Provider Consolidation

A Primer and Considerations for Oregon

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Center for Health Systems Effectiveness

Our mission is to provide the analyses, evidence, and economic expertise to build a more sustainable health care system.

OHSU

Today

What do we know about Oregon's health care costs?

What does provider consolidation look like?

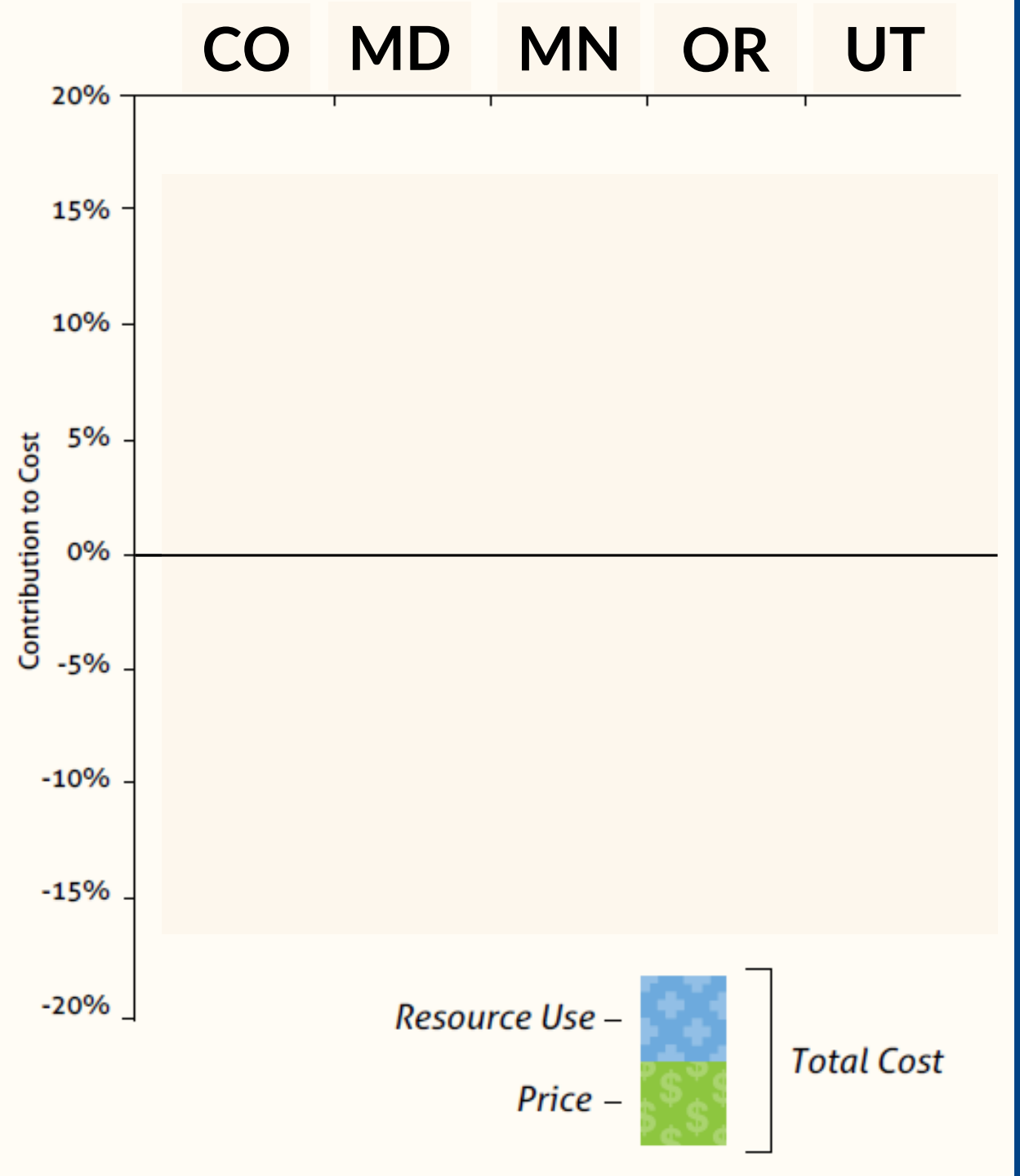
Why be concerned about consolidation?

What does the evidence say?

What's happening in Oregon?

What are policy options?

What do Oregon's commercial health care costs look like?



