» Mark Gaffney and Martin Zimmerman

An old-fashioned way to control costs

Well-run certificate-of-need programs can help rein in rising healthcare spending

Not all state certificate-of-need laws are created equal, but there is significant evidence that when CON is run well, it can help constrain unneeded health cost escalation and improve quality of care.

Some of the nation's largest employers—and purchasers of healthcare—have found that their healthcare costs are lower in states with CON. A recent study reported in the Oct. 16 issue of the *Journal of the American Medical Association* found that outcomes for open-heart surgery are better in states with CON than in those without. This finding seems only natural, given the wealth of studies reporting improved outcomes when complex procedures are performed by high-volume providers.

The business and labor members of the Economic Alliance for Michigan—of which we are two of the co-chairs—agree that CON helps control costs. Unions fear that escalating health costs are eroding health benefit coverage for working people and retirees. Excessive healthcare costs also mean that there are fewer funds for wages and other employee benefits. At a time when healthcare costs are escalating by more than 10% per year, businesses and unions do not want to eliminate CON—one of the most important cost-containment tools available. Thus, it is no surprise that the entire labor movement in Michigan, a wide range of businesses and many healthcare and business associations support CON.

In analyzing their own healthcare costs, DaimlerChrysler, Ford Motor Co. and General Motors Corp.—all members of our alliance and three of the largest employers and purchasers of healthcare in the nation—reported to the Michigan Legislature about analyses of their traditional and PPO health costs. Each company examined data from states where they have many employees and retirees. They reported that in every year analyzed, they had lower per-person health costs in states with CON than in states without such laws. For example, DaimlerChrysler's per-person healthcare costs in "non-CON" Wisconsin were about triple what they were in New York, a state with a rigorous CON program.

These three separate auto studies are remarkable because they surveyed benefit plans and employee demographics that are quite similar. They also considered the level of CON regulation in each state. Typically, national studies lump all CON programs together as if they are identical when in fact there is significant variation in these laws. Also, national studies generally do not adequately recognize demographic differences among states or variations in coverage among health programs.

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Michigan's CON promotes healthcare quality, a key concern for employees and employers, by requiring minimum staffing and operational standards and by concentrating services so there are high-volume providers. Medical research shows that high-volume providers are more likely to produce better outcomes for many services. In the *JAMA* study, the University of Iowa College of Medicine reported that Medicare patients having open-heart surgery in states without CON regulation for that service had a 21% higher in-hospital mortality rate from 1994 to 1999 than patients in states that regulate open-heart surgery through CON. Simple math dictates that if you increase the number of providers, the average volume of procedures per site will be far less and could harm quality.

CON in Michigan has helped avoid contests to build duplicative and unneeded new hospitals. Although Michigan has a licensed hospital-bed occupancy rate just above 50% and still has an excess of inpatient beds, our ratio of 2.6 beds per 1,000 population is less than any other Midwestern state and is below the national average of 2.9 beds per 1,000. Under Michigan's CON program, hospitals can modernize an outdated facility but cannot build a whole new one nor add unneeded beds at existing facilities without satisfying rigorous community need requirements.

Michigan's CON program is very different from the burdensome regulatory program that some states may still have. Since Michigan's 1988 reforms, CON only focuses on projects with a high impact on cost, quality and/or access.

The playing field also was leveled: Any entity—not just hospitals—wanting to start or expand a regulated service or construct a facility must get CON approval.

Since 1998, a bipartisan commission establishes specific CON criteria after securing recommendations from expert advisory panels. This has sharply reduced political involvement and manipulation while improving the CON application process because applicants know ahead of time what is expected of them. Previously, many hospitals were not sure of their support for CON. But because of these reforms and regular updating of the CON standards in response to changes in medical practice, most hospitals in Michigan support CON.

Michigan is not alone in recognizing the value of CON. In the past legislative session, Missouri, Ohio and Wisconsin, which had either repealed or cut back CON, considered reviving it, while Virginia tabled discussion on a proposed repeal. Meanwhile, states such as Tennessee and Maine improved their CON programs. Further, many industry groups are concerned about the relationship between costs and the "medical arms race."

When CON is run well and run effectively, it mitigates these costly explosions and helps ensure the availability of quality, cost-effective healthcare. «

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