# Consolidation and Competition in US Health Care

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# Introduction

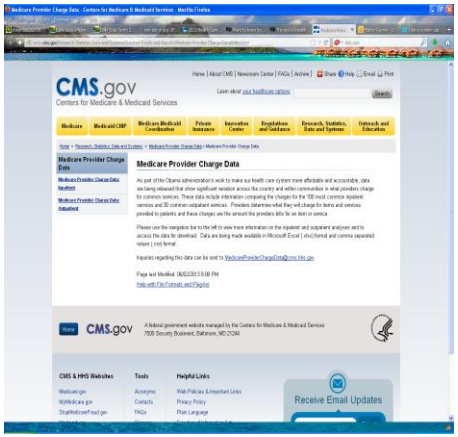
- The US relies on markets for the provision and financing (~1/2) of health care, but…
  - Those markets don't work as well as they could/should.
  - Consolidation, concentration, and market power have a large part to do with that.
  - Matters for the ACA – depends on markets.
- Issues
  - Prices are high, and rising, there are quality problems, there's too little organizational innovation.
  - Markets are highly concentrated.
  - More consolidation is happening.
- Organization of Talk.
  - What's Happening?
  - Why Should We Care?

# What's Happening?

- Health spending
  - High and increasing.
    - Can't be sustained without serious strain/harm.
      - Recent slowdown, but unclear if this is a structural change.
    - Hospital and physician services are ~9.2% of GDP.
- Prices
  - High, egregious billing practices.
  - Prices are a major driver of health spending increases.
- Quality
  - Concerns over quality.
- Innovation, Efficiency, Service
  - Health system characterized as sclerotic, unresponsive, uncreative.
- Consolidation
  - Lots of consolidation (hospitals, physicians, insurers).

# Lots of Recent Publicity About Prices (or something)

- Steven Brill article in Time.
- CMS release of hospital charge data (and Medicare reimbursements).
  - Outpatient payments.
  - MD payments.
- NY Times article about prices.



Source: 2012 Comparative Price Report by the International Federation of Health Plans. The average prices shown for colonoscopies do not include added fees for sedation by an anesthesiologist, a practice common in the United States, but unusual in the rest of the world. The additional charges can increase the cost significantly.