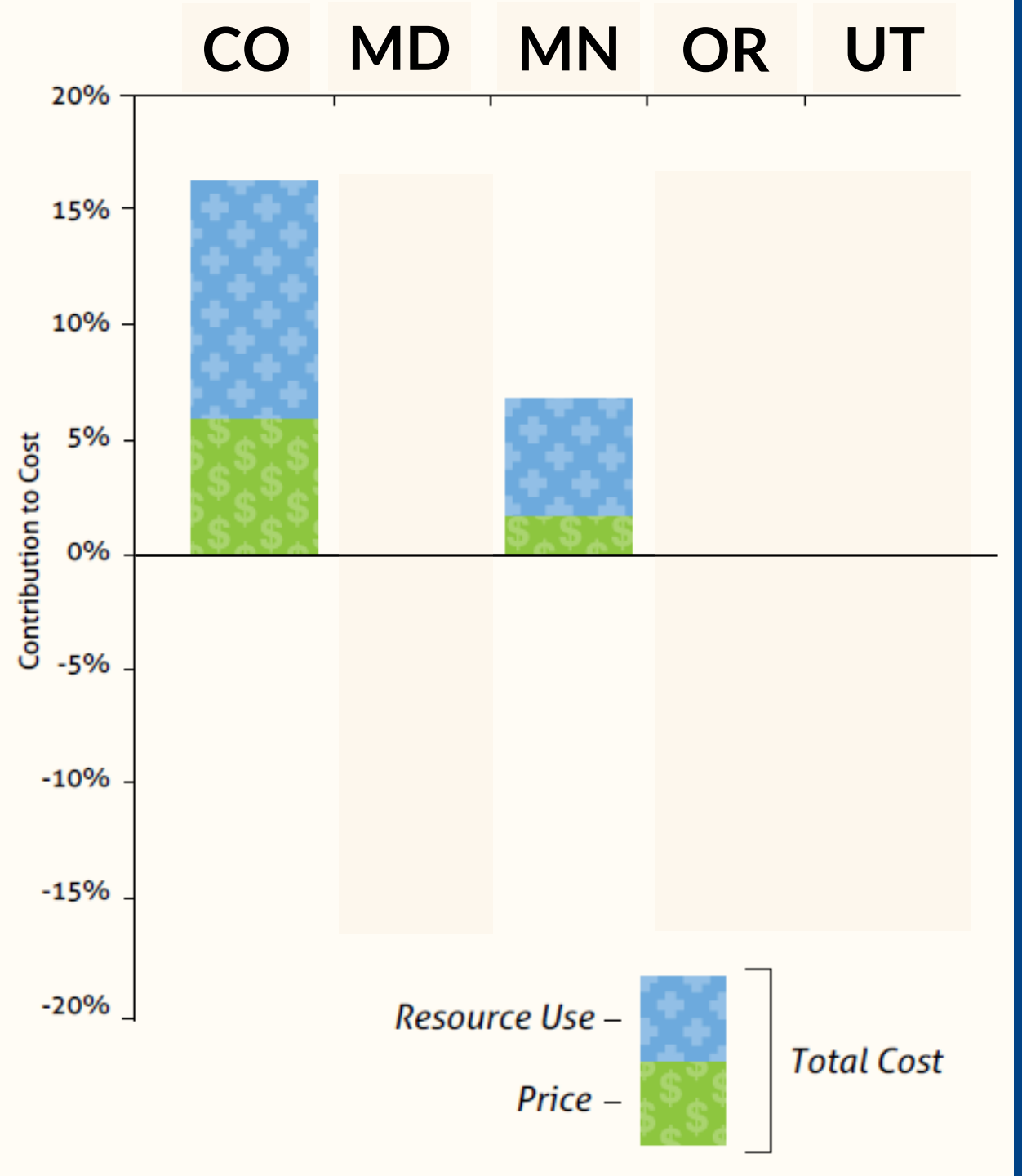
Price v. Utilization

5 states, 2015

Commercially Insured

Size of bars represent impact of price & utilization

SOURCE: Network for Regional Healthcare Improvement, 2018



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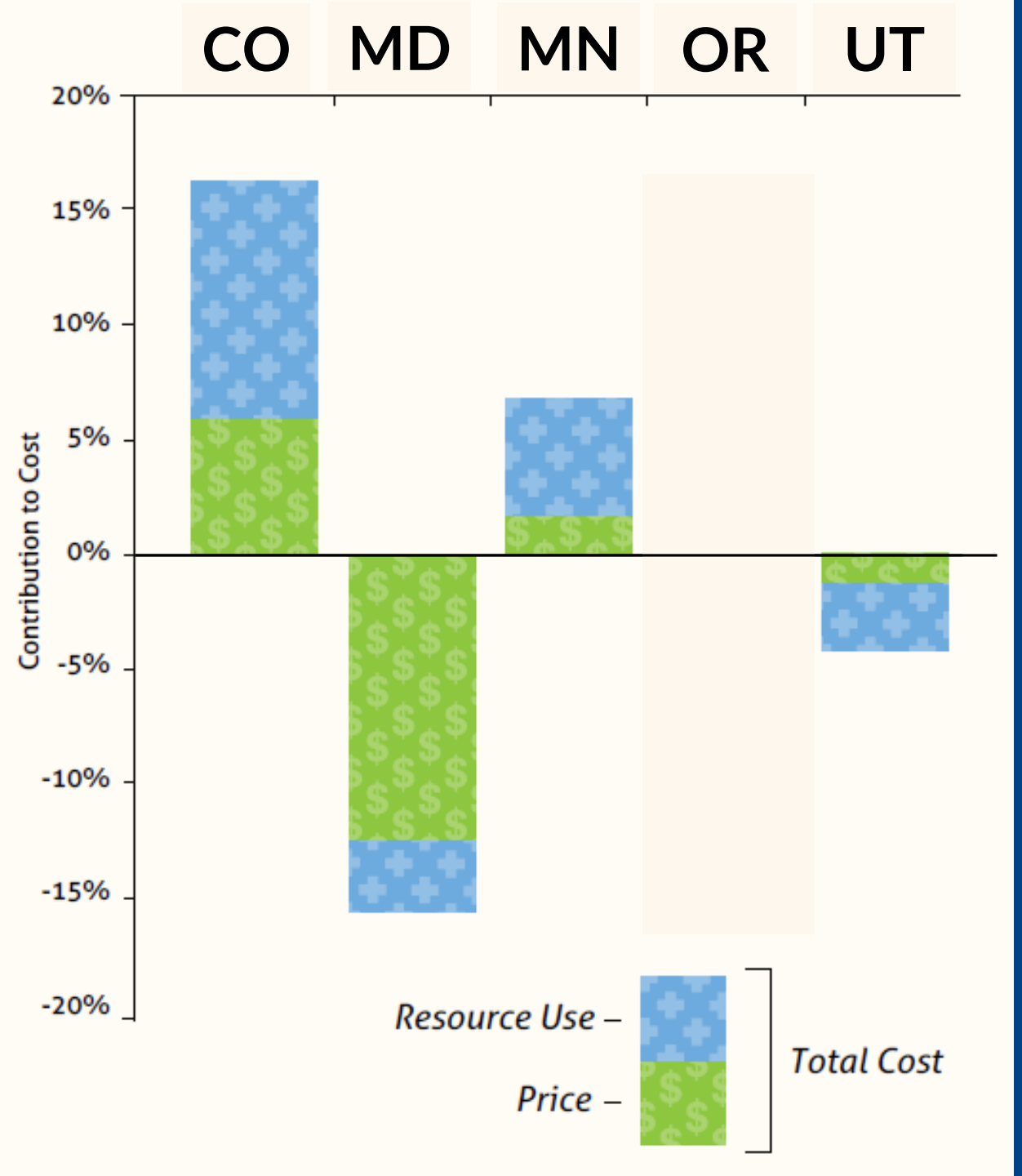

