

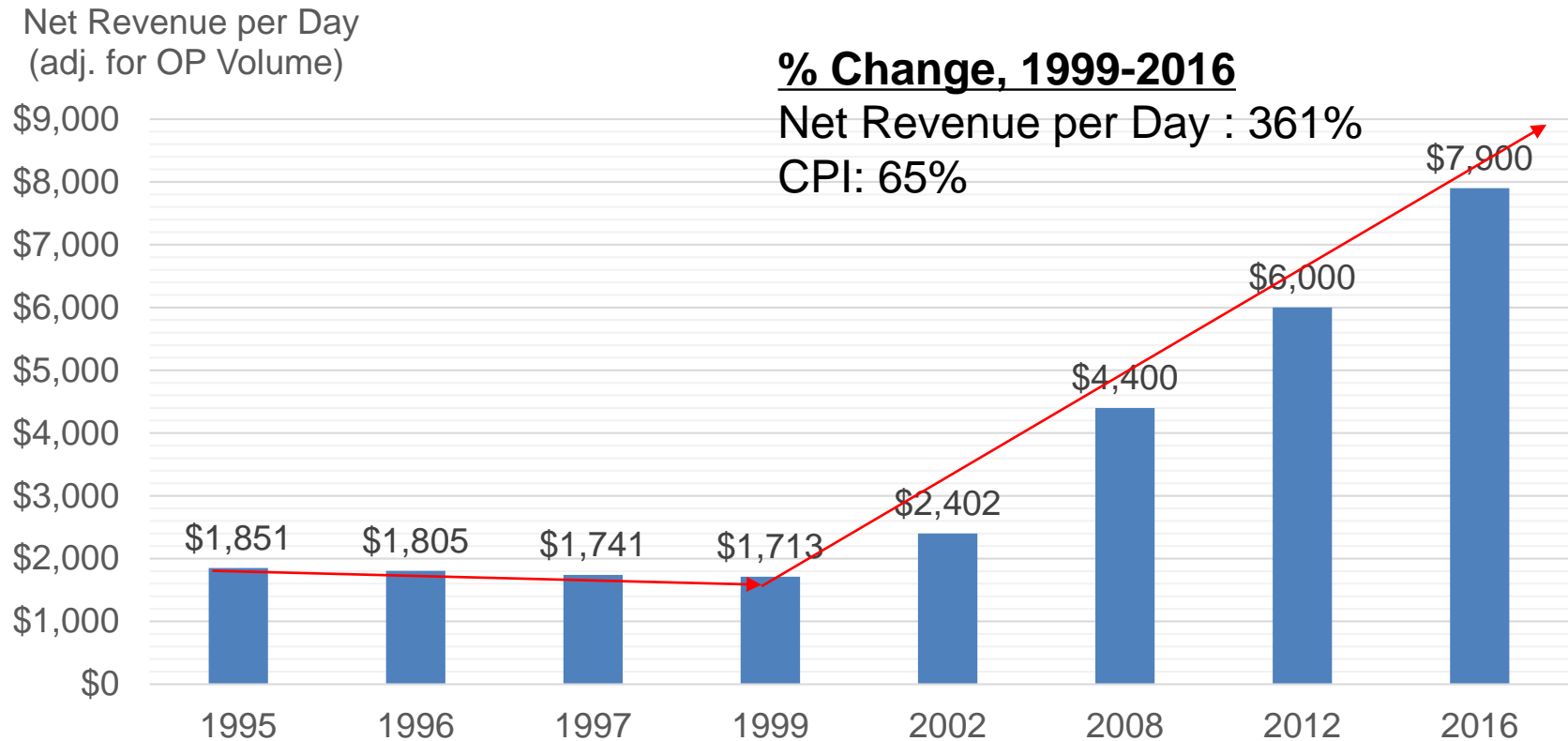
The California Competitive Model: How Has It Fared, And What's Next?