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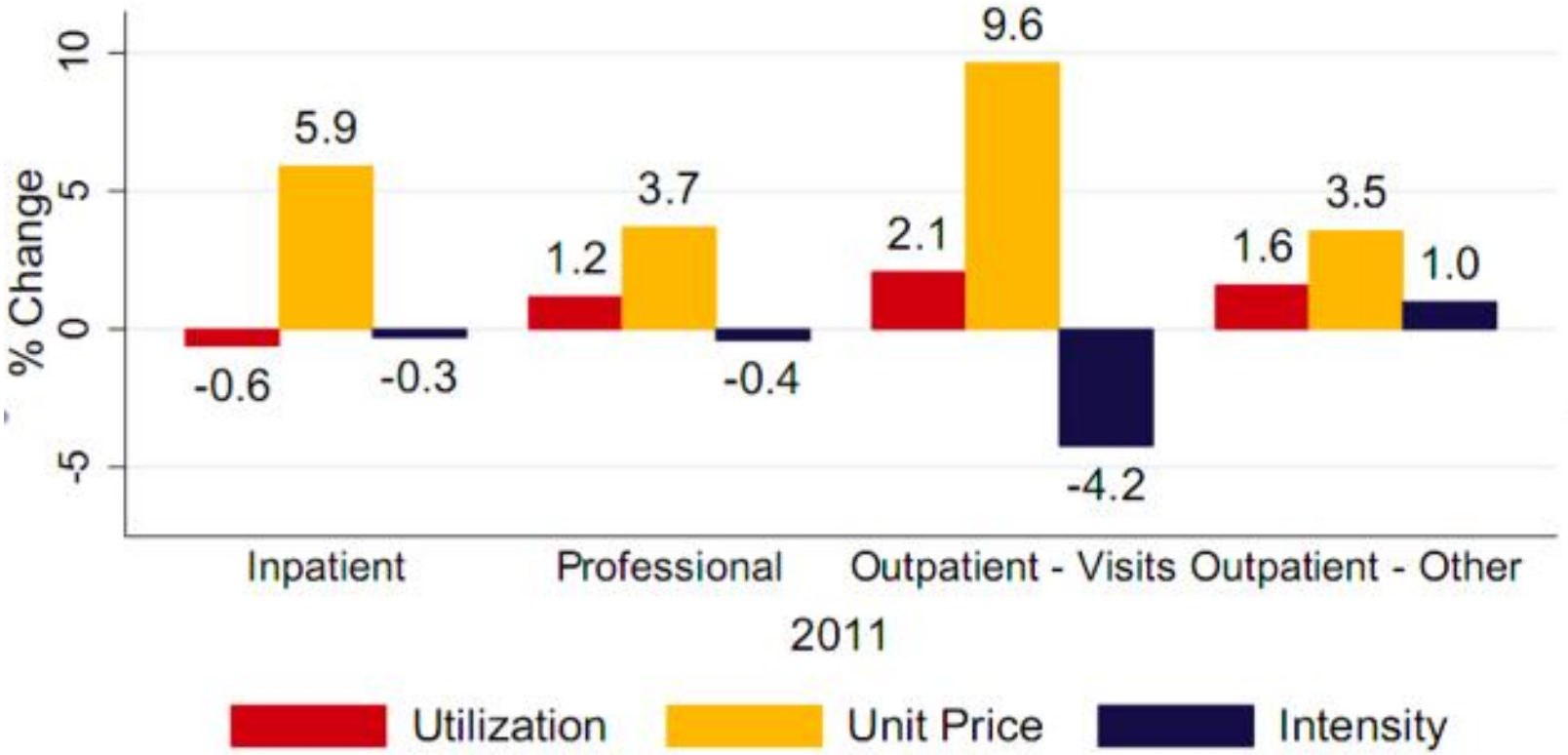
# What's Driving the Growth in US Health Spending? It's The Prices

**Components of Health Spending Growth, Private ESI Insurance, 2010-2011**




Note: All data weighted to reflect the national, younger than 65 ESI population.

Source: 2011 Health Care Cost and Utilization Report, Health Care Cost Institute, http://www.healthcostinstitute.org/2011report