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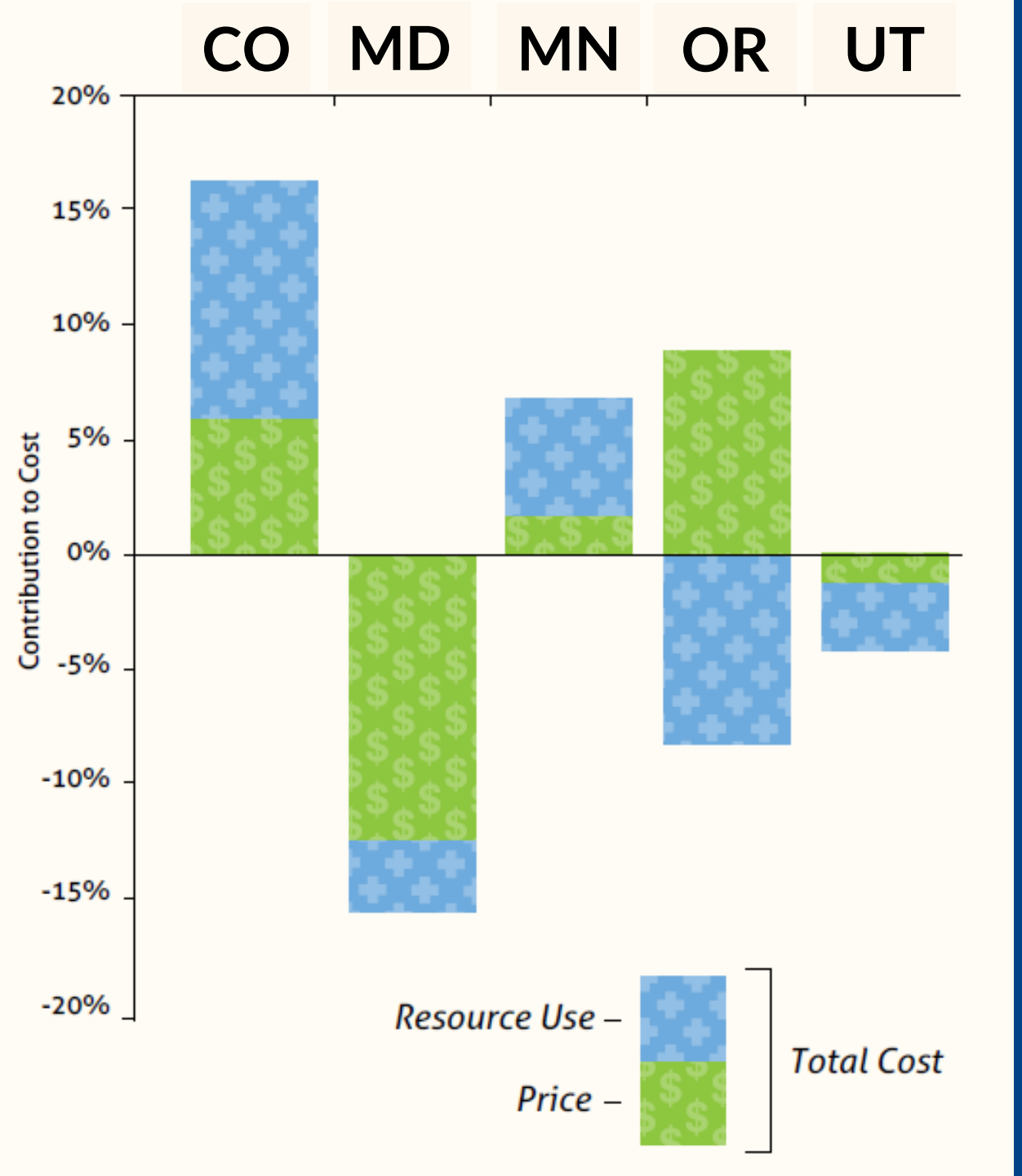
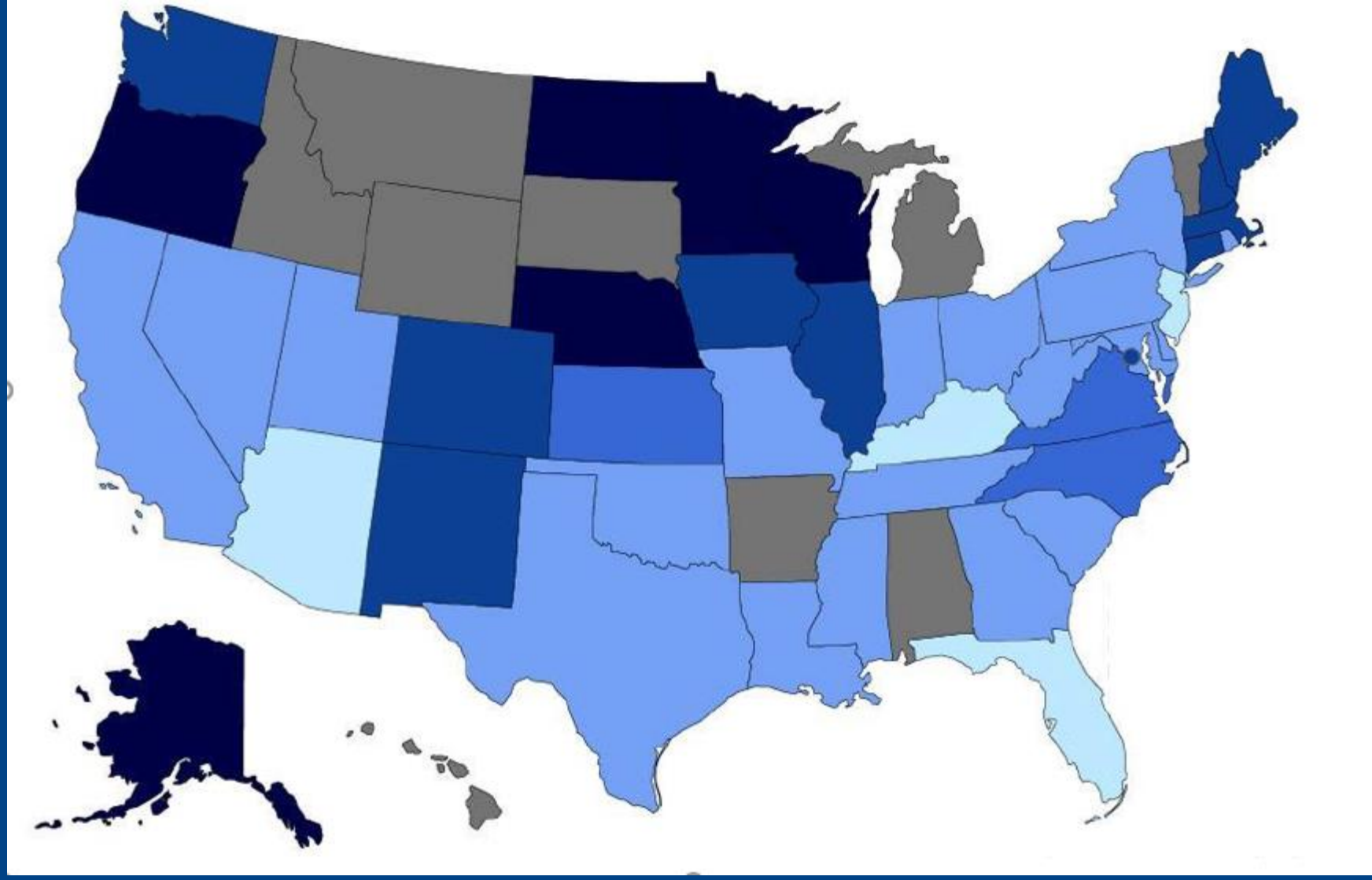