By Glenn A. Melnick, Katya Fonkych , and Jack Zwanziger

California Model Was Successful - But Not Any Longer

- **California health plans leveraged competitive market conditions in provider markets to stimulate price/quality competition**
- **Two powerful trends eroded conditions needed to sustain market competition**
 - **Adoption of “Prudent Layperson” regulations affecting hospital EDs**
 - **Multi-Hospital Systems expansion**
- **Policy makers can and should act to restore competitive conditions.**

Prices Were Declining (Really) Then Turned Up and Accelerated

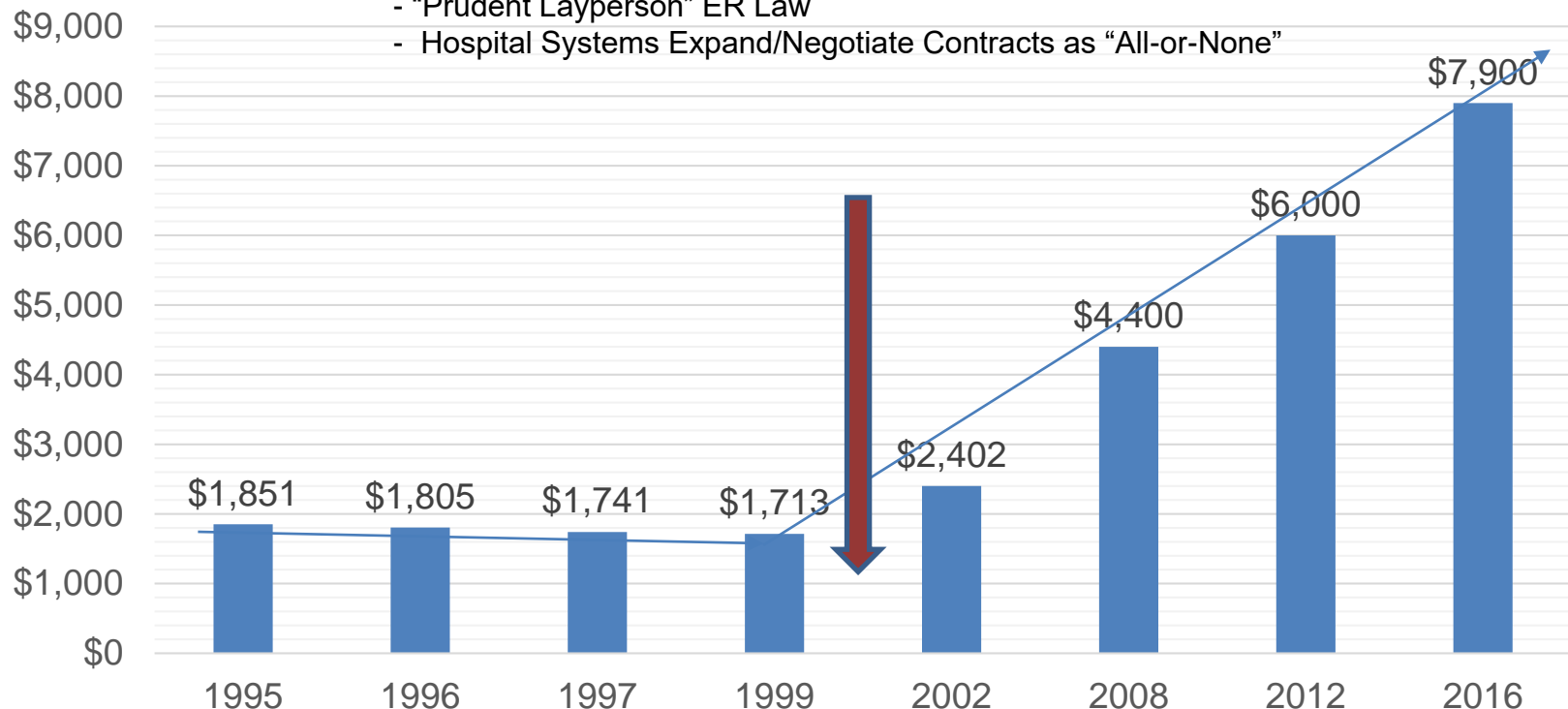


Prices Were Declining (Really) Then Turned Up and Accelerated – What Happened?

