committee, for the opportunity to testify regarding how Ohio can leverage free-market solutions to improve health for all Ohioans without breaking the bank.

My name is Rea Hederman. I am the executive director of the Economic Research Center and the vice president of policy at The Buckeye Institute, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

Like most Americans, Ohioans value affordable access to health care. As the demand for health services rises across the country and throughout the state, so does their price. To combat those rising prices government policymakers must find ways to promote more market competition—affordable health care depends on it.

Last fall, the U.S. departments of Health and Human Services (HHS), Labor, and Treasury acknowledged as much in their co-published report ***Reforming Americas Healthcare System Through Choice and Competition***, stating:

> Many government laws, regulations, guidance, requirements and policies, at both the federal and state level, have reduced incentives for price- and non-price competition, increased barriers to entry, promoted and allowed excessive consolidation and resulted in healthcare markets that lack the benefits of vigorous competition. Increasing competition and innovation in the healthcare sector will reduce costs and increase quality of care—improving the lives of Americans.

Market competition requires businesses to continually improve their products and prices in order to attract and maintain customers by providing greater value. In health care, competitive forces that give consumers choices and options for procuring treatment and services help to reduce costs and improve care for patients. Dr. Martin Gaynor, former chief economist for the Federal Trade Commission during the Obama Administration, wrote the chapter on health care competition. He confirmed that competition between health care providers reduces costs while improving patient mortality rates. Expanding the availability of local, less expensive health clinics and encouraging access to telemedicine, for example, are innovative ways for policymakers to increase competitive market options that will help **lower the price and improve the quality of health care** across Ohio.

Unfortunately, the reverse is also true. Reduced competition makes patients pay more **money for worse results**. Hospitals with monopoly-like power charge **15 times more** than hospitals in areas with at least four more hospitals. And as hospital systems buy out private doctor practices, patients have fewer choices for care, which has allowed many hospitals to charge extra "**facility fees**" for the same care from the same doctor. Such fees and other opaque expenses, of course, may be charged without ever improving the quality of service or care because market competition has been reduced or eliminated.

State policymakers can take significant steps to ensure greater access to better, more affordable health care by finding ways to reduce or remove legal and regulatory restrictions on health care providers. Policymakers can also adopt policies that promote rather than limit market choices and competition, and that encourage innovation in treatment and service delivery.

Encourage Competition

Ohio's licensing restrictions that limit a medical provider's "scope of practice" deny access to care and increase costs for patients. Regulatory scope of practice limitations that are squarely within the province of state lawmakers inevitably prevent health care providers from offering the full range of their medical training to would-be patients. Such anti-competitive occupational licensing restrictions—famously championed by ophthalmologists against optometrists, dentists against dental therapists, and doctors against nurses—reduce rather than promote market competition at the patients' expense. **President Obama's Council of Economic Advisors** reported, for example, that allowing advanced nurse practitioners to use all of their training significantly improves access to quality health care services. Indeed, **several** research **studies** have confirmed that primary care patients experience equivalent medical results whether they were treated by a doctor or a qualified nurse.

As Ohio's population ages, citizens need more, not fewer health care providers. The state risks the same kind of medical care provider shortage that caused the U.S. Department of Veterans Affairs to remove restrictions on collaboration agreements between physicians and advanced nurse practitioners for treating military veterans. Such agreements, ostensibly designed to provide physician oversight, effectively limit how many nurses can provide care independently. As Veterans Affairs understood, provider shortages can be alleviated by allowing advanced nurses to practice medicine safely to the "top of their license" and thereby freeing doctors to spend more time on more complicated cases that require more specialized training.

State policymakers must also recognize that Ohio's rural areas already have fewer health care providers and choices than more urban areas, and that curtailing or eliminating scope of practice regulations can alleviate some of the provider shortages. Indeed, experts have just recently **testified** before the U.S. House of Representatives specifically touting scope of practice reform as a viable way to reduce health care costs in rural areas.

Lawmakers should consider other innovative ways to address provider shortfalls, such as promoting greater reciprocity of medical licenses across state lines and entering into compact agreements with other states regarding medical specialties. Easing licensing burdens and increasing reciprocity would make it easier for licensed, out-of-state physicians to relocate to Ohio and serve patients in regional areas.