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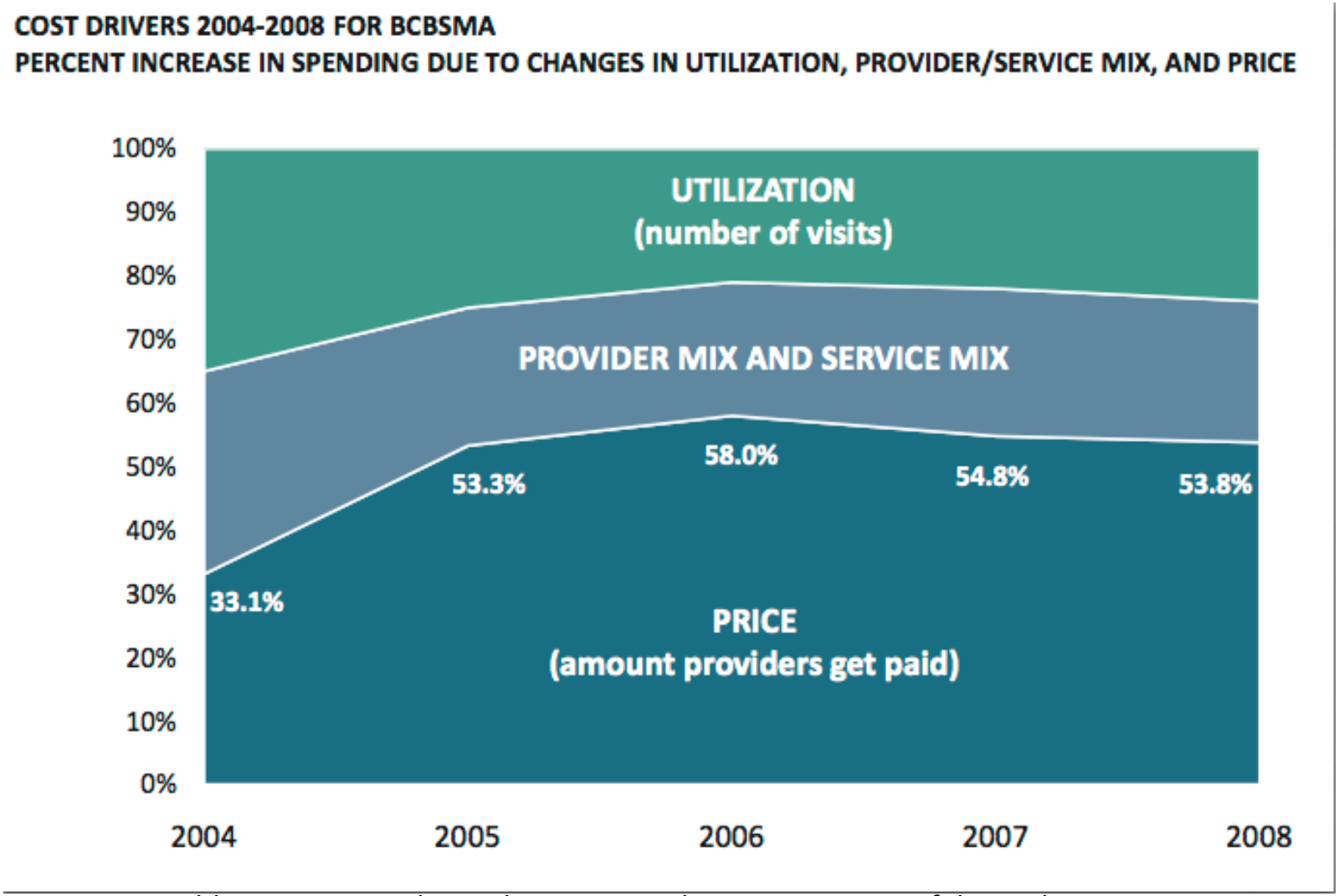
# Massachusetts – It's the Prices




Source: Health Care Costs and Spending in Massachusetts: A Review of the Evidence, March 2013,http://bluecrossmafoundation.org/sites/default/files/download/publication/Cost%20Deck%20March%202013.pdf

