



**FTC/DOJ Hearings on
Health Care and
Competition Law and Policy**

**Charles N. Kahn III
Federation of American Hospitals
February 27, 2003**

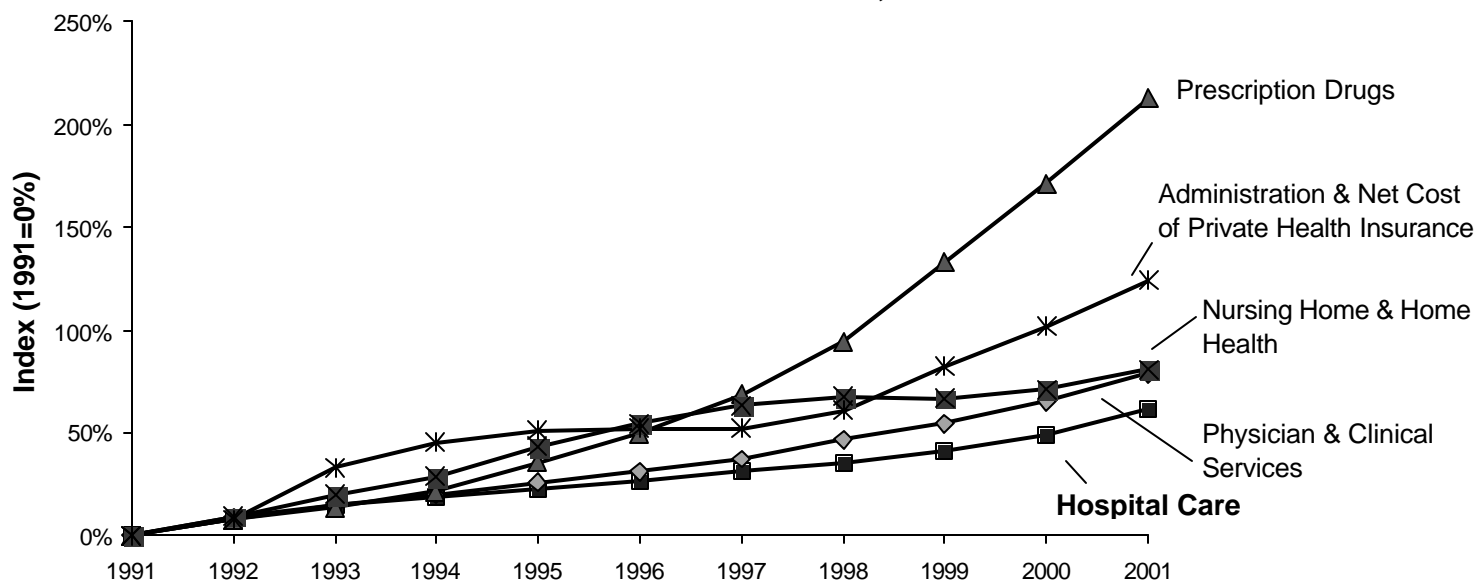


Overview

- Context for health care and hospital spending growth
- Distinctive characteristics of hospital markets result in unique complexity
- FAH recommendations for FTC/DOJ review of hospital markets

Cumulative Spending Percentages Tell the Health Spending Story of the Last Decade

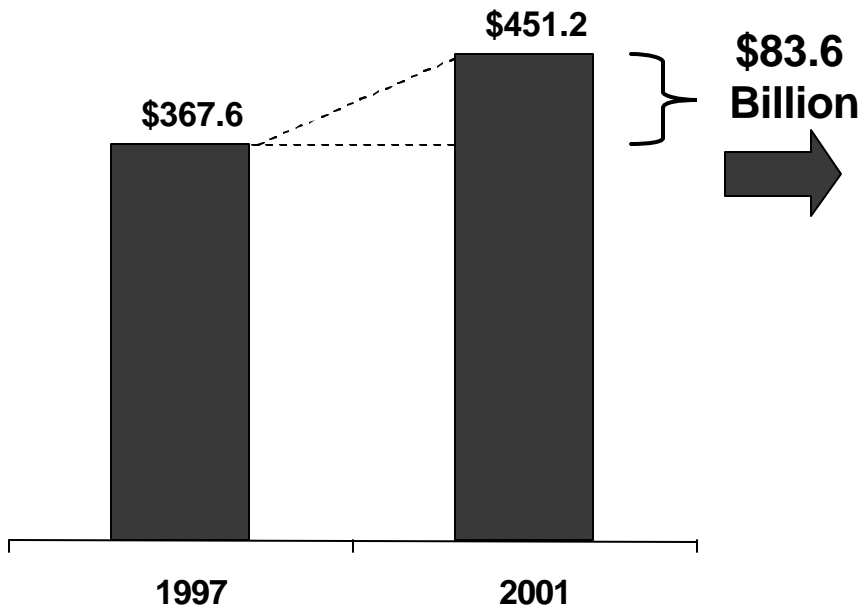
Cumulative Annual Percentage Change in National Spending for Selected Health Services, 1991-2001



* Administration for government programs and the net cost of private health insurance (premiums less benefits) which reflects underwriting gains/losses.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, National Health Accounts.

