

Discussion of Kepler, Nikolaev, Scott-Hearn and
Stewart:
“Quality Transparency and Healthcare
Competition”

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An Important Topic and Many Promising Results

Following the transparency regulation in the dialysis industry:

- ▶ Lower quality incumbents were more likely to have **entrants** nearby.
- ▶ The above effects only occurred in state where entries were not subject to “Certificates of Need Laws” (CON laws).
- ▶ Entrants **located closer** to lower quality incumbents.
- ▶ Lower quality incumbents were more likely to be **acquired**.
- ▶ **Patient outcomes** and **labor inputs** in incumbent facilities improved when a better quality facility opened nearby.

Empirical Strategy

- ▶ Empirical strategy
 - ▶ DID: compares differential changes in outcomes between facilities with different qualities following the transparency regulation
 - ▶ Assumes the outcome trends were the same between the high and low quality facilities
- ▶ The paper did a careful job in convincing us that the selection and omitted variable biases did not threaten the identification
 - ▶ CON vs. non-CON states
 - ▶ IV
 - ▶ Placebo tests
 - ▶ Examines the mechanism of decrease in demand in lower quality facilities facing new entrants

General Comments

- ▶ Studies a very important and policy-relevant question
- ▶ A carefully done, detailed, and well written paper
- ▶ The findings are convincing and sensible.
- ▶ The authors have done a thorough job proving that the effects on entry are resulted from the quality transparency policy change

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- ▶ Separately examine patient losses and quality improvement for the chain incumbents and other incumbents

Implications on the geographic distribution of facilities

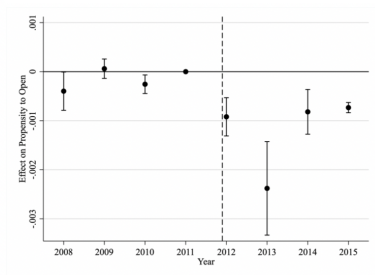
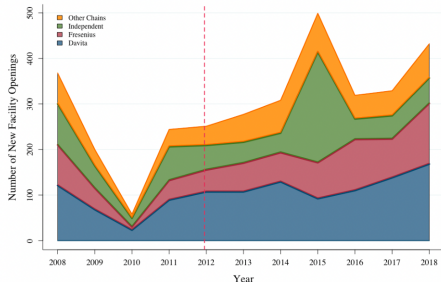
- ▶ States regulated by “Certificate of Need Laws” (CON state) did not see more entries closer to lower-quality incumbents.
 - ▶ If the CON state has correctly aligned entry incentives with patient needs, did the departure from that in non-CON states mean worse matches with the patient needs?
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- ▶ If entry affected the overall geographic distribution of facilities, would we see (compare CON and non-CON states)
 - ▶ changes in overall entry rate
 - ▶ changes in patient access (number of patients per facilities, number of patients per machine) by patient socioeconomic status
 - ▶ changes in patient health outcomes by patient socioeconomic status

What happened in 2015?

- ▶ A sharp increase in entries from **Independent** facilities in 2015, which coincides with a large estimate in 2013.
- ▶ The trend reverted back afterward.



Mechanisms

- ▶ The transparency policy could work since patients could switch to new facilities. Past literature has suggested very high patient switching costs
 - ▶ What fraction of new patients at the new facility (or losses at the incumbent facility) came from new patient referrals vs. old patient switches?
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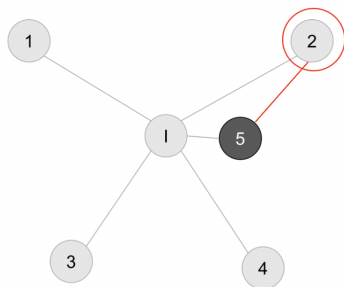
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- ▶ Any evidence of increased “cream skimming” of patients (in terms of insurance type, comorbidities, time on dialysis, age, etc) in lower-quality facilities after the quality transparency change?
- ▶ (Examine incentives to enter) Besides distance, did the new facilities enter near lower quality facilities
 - ▶ have better quality?
 - ▶ have “better” of “worse” patients?

Comments on Specification

- ▶ Include lagged quality scores $Q_{i,t-1}$, $Q_{i,t-2}$, ... since entries could take time (more than two year) to happen
- ▶ Including $Q_{i,t}$ assumes responses linear to quality score
 - ▶ Discretize quality score by quartiles
- ▶ Use hospital service area as a FE (currently used county or facility)
- ▶ The main effect coefficients only capture the causal “relative” effects, so we could not know the counterfactual entry rates

The main outcome measure

- ▶ Measuring *NewNearestCompetitor*:



- ▶ If firm 5 is also firm 2's nearest competitor, do we also account firm 2 as having a “New Nearest Competitor”?
 - ▶ If firm 5 only targeted firm 1, the current outcome counting firm 2 as an incumbent may have underestimated the effect.
 - ▶ Alternative definition, *mutually* nearest.

Other Comments

- ▶ Any explanation of why quality positively correlated with entry before the transparency Act
- ▶ Since quality scores before 2012 are back-filled, worries about underestimating the quality effects before the policy change
 - ▶ compare year-to-year score variation within facility?
- ▶ Suggested evidence on overall summary statics, such as, across the board quality improvement?
- ▶ Would larger score variance in later years trigger more differential entries?
- ▶ Entry probability near an incumbent somewhat hard to interpret