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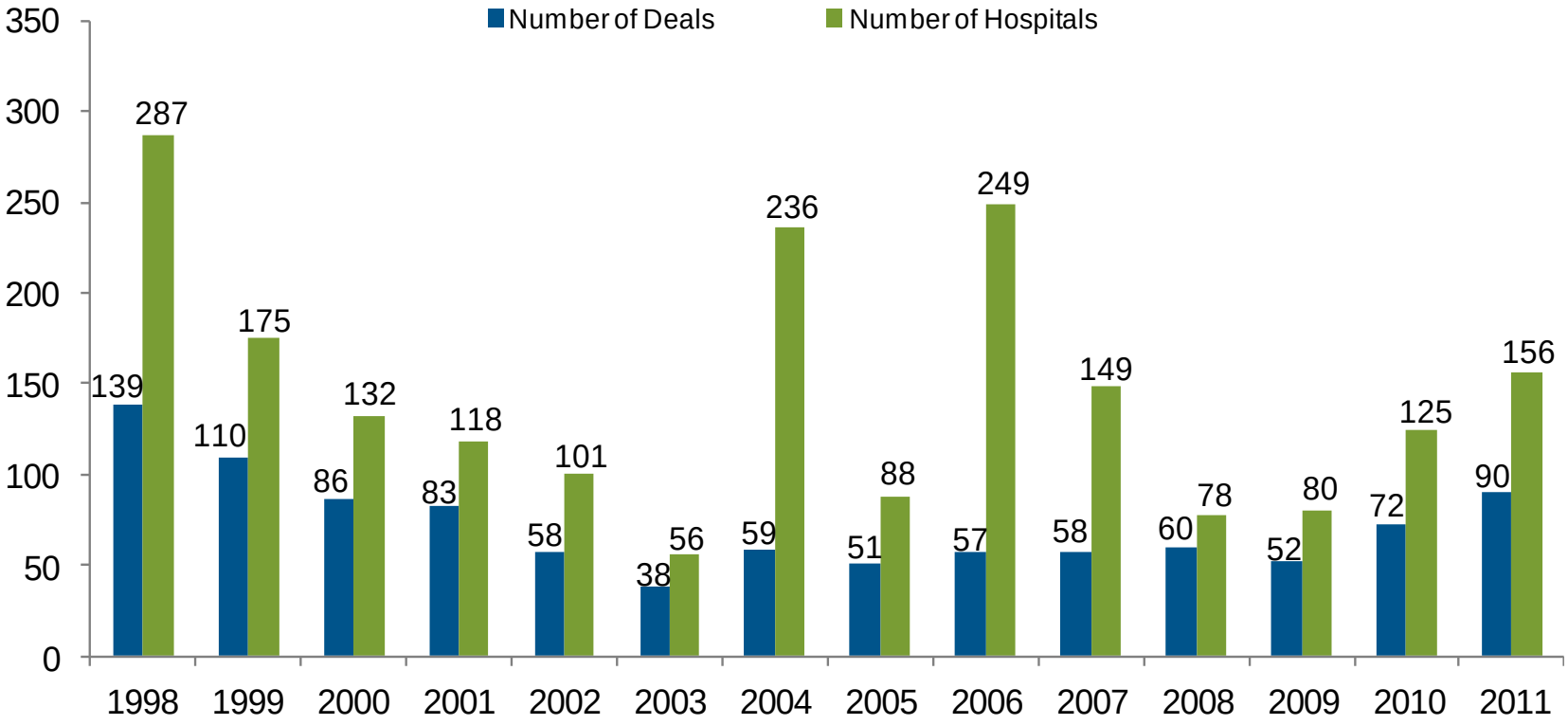
# Hospital Consolidation

- There has been a tremendous amount of consolidation in the hospital industry.
  - Mergers and Acquisitions.
    - Over 1,000 deals 1994-present.
    - Consolidation slowed in 2000s, but has picked up recently.
- Hospital Market Concentration.
  - Herfindahl-Hirschmann Index (HHI): sum of squared market shares.
  - Average MSA level HHI.
  - 1992 - 2,440; about like a market with 4 firms of equal size.
  - 2006 - 3,261; about like a market with 3 equally sized firms.
  - FTC/DOJ cutoff for highly concentrated market: HHI = 2,500.
  - In 2006, 75% of MSAs were highly concentrated.
- Why Did Hospitals Consolidate?
  - Response to rise of managed care.
  - Anticipation of ACA? Cost pressures?
  - Game of "musical chairs."

# Hospital Mergers

- Over 1,000 hospital mergers since mid-90s
- Most urban areas are now dominated by 1-3 large hospital systems




Source: Irving Levin Associates, Inc., *The Health Care Acquisition Report*, Eighteenth Edition, 2012.

(1) In 2006, the privatization of HCA, Inc. affected 176 acute-care hospitals. The acquisition was the largest health care transaction ever announced.