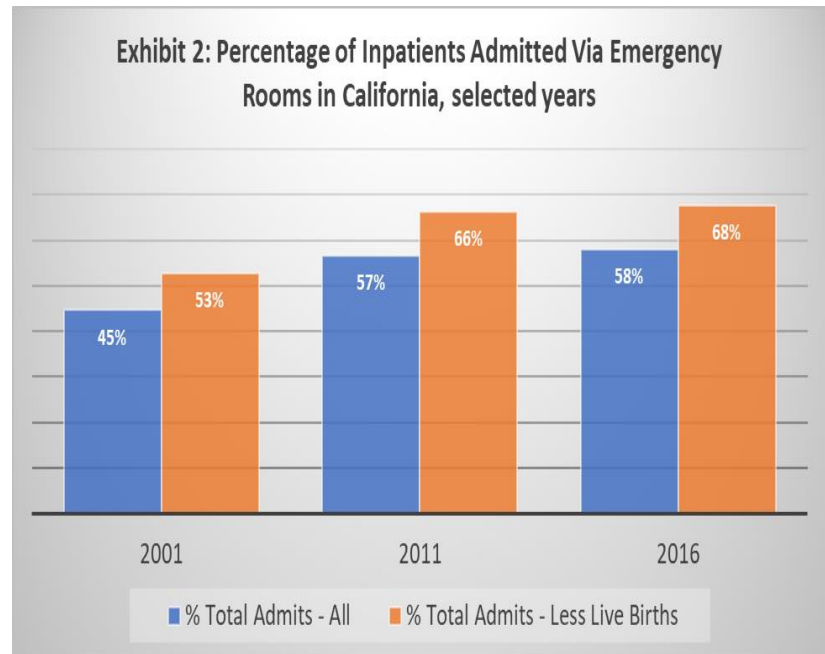
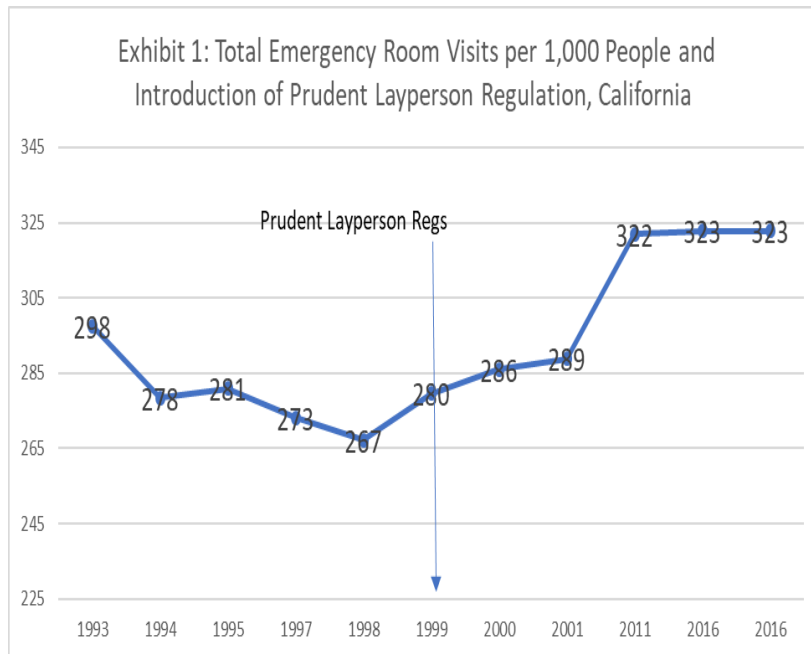
Net Revenue per Day
(adj. for OP Volume)