Price v. Utilization

Oregon is a high price, low utilization state

State v. National price

darker blue: state higher

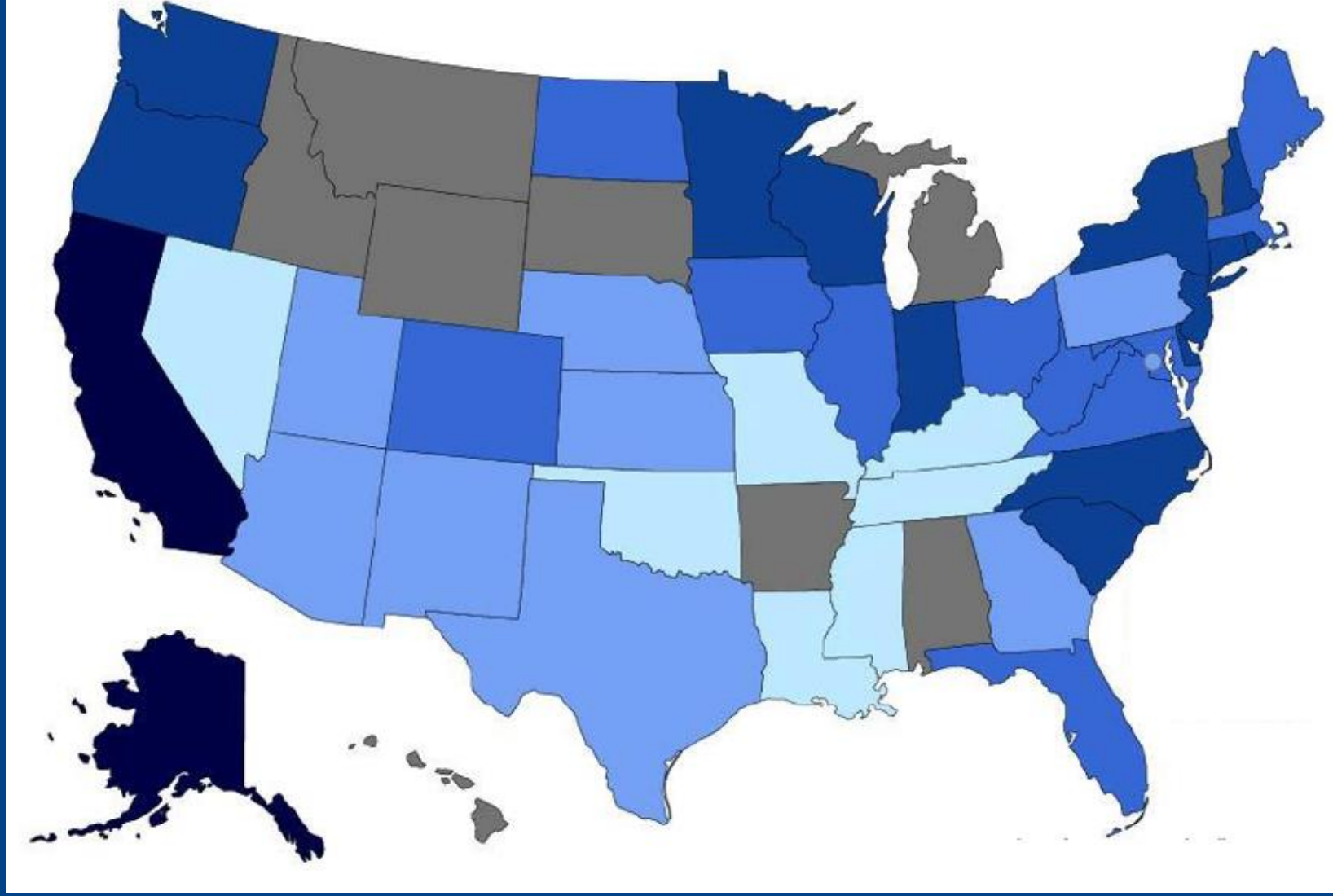


Primary care visit
(moderately complex new patient)

