

Health Care: Reducing Costs Without Sacrificing Quality



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During the 80's, the United States made an important change in its health care system. In the traditional insurance system, insurance companies paid medical centers the fees incurred for treating their clients and allowed clients to choose the medical centers they wanted to use. This was substituted by the so-called "Managed Care" system. This managed health structure granted a budget for each patient regardless of the type of care required, while at the same time restricting patients' access to certain medical centers.

This new formula sought to prioritize cost reduction and has certainly reduced payments received by doctors and hospitals ever since. However, it is not totally clear how this formula affects the adoption of sophisticated health care technologies. Does Managed Care make hospitals reluctant to acquire sophisticated technologies despite the fact that these same technologies might greatly benefit their patients?

Answering this question is one of the objectives of the recent study, *Is Managed Care Restraining the Adoption of Technology by Hospitals?*. This study, originally published in the *Journal of Health Economics*, was conducted by this author together with Janice Seinfeld. It is based on data from 5,390 U.S. hospitals and analyzes the 13 different technologies used in diagnostic radiology, radiotherapy, and heart treatment during the period between 1982 and 1995. Managed Care grew significantly in the United States during this period, and as the full study

demonstrates, the data were categorized according to the size of the hospital, number of beds, and type of property. In addition, these same 13 technologies were categorized by their level of return on investment.

In the traditional formula, health insurance policies paid hospitals and doctors for services rendered according to the criteria of “more treatment, greater compensation” and did little to control the use of necessary medical services and treatments. This all changed with the advent of Managed Care. Primary care doctors now receive a pre-established amount per insured patient, regardless of the number or type of services or treatments they render. Hospitals and specialists also receive a remuneration structure that promotes reductions in the levels of medical care.

Furthermore, patients have a more reduced number of centers to choose from given that their medical aid only covers a predetermined network of facilities. Within that network, managed health care demands that patients visit a primary care doctor before receiving the green light to see a specialist. Although these limitations vary according to the health care company, in general those companies that offer assistance and the provision of fully integrated health services tend to be the most restrictive.

Managed Care influences the adoption of technology in different ways. On one hand, and thanks to their large market participation, insurance companies have considerably increased their negotiating power with hospitals. This has provoked price reductions on the part of private health care centers and doctors. Given the fact that this payment structure promotes the reduction of medical care use, primary care doctors play the role of controllers who try to limit patients’ access to treatments involving high technology and which, therefore, might involve greater costs. On the other hand, reduced costs of certain medical services thanks to new technologies has allowed hospitals to be in a good position to negotiate with insurance companies on reducing prices. Suddenly, the adoption of new technologies has become an important negotiating tool. The more technology a hospital has, the more obligated an insurance company will

feel to offer patients access to that technology. As such, at least in theory, hospitals can consider the possibility of adopting more technology to start tipping the balance of power back in their favor.

Nevertheless, our study reflects that things are more complicated than they appear. In practice, the new Managed Care remuneration system negatively conditions the adoption of new technologies by hospitals. This phenomenon affected each of the 13 hospitals studied. This is especially true for those technologies that appeared in the 90's (such as PET or angioplasty, for example) when Managed Care had already become the most generally used health care vehicle in the United States. The results of our study reveal that by changing incentives associated with the acquisition of new technologies, the new formula may contribute to slowing the increase of health care spending (since it has already been demonstrated that over half of the health care spending increase is due to the adoption of new technologies). The problem is that this happens at the expense of limiting the availability of the most sophisticated technologies. Subsequent studies should clearly track the true extent of these secondary effects of managed health care, but the provisional data in our research seem to indicate that managed health may be affecting the quality of care received by patients in a negative way. And it is here that the availability of the most advanced technologies will play a highly critical role in the future.