Encourage Transparent Pricing

Properly functioning markets and transactions require transparent pricing and information. Buyers and sellers both must know what product or service is being exchanged and how much that exchange will truly cost. When the necessary information is obscured, prices rise and expectations go unmet.

The country's health care sector suffers from notoriously non-transparent pricing, especially for patients, that exacerbates the costs of an already expensive service. When consumers do not know the real cost of a medical service they risk buying too much or too little of the services they need. Compounding the problem, some health care providers may not even know what prices they charge

for some procedures. Ohio is not immune to this pandemic and, like most states, received a **failing grade** in health care price transparency.

With one **study** estimating that transparency improvements could save the country $100 billion over the next decade, federal policymakers recognize that more pricing and transactional transparency can help reduce costs. HHS has **acknowledged** that "Empowering consumers with price information and realigning financial incentives to give consumers a greater stake in their healthcare decisions has been shown to lower prices without affecting quality." And last week, *The Wall Street Journal* **reported** that HHS is now considering new rules that would require more transparency between insurers, hospitals, and doctors.

Ideally, insurers and self-insured companies know the price that consumers will pay at the point of service and offer that information to patients. Patients can then go to the care provider that they believe offers the best value for that service. Some insurance companies are already using transparency to benefit patients. Aetna, for example, provides individualized cost estimates on more than 600 medical procedures for more than 90 percent of their enrollees. In Canton, Aultcare gives enrollees an easy way to see their real out-of-pocket costs, empowering them to seek better value using a tool called The Aultcare Medical Cost Estimator. In many states, insurance plans for state employees offer similar tools for saving money by reducing out-of-pocket employee spending.

The American Medical Association (AMA) has also begun **pushing price transparency** as a way to increase the value of health care. In a letter to a bipartisan group of U.S. senators, the AMA's chief executive officer wrote, "The AMA supports price transparency and recognizes that achieving meaningful price transparency may help control health care costs by helping patients to choose low-cost, high-quality care." Some health care providers have heeded the call and have started to post their prices for surgical procedures.

Price transparency is also necessary to allow more direct purchase of health care services. Individuals and businesses are more cost-conscious when they are spending their own money and have to pay more through co-pays, deductibles, or a health savings account. Evidence from California **shows** that consumers used lower priced facilities and providers when they had data on prices. Price transparency helps patients determine which doctor or hospital provides the best care at the best price—vital information for families with health savings accounts or who pay cash for health care services, and especially **considering** that more than half of employer-sponsored insurance spending is for "shoppable" non-emergency services such as a knee replacement, a primary care visit, or some prescription medicines.

Encourage Health Savings Accounts

Promoting health savings accounts can lead to more **efficient health care spending** without limiting access to emergency medical care. Indiana, for example, is using health savings accounts inside its Medicaid program, and Healthy Indiana Plan enrollees are now making effective contributions to their accounts for **primary and preventative care services**.

As this Committee is undoubtedly aware, Ohio proposed a health savings account structure inside Medicaid but the proffered plan failed to get federal approval. Under the new Administration, HHS

is taking a different approach—not only approving the Healthy Indiana Plan renewal, but also discussing **federal policy changes** to broaden the use of health savings accounts. Ohio should revisit broadening access to health savings accounts for Medicaid recipients, especially with the Trump Administration actively seeking innovative health care partnerships with states.

Like all sectors and industries, health care remains subject to the push and pull of regulation, competition, and a variety of market forces, including supply and demand. As competition wanes and health care suppliers consolidate, consumer choices fall and prices and premiums rise. Bipartisan efforts at reducing barriers to affordable health care would do well to encourage competition, transparency, and health savings accounts, and to remember the **advice** of the economist, Dr. John H. Cochrane: "look for every limit on the supply of health care services and get rid of it."

Thank you for the opportunity to testify today and I look forward to any questions you might have.

About The Buckeye Institute

Founded in 1989, The Buckeye Institute is an independent research and educational institution – a think tank – whose mission is to advance free-market public policy in the states.

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