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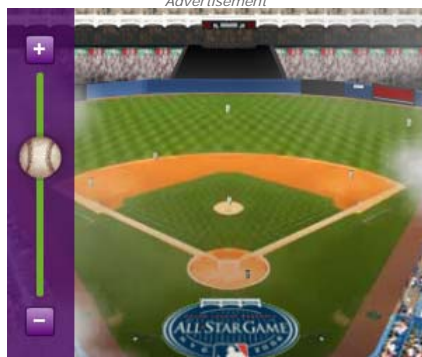
High health costs due to power of care systems, study says

Hiring physicians gives hospitals a referral base

By GUY BOULTON
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Posted: May 9, 2008

High health care costs in the Milwaukee area stem from the market power of health care systems, according to a study by the Wisconsin Policy Research Institute.



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The study contends that health care systems have increased their market power by employing physicians, which gives them a referral base for their hospitals, which makes it harder for would-be competitors to enter the market.

"The most significant factor driving health care costs in Milwaukee is the relative lack of competition," the study states.

The study's conclusions partly echo a study done nearly two years ago that found health plans' limited bargaining power with hospitals was one of five significant factors in the Milwaukee area's higher health care costs. The study was done for the Greater Milwaukee Business Foundation on Health Inc. by Milliman Inc., a consulting and actuarial company.

Health care systems in the Milwaukee area compete fiercely - and that competition could intensify in coming years as Aurora Health Care opens two hospitals within five miles of existing hospitals in Waukesha and Ozaukee counties. Further, no one health care system in the Milwaukee area has more than 40% of the market.

But that competition has not necessarily meant price competition. Several studies this decade have found that the Milwaukee area has higher health care costs than other Midwestern metropolitan areas and other parts of the state.

Health care systems have said that consolidation and integration can lower costs and improve the coordination of care. But consolidation throughout the industry also has given health care systems more bargaining power when negotiating rates with health plans.

The Wisconsin Policy Research Institute's study was done by Linda Gorman, director of health care policy center for the Independence Institute, a free-market policy group in Golden, Colo.

Gorman said one of the study's key points is that increased competition can slow the rise in health care spending. But she also acknowledged that integrated health care systems that employ doctors do not necessarily mean higher costs.

For example, Madison is dominated by three distinct integrated health care systems, each aligned with a different health plan, but has much lower costs than the Milwaukee area. In addition, ThedaCare in the Fox Valley also employs physicians yet contends that it has lower costs than health care systems in the Milwaukee area.

The Wisconsin Policy Research Institute's study recommends the adoption of health savings accounts to encourage competition. Gorman estimates that health savings accounts could lower health care costs by 10%.

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