Two Factors Reduced Hospital Price Competition

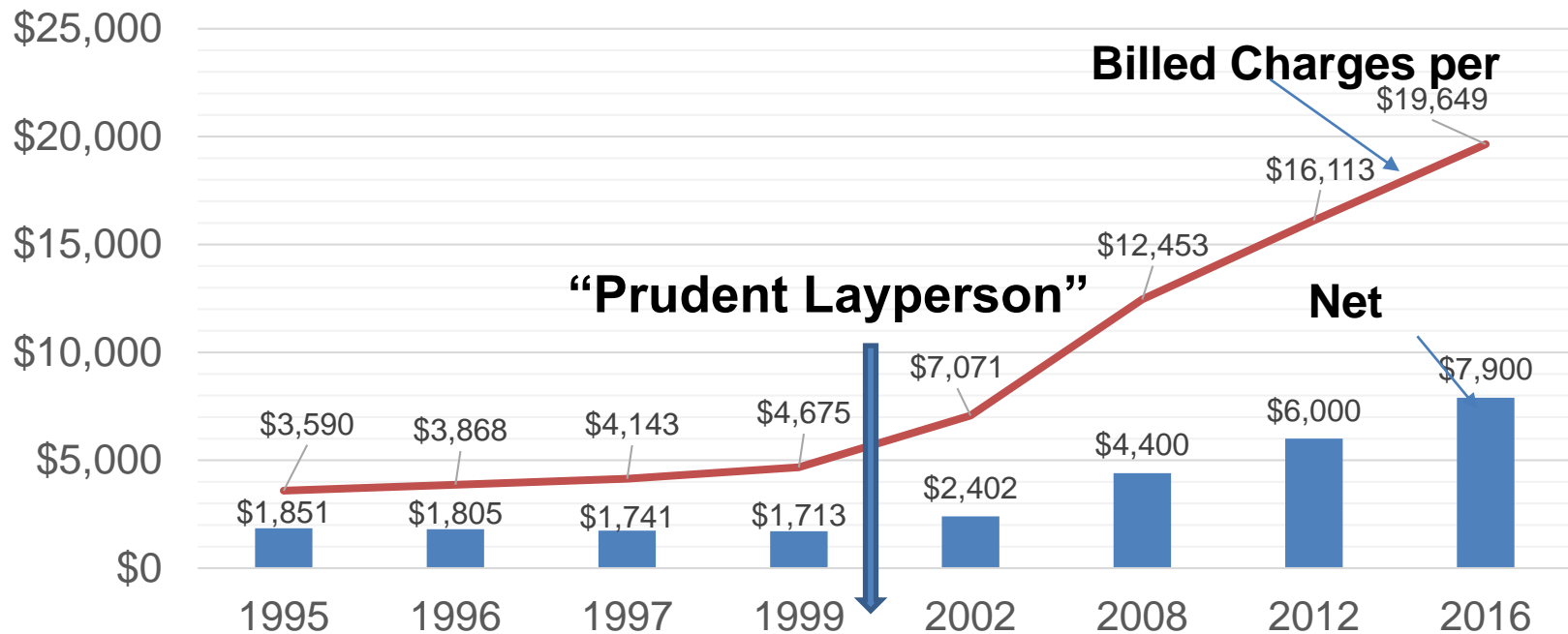
- “Prudent Layperson” ER Law
- Hospital Systems Expand/Negotiate Contracts as “All-or-None”



