Consolidation in Health Insurance

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Overview

- The state of competition in health insurance markets
- Why the government challenged the Anthem-Cigna and Aetna-Humana mergers
- How health insurance consolidation affects the larger supply chain

The Importance of Competition

- Competition promotes lower prices, higher quality, choice, and innovation
- Consolidation reduces competition, sometimes with harmful effects
- The ACA has promoted competition through the establishment of the exchanges

Gauges of Competition

- **What is market power?**
  - Control over price and ability to exclude competitors
  - Observed on both the seller and buyer sides of the market
  - Adverse effects of price, lower quality, less choice, less innovation
- **What is high market concentration?**
  - Small percentage of firms control a large percentage of market output (e.g., number of subscribers, etc.)
  - Higher likelihood that firms will abuse their market power
  - Higher concentration linked to higher prices and lower quality in hospital and health insurance mergers

Health Insurance Markets Suffer From a Lack of Competition

- More than 50% of commercial markets have 2 insurers accounting for most of the combined market for HMO, PPO, and POS services
- In about 75% of states, 3 largest insurers hold 80%+ of the market in the individual, small group, and large group segments
- Mergers have raised premiums for commercial insurance ($16,834 for the average family) and out-of-pocket expenses ($800/person)
- Studies of previous insurance mergers show higher premiums (Aetna-Prudential, United-Sierra Health)

Major Concerns in the Anthem-Cigna and Aetna-Humana Mergers

- Consolidate national market from 5 to 3
- Eliminate head-to-head competition between insurers
- Stop insurers' planned expansion and growth
- Raise premiums and reduce benefits to consumers, lower quality of care to seniors, families, individuals
- Reduce reimbursement rates to hospitals and physician practices
- Reduced innovation

Major Takeaways (cont.) Major Sources of Innovation at Risk

- Wellness and care management programs
- Collaborations and payment arrangements with doctors/hospitals to improve quality/lower cost of care
- Fixed monthly installments with a chance to get money back at the end of year if claim costs are lower than anticipated
- Transportation services for elderly
- Technology to share health data across various platforms, increasing coordination, early intervention, reducing unnecessary treatment

Effects on Healthcare Professionals

- ***Competition is critical for providers who obtain access to commercial health-insurance patients by contracting with insurers to be "in-network" providers***

- Merger would increase leverage over physician practices with "take-it-or-leave-it" terms and over hospitals/physician groups with individually negotiated contracts/rates

- Reduce reimbursement rates to providers

- Force some physician practices to limit hours of operation or reduce staff

- Increase difficulty of recruiting new physicians, force early retirements, and worsen the shortage of certain doctors (e.g., primary care)

Markets Where the Mergers Would Eliminate Competition

- Anthem-Cigna
  - National accounts in 14 Anthem states and the U.S.
  - Local commercial markets in 35 metropolitan areas
  - Public exchanges in 22 geographic markets
  - Purchase of healthcare services by health insurers
- Aetna-Humana
  - Medicare Advantage in almost 600 counties (364 of which would be particularly badly affected)
  - Public exchanges in 17 counties in Florida, Georgia, Missouri

Why Entry by New Insurers is Unlikely

- **New insurers must do two difficult things**
  - Contract with broad provider networks and obtain hospital prices/discounts comparable to leading insurers
  - Assemble technology/expertise to deal with actuarial, business, and regulatory aspects
- **….and they also encounter other barriers**
  - Brand is important to intermediaries who recommend plans to clients or employees
  - High switching costs for employers and individuals

Bulking up to “Bargain” Better Is Not a Good Argument for Merger

- Studies show that:
  - Large proportion of healthcare cost increases have been caused by dominant providers charging high prices
  - Larger insurers pay lower reimbursements to large providers (e.g., bargain down the prices demanded by large providers)
- Thus…..merger will enable payors to counter the market power of dominant “must-have” hospitals and specialty physician practices
- But…..“If past is prologue, insurance consolidation will tend to lower payments to healthcare providers but those lower payments will not be passed on to consumers.” (Leemore Dafny)

The Bigger Picture of the Healthcare Supply Chain

- Large scale consolidation across the board in providers, health insurance, GPOs, PBMs, distributors, pharma
- Relatively little has been challenged by the government and remedies have not been terribly effective
- The result has been:
    - More and more powerful buyers and sellers of products and services
    - Incentives for “reactive” consolidation, e.g. bulking up to bargain better
    - Price increases from less competition passed through to consumers
    - Adverse effects on the professions
    - Eliminates important “redundancy” in the supply chain that makes it safe and stable from shortages, market disruption and other shocks