SOURCE: Health Care Cost Institute, 201X

State v. National price

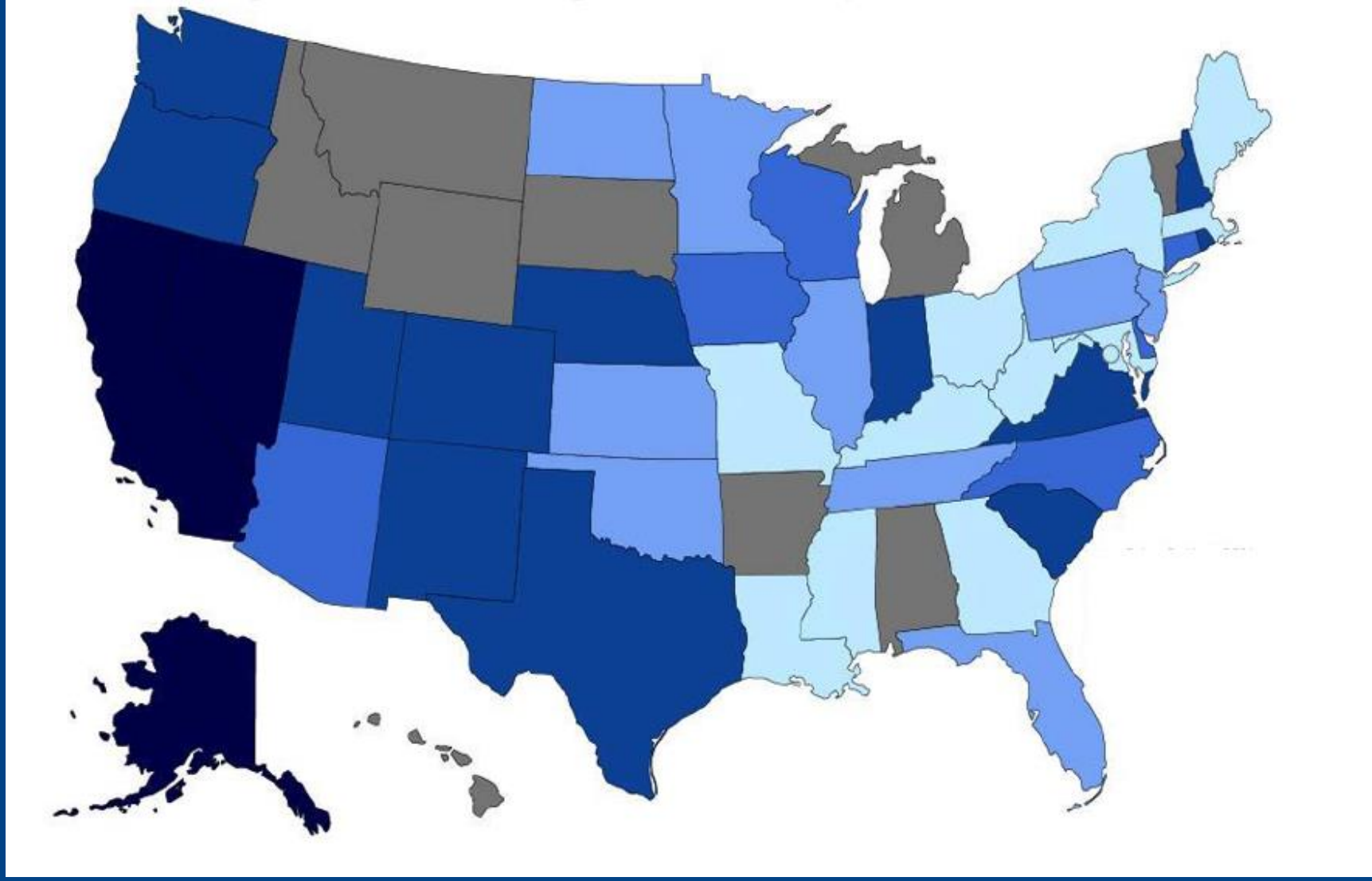
darker blue: state higher



Childbirth
(vaginal delivery & newborn care)

