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The article “State Deregulation and Medicare Costs for Acute Cardiac Care” by Vivian Ho, Ph.D., and Meei-Hsiang Ku-Goto, M.A., was published online in October 2012 and will appear in the April 2013 issue of *Medical Care Research and Review*. Ho is the James A. Baker III Institute Chair in Health Economics, as well as a professor at Rice University and Baylor College of Medicine. Ku-Goto is a research programmer at the Baker Institute.

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HEALTH POLICY research

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Does state deregulation raise the costs of open-heart surgery?

No, says Vivian Ho, Ph.D. Certificate of Need (CON) is a form of state government regulation that was designed to prevent hospitals that do not treat a minimum prescribed volume of patients from offering open-heart surgery. Policymakers originally believed that restricting the number of providers and requiring minimum volume standards would generate a select group of hospitals with greater experience that would keep mortality rates and health care costs down. However, Ho found that the states that removed CON regulations experienced a 4 percent decrease in the average cost of patient care.

“We discovered in a previous study that states that removed Certificate of Need regulations for open-heart surgery experienced no change in patient mortality,” Ho said. “Now that we have learned that the cost of patient care is also lower after deregulation, I am doubtful of the value of these regulations.”

Currently, 25 states maintain CON regulations for open-heart surgery, including Georgia, Maryland, New York and Washington. Ho's study evaluated bypass surgery patients in 34 states, seven of which removed CON regulations during her study period between 1991 and 2002. (Only two more states have deregulated open-heart surgery since then.) Deregulation led to more hospitals building new facilities to perform open-heart surgery, with the average cost of a new facility estimated to be \$13 million. However, the cost savings from lowering average costs per patient outweighed the additional costs of these new facilities.

Ho speculated that cost savings result from deregulation because competition encourages hospitals to deliver higher quality care. “The desire to attract more patients in a competitive market leads hospitals to offer higher quality care,” Ho said. “It may sound counterintuitive, but recent studies show that higher quality surgery lowers costs, because costly hospital complications are avoided when one improves care.”

Ho believes that the results should serve as a lesson to policymakers as they consider the future of CON regulations, as well as other government policies influencing the health care system. “States have been using these regulations since the 1970s, assuming that they improved patient welfare. With the advances we have experienced in computer and information technology, it is imperative that we continually examine the performance of hospitals and doctors, so that we ensure that patients receive the best care possible,” says Ho.

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This publication aims to make research results accessible to regional and national health policymakers. The views expressed herein are those of the study authors and do not necessarily represent those of the Baker Institute or of Baylor College of Medicine.

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Rice University MS-40
Baker Institute Health Policy Forum
P.O. Box 1892
Houston, Texas 77251-1892

For further information about the program, please contact:

Rice University MS-40
Baker Institute Health Policy Forum
P.O. Box 1892
Houston, Texas 77251-1892
phone: 713.348.2735
email: healthecon@rice.edu

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