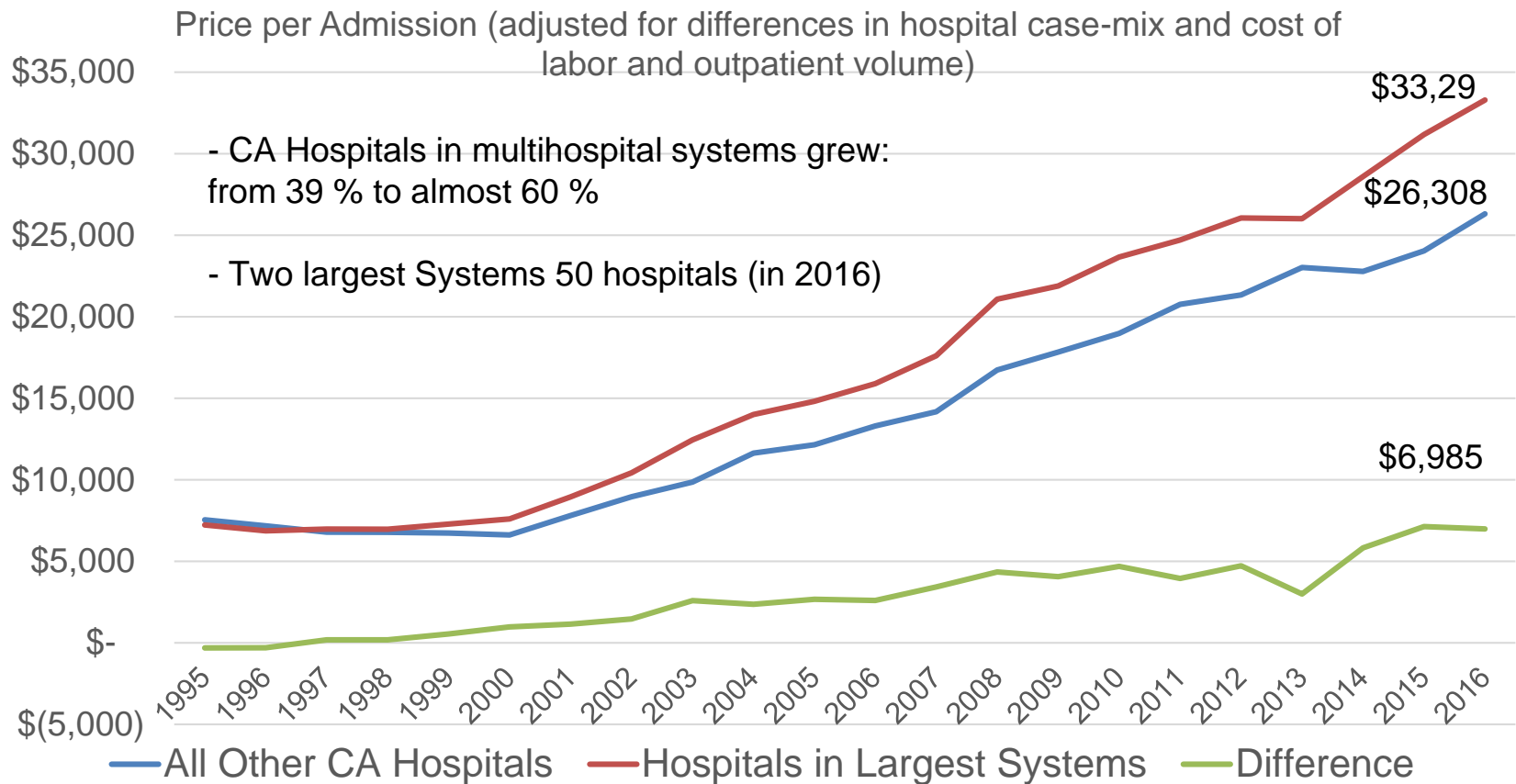
ER Use Had Been Declining – Then Increased Along with Admissions Thru the ED



Billed Charges Surged After Prudent Layperson Enacted



Prices for Hospitals in Largest Two Systems Were the Same and Then Increased Sharply



Conclusion

MARKETS

It's The Prices, Stupid....." [Gerard F. Anderson](#), , [Uwe E. Reinhardt](#), [Peter S. Hussey](#), , and [Varduhi Petrosyan](#)

[HEALTH AFFAIRSVOL. 22, NO. 3](#)

[PUBLISHED:MAY/JUNE 2003](#)

Where Will Needed Changes Come From

- **Public Policy**
 - **Regulators**
 - **Legislators**
- **Private Sector**
 - **Courts**
- **And Will They Come Soon Enough**