State v. National price

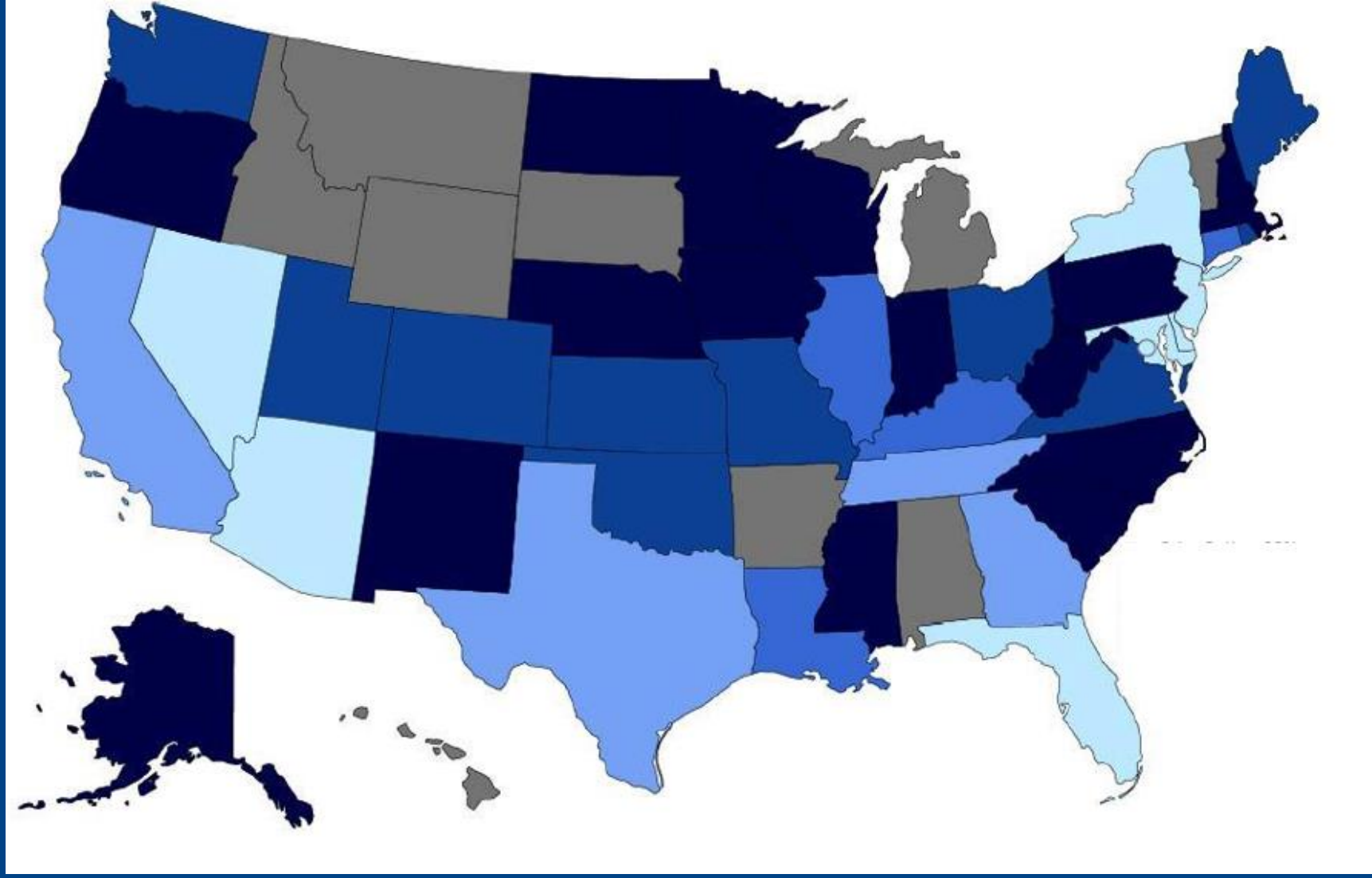
darker blue: state higher



ED visit

State v. National price

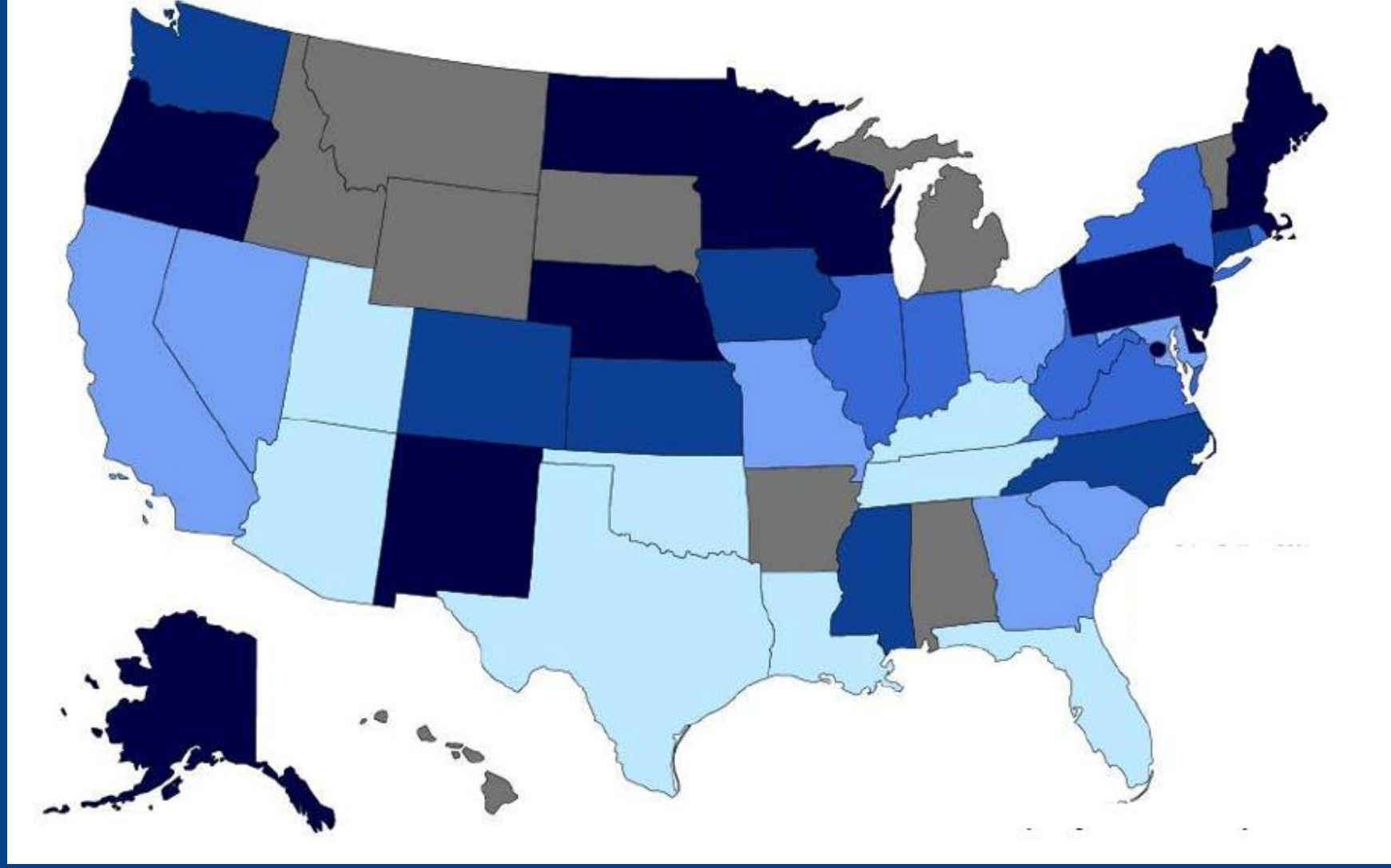
darker blue: state higher



Abdominal MRI

State v. National price

darker blue: state higher



Heartburn evaluation

Price variability within Oregon (2017)

Procedure	Median	75th %tile	25th %tile	75th/25th
CABG				
Spinal Fusion				
Knee Replacement				
Blood Transfusion				
Hearth Catheterization				

Note: Prices based on commercial median allowed amounts.

Price variability within Oregon (2017)

Procedure	Median	75th %tile	25th %tile	75th/25th
CABG	$76,196			
Spinal Fusion				
Knee Replacement				
Blood Transfusion				
Hearth Catheterization				

Note: Prices based on commercial median allowed amounts.