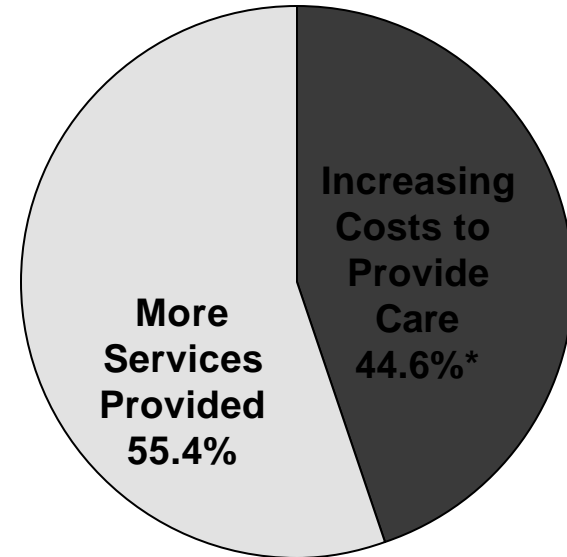
Hospital Spending Growth 1997 to 2001 Driven By Increased Volume of Services

**Total National Spending on Hospital Care
(in billions)
1997 vs. 2001**



Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, National Health Accounts.

**Share of Growth in Spending
on Hospital Care
1997 to 2001**

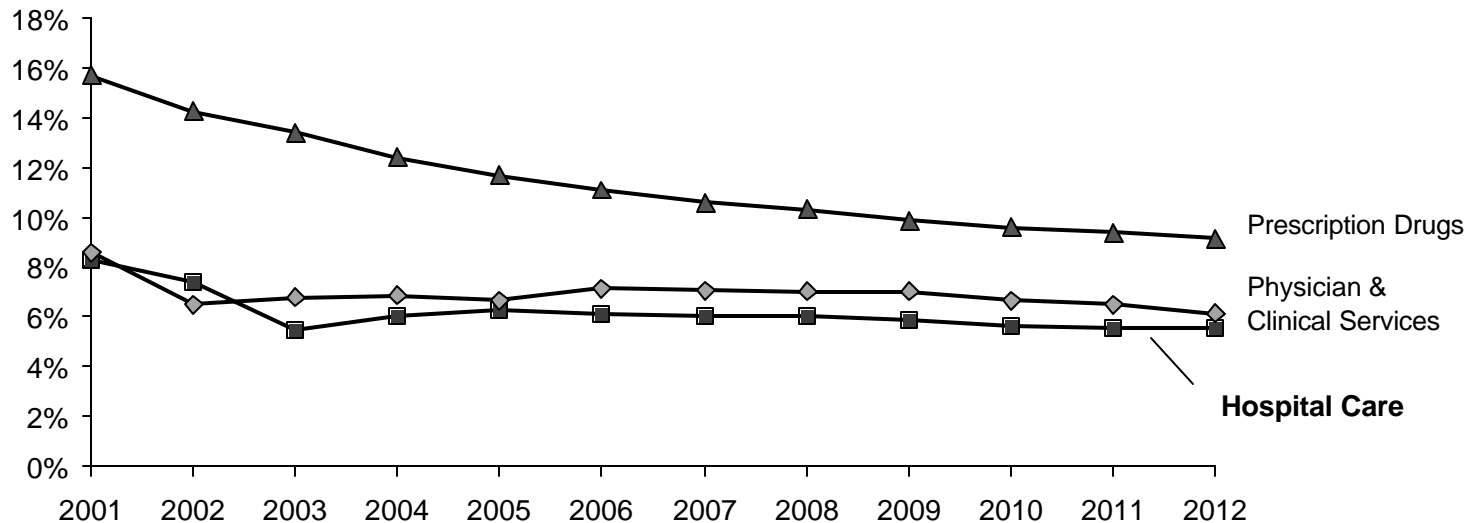


*Net of increases in efficiency.

Source: PricewaterhouseCoopers calculations, February 2003.

Latest Government Forecasts, Hospital Care Spending Growth Hovering Around 6%

Annual Percentage Change in National Spending for Selected Health Services, 2001-2012*



*Projections for 2002-2012.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, National Health Accounts.



Distinctions Make Hospital Markets Uniquely Complex

- Demand for most hospital care is inelastic
- Actual cost of hospital care is borne on many ledgers:
 - Taxpayers
 - Commercial payors
 - Employers
 - Individual consumers and patients
 - Hospitals themselves
- Government is the 800 pound guerilla for hospitals



Federation Recommendations for FTC/DOJ

- Hospital markets are distinct
- Traditional antitrust analysis may obscure hospital market realities
- All hospitals are not created equal
- Competitive effects of non-general hospital providers
- Payor market power warrants scrutiny
- Government policy can have unintended consequences



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