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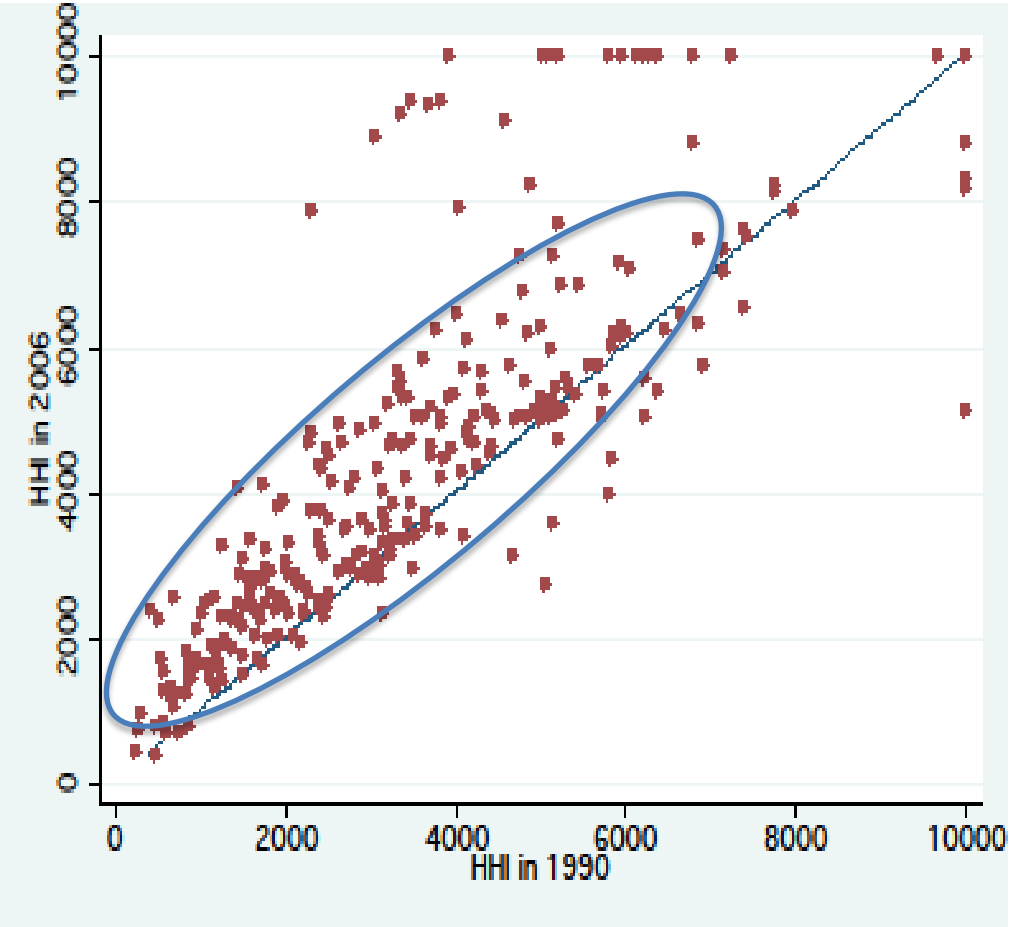
# Hospital Markets Have Become More Concentrated

- Most MSAs are highly concentrated.
- Most MSAs have become more concentrated.



# Insurer Consolidation

- Insurer Consolidation.
  - Information not as good as for hospitals, but better than for physicians.
- Large Employer Market (Leemore Dafny).
  - 1998: HHI = 2,172; about like a market with 5 firms of equal size.
  - 2006: HHI = 2,956; somewhere between a market with 3 and 4 equally sized firms.
  - Average insurance market is highly concentrated after 2004.
  - Concentration starts increasing after 2002 (compared to mid to late 1990s for hospitals).
- Small Group Market (GAO).
  - Market share of largest carrier has been increasing over time (33%
  - 2002; 47% 2008).
  - 87% of states had five firms controlling 75% or more of the market
  - in 2008; 56% in 2002.

# Physician Practice Consolidation

- Not nearly as much information about the physician market.
- Physician practices getting larger.
- Market concentration
  - Medicare (Kleiner, Lyons, and White).
    - Market share of 2 largest practices in market.
      - 33% primary care; 58% cardiology; 72% oncology.
    - HHI for market.
      - 761 primary care; 2,370 cardiology; 3,606 oncology.
  - Private, CA, 2001 (Schneider et al.).
    - County HHI for physician practices 4,430.

