Academic Articles & Reports Roundup: September 2016

September brought us (slightly) cooler days, the hustle and bustle of a new school year, and a lot of interesting new articles on healthcare cost and competition! This roundup includes articles on 1) Quality and Its Impact on Cost|2) Prescription Drug Costs|3) Competition and Markets|and 4) Hospital Pricing and Charges.

Quality and Its Impact on Cost

We all know that quality has a loose, and sometimes inverse, association with healthcare costs, but this month some articles really focused on the relationship between quality (improvement and measurement) and cost. *JAMA* published Vivian Lee and colleagues' article, Implementation of a Value-Driven Outcomes Program to Identify High Variability in Clinical Costs and Outcomes and Association With Reduced Cost and Improved Quality, which examined the ability of a large single healthcare system (University of Utah Health Care) to use a value-driven outcomes tool to identify high variability in costs and outcomes in three clinical scenarios: total hip and knee joint replacement, hospitalist laboratory utilization, and management of sepsis. Researchers found use of the tool was associated with a reduction in costs and improvements in quality.

Trudy Millard Krause, Joseph Chen, and Cecilia Ganduglia Cazaban published Challenges in Healthcare Quality Transparency Efforts in Respect to U.S. Medical Practices, which argues that current transparency efforts in healthcare focus too much on price transparency, and instead should focus on both price and quality transparency so patients have both metrics side by side when making treatment decisions. We agree! The article reviews some of the key challenges to reporting on quality in health care.

Continuing on this theme, Peter Provonost, of checklist fame (thanks to Atul Gawande), is back at it, trying to improve quality and outcomes while reducing costs. This time he teamed up with Source Advisory Board Member Suzanne Del Banco and 17 other health policy experts from around the country to work on the

National Academy of Medicine's Vital Directions for Health and Health Care Initiative. The group recently published Fostering Transparency in Outcomes, Quality, Safety and Costs, a discussion paper that examines the challenges with performance measurement and reporting and the importance of getting those measures right in order to enable patients to make well-informed medical decisions. The group stresses the importance of performance measures, but also emphasizes that funding and stringent validation is needed if the measures are going to provide accurate and meaningful information to patients.

In How Does Technological Change Affect Quality-Adjusted Health Care? Evidence from thousands of innovations, Kristopher Hult, Sonia Jaffe and Tomas Philipson examine how technology innovations aimed at improving quality drive cost in healthcare. The authors found that 68% of innovations quality-adjusted prices were higher than their incumbents, suggesting that technological improvements are driving cost at a rate that is currently unjustified by their quality improvements. However, they also anticipate that some of these increased costs may dissipate over time.

Finally, Peter Neumann and colleagues published a second edition of their foundational text, Cost-Effectiveness in Health and Medicine, which offers an in-depth look at the evolution of cost-effectiveness analysis (CEA) and its strengths and weaknesses for use in evaluation of health care and medicine. It is an essential read for anyone who encounters CEA on a regular basis.

Prescription Drug Costs

Decrying the high cost of prescription drugs continues to be all the rage this month, especially with the Epi-Pen debacle, so we wanted to highlight some articles that address some of the underlying problems in the system. The best short article to read this month on this issue is Austin Frakt's Determining Value and Price in Health Care in *JAMA Forum*. Frakt explores the challenges of determining the value of a particular pharmaceutical drug and the ways in which the insurance market can distort perceptions of a drug's value. He provides clear explanations of different "value frameworks," as well as their benefits and limitations.

Chia-Ying Lee and colleagues' Forces influencing generic drug development in the

United States: a narrative review explores, from a drug manufactures perspective, the factors limiting generic drug development and production in the U.S. and suggests ways the FDA could reduce barriers to the development of generics.

Finally, Dennis Carlton, Fredrick Flyer and Yoad Shefi, asked Does the FTC's Theory of Product Hopping Promote Competition?, looking at this question from the perspective of the pharmaceutical companies. The Product Hopping Theory postulates that a pharmaceutical manufacture of a brand name drug can harm competition and violate antitrust laws by introducing a new product that reduces demand for a rival legacy generic therapy, while offering no significant incremental benefit over the legacy product. The authors argue that the theory is a "misguided attempt to use antitrust law to fix a regulatory problem," and premised on the notion that competition does not work. Even if you disagree with them, it's worth a read to get their perspective.

Competition and Markets

Several articles examined healthcare markets and competition. The most interesting from a antitrust enforcement perspective is Devesh Raval and Ted Rosenbaum's How Strong is Gravity? Using Hospital Choice to Separate Home Bias from Distance Costs. Is it wonky? Yes. However, it provides good insight from two FTC antitrust enforcers on an issue that is near and dear to our hearts – effectively defining geographic markets in healthcare. The authors seek to distinguish the role of distance and home bias in patient choice of medical providers. The article examines women's choice of labor and delivery hospitals in Florida. Specifically, it examines women with multiple births who switch locations and hospitals for the second child. The authors argue that their results suggest that health economists should include home bias as well as distance costs in their gravity equations, and that gravity should not be thought of only as a function of distance costs.

Loyola University Chicago School of Law students Erin Dine and Mary Kathryn Hurd wrote an interesting article, Health Insurance Merger Frenzy: How the Continued Arms Race Will Disrupt Traditional Market Roles, that explores the insurance megamergers between Aetna and Humana and Anthem and Cigna.

Also on the health insurance markets, Robert Cooper and Lisa Gardner published

Extensive Changes and Major Challenges Encountered in Health Insurance Markets under the Affordable Care Act, which is largely directed at financial services professionals, but we appreciated the opportunity to see the ACA and the changes in the insurance markets from their perspective.

For an interesting perspective on the role of capitalism in healthcare, see Calum Paton's chapter The Cost of the Market: The Price of Ideology, which analyzes three types of possible market reforms in the UK system and the costs associated with each. The chapter, which is from his new book, The Politics of Health Policy Reform in the UK, estimates that market-based reforms in the UK have lead to direct costs of 4.5 billion pounds, and indirect costs in the billions as well.

Hospital Pricing and Charges

Many of you may have been wondering, Does Media Attention Highlighting Hospitals with High Charges Lead to Charge Reductions? The short answer, as found by Karoline Mortensen, et al, is sadly, no. Mortensen and colleagues found that 20 hospitals in Florida that were called out for having the highest charge-to-cost ratios in the country did not reduce their charges following significant public outcry. In fact, charges for the hospitals increased significantly in the third quarter of 2015 following the scrutiny.

Equally disturbingly, Ge Bai and Gerard Anderson published US Hospitals Are Still Using Chargemaster Markups to Maximize Revenues in the September *Health Affairs*, which revealed that hospitals appear to systematically adjust their charge-to-cost ratios. Bai and Anderson found that for-profit hospitals are associated with a more than double charge-to-cost ratio than government and non-profit hospitals, with some as high as 20-fold increases. So while hospital executives and economists have for years been saying that the chargemaster prices are largely irrelevant, they still seem to be quite tied to hospital revenue streams. The authors argue that policymakers concerned about surprise medical bills ought to target legislation at improving markup transparency.

In Costs Matter: The impact of disclosing treatment costs and provider profit on patients' decisions, Rebecca Howe and colleagues show that breast cancer patients want to have a better understanding of both their out of pocket costs and provider

profit incentives associated with their treatment options, and that providing that information can change treatment decisions substantially.

That’s it for September! See you again on Halloween!