Price variability within Oregon (2017)

Procedure	Median	75th %tile	25th %tile	75th/25th
CABG	$76,196	$105,710	$62,622	
Spinal Fusion				
Knee Replacement				
Blood Transfusion				
Hearth Catheterization				

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CABG	$76,196	$105,710	$62,622	1.69
Spinal Fusion				
Knee Replacement				
Blood Transfusion				
Hearth Catheterization				

Note: Prices based on commercial median allowed amounts.

Price variability within Oregon (2017)

Procedure	Median	75th %tile	25th %tile	75th/25th
CABG	$76,196	$105,710	$62,622	1.69
Spinal Fusion	$57,551	$74,878	$40,962	1.83
Knee Replacement	$31,949	$37,971	$29,687	1.28
Blood Transfusion	$21,771	$47,067	$14,232	3.31
Hearth Catheterization	$20,250	$28,903	$15,004	1.89

Note: Prices based on commercial median allowed amounts.

“Our prices are high because of low payments by Medicare & Medicaid”

The best and most recent national studies find no evidence of dynamic cost shifting

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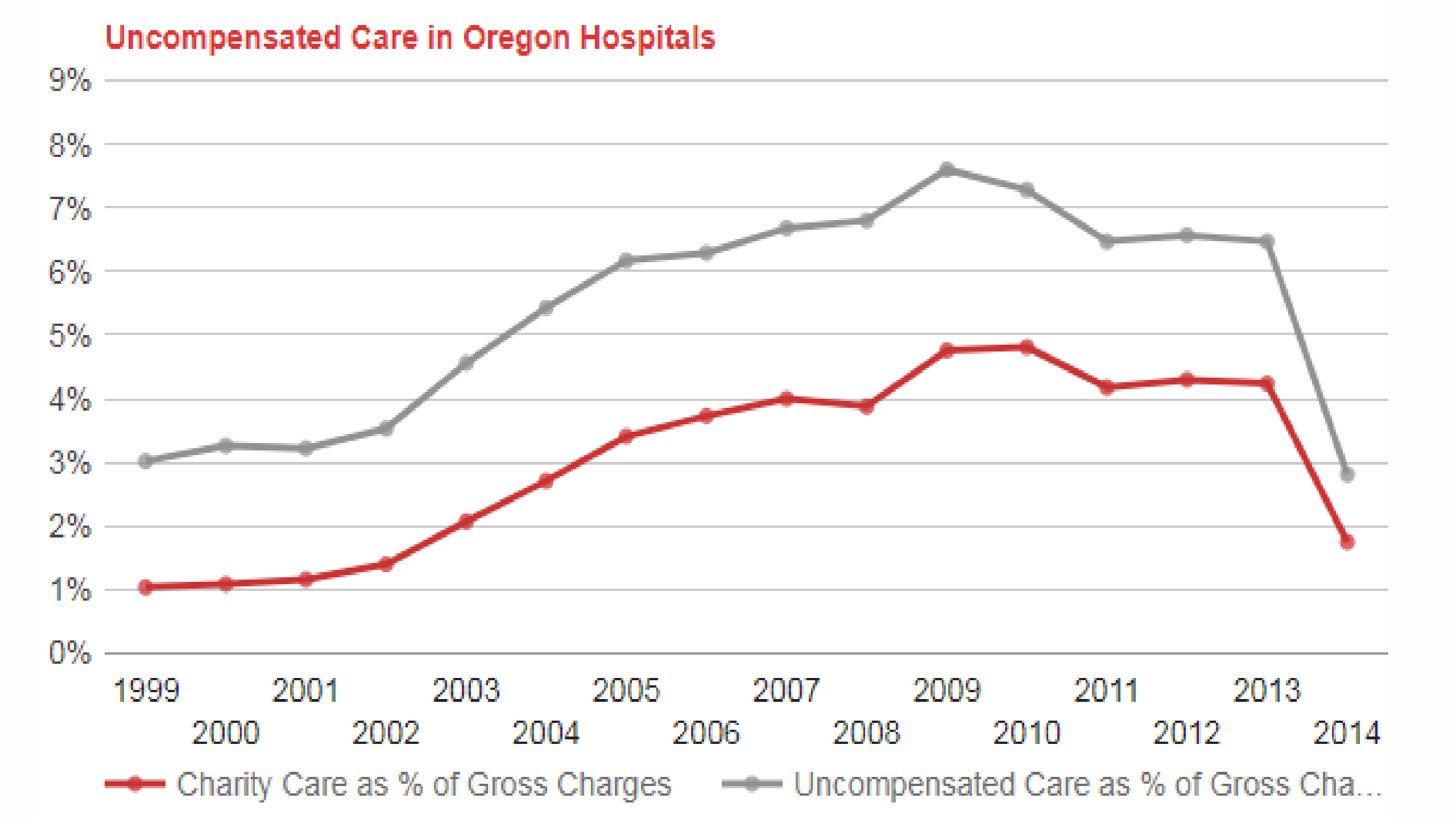
No “reverse” cost shift with coverage of uninsured in Oregon in 2014


Uncompensated Care in Oregon Hospitals
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Charity Care as % of Gross Charges
Uncompensated Care as % of Gross Cha...

Summarizing Oregon

Utilization is low

Prices are high

Large variations within Oregon

Weak/non-existent evidence for cost shifting

Implications of high health care prices

Premiums are higher

Burden of premiums borne primarily by employees

Higher prices → lower wages

