

Supply induced demand (SID) vs. Lots of sick folks - the debate of cost increases with the advent of new hospitals

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Supply induced demand (SID) vs. Lots of untreated sick folks – the debate of cost increases with the advent of new hospitals.

Relevance:

When someone is diagnosed with a disease their aim is to receive the latest and greatest treatment. Yet when it comes to funding, state-of-the-art interventions are often classified as experimental, unnecessary or even opportunistic.

The paper focusses on measurement, definition and containment of SID, mechanisms for allocating new hospital facilities, effective management and measurement as well as policy regarding hospital management.

Context and Aims:

This paper is set in the context of a closed and regionally focused market being disrupted by the introduction of a new trauma specialized hospital as well as the consequent availability of new specialties in the market.

The outcome was a direct increase in the cost and frequency of treatments. This raised questions regarding the appropriateness of the treatments, costs relative to other facilities, the reimbursement models and the potential for the impact of SID as well as the additional benefits vs. the traditional treatments available.

The aim of this paper is to use this market as a case study for the analysis of appropriate funding models in the context of pent up demand (health needs that are not able to be met) compared to SID (inducing treatments/longer hospital stays/additional treatments that are not necessary).

Findings:

The results indicate a direct link between the overall cost of treatment and the introduction of new technologies, facilities and general supply of healthcare. The findings indicate that after case mix adjustment has been performed most of the cost increases are due to more complex cases.

The overall admission rate per facility decreased slightly but then gradually rose again as the market stabilized. This implied that overall admission in the market rose markedly with a corresponding increase in the average costs per case owing to the higher levels of severity overall.

The paper considers the the higher overall admission rates for the existing facilities post the introduction of the new hospital and considers the impact of new entrants to the hospital market. The paper explores the question of who can actively induce demand and who has an incentive to do so. It also considers the impact of activity-based reimbursement vs. a capitation funding model and how overall costs differed between both models.

Summary:

The results unpack the impact of a new hospital in a market from the perspective of all stakeholders. The findings provide a context for the measurement and definition of SID compared to pent up demand and can be used as a framework to assist regulators and policymakers.