# Physician-Hospital Consolidation

- A great deal of interest in physician-hospital consolidation.
  - Most forms of physician-hospital integration peaked in the mid-1990s (e.g., PHOs), and have declined steadily since then.
- The exception is the employment of physicians by hospitals, which has been growing steadily.
  - 32% increase in # of doctors employed by hospitals over last decade.
  - 20% of physicians now employed by hospitals.
- ACOs
  - 428 now; 164 in 2011.
  - More growth expected.

# Why Should We Care?

- US uses a market system for providing care and for financing ~50% of it.
- Therefore we need markets to work as well as they possibly can.
- If not, we pay.
  - Higher prices.
  - Lower quality.
  - Poor service.
  - Inefficient, outmoded means of organizing and delivering care.
- Which also means:
  - Lower wages.
  - Lower benefits.
  - Fewer jobs.
  - More uninsured.

# Empirical Evidence – Hospital Prices

- Hospital consolidation drives up prices.
  - Mergers lead to price increases of 3.5-53 percent.
  - Magnitude largely depends on availability of close substitutes
    - Summit-Alta Bates (Bay Area): 28-44% price increases due to merger.
    - French-Sierra Vista (San Luis Obispo): Price increases up to 53% due to merger.
  - Hospitals that have or acquire market power are able to charge higher prices on a permanent basis.
    - ***100% pass-through to consumers.***

# Empirical Evidence – Hospital Quality

- Administered Prices (U.S. Medicare, England)
  - Competition increases quality (reduces mortality).
    - Substantial impacts – 1.46 percentage points lower mortality rate in least concentrated markets for Medicare heart attack patients.
    - Similar magnitudes in England.
    - English NHS reforms increased responsiveness of hospital choice to hospital quality.
- Market Determined Prices
  - Impacts on quality mixed, but mostly positive (U.S., England, the Netherlands).
- Effects on quality appear to be long lasting.
- Not much is known about non-mortality aspects of quality
  - Waiting times, MRSA rates unaffected (England)

# Empirical Evidence – Hospitals, Not-for-Profit, Costs

- Not-for-Profit/Public Firms
  - One might think NFP or public hospitals would behave differently.
    - Little evidence that they do so (US).
    - Hospitals respond to competition (US, England, Netherlands).
- Costs
  - Efficiencies due to merger possible.
    - Little evidence that they are achieved (US, England).
    - If prices go up post-merger, what difference does it make?

# Empirical Evidence – Physicians, Insurers

- Physicians
  - Not a lot of evidence - some that prices are higher in more concentrated markets.
- Insurers
  - Evidence that insurance premiums are higher in more concentrated markets (large employers).
  - Evidence of substantial market power in the Medigap market.
  - Evidence that competition has a large effect on premiums in Medicare+Choice.
  - Evidence that plan choice is “sticky.”

# Policy Options

- Overall Goals
  - Efficiency, responsiveness, innovation.
    - Prices, quality, service.
  - Things can work better, but it's not realistic to expect health care markets to work like markets for computers or groceries.
- Policy Options
  - "Invisible Hand"
    - Let the market do it.
  - "Heavy Hand"
    - Let government do it.
  - "Helping Hand"
    - Let government help the market do it.

# Policy Options

- Market Approach - strengthen/open markets; encourage responsiveness, innovations.
- Framework
  - Set up rules of the road and enforce them.
  - Support an environment that supports competition.
  - Need.
    - Basic conditions.
    - Ongoing oversight.

# Policy Options

- Regulatory Approaches – markets don't/can't work, e.g., so concentrated competition is infeasible.
- Price/Spending Controls
  - All-Payer Rate Regulation
  - Global Budgets

# Policy Options

- The Helping Hand
  - Regular, ongoing monitoring and reporting of key measures, developments.
    - Requires data and analytics infrastructure.
  - Intervention
    - Triggered by monitoring.
    - Public Reporting.
    - “Moral Suasion.”
    - Reporting to enforcement agencies.
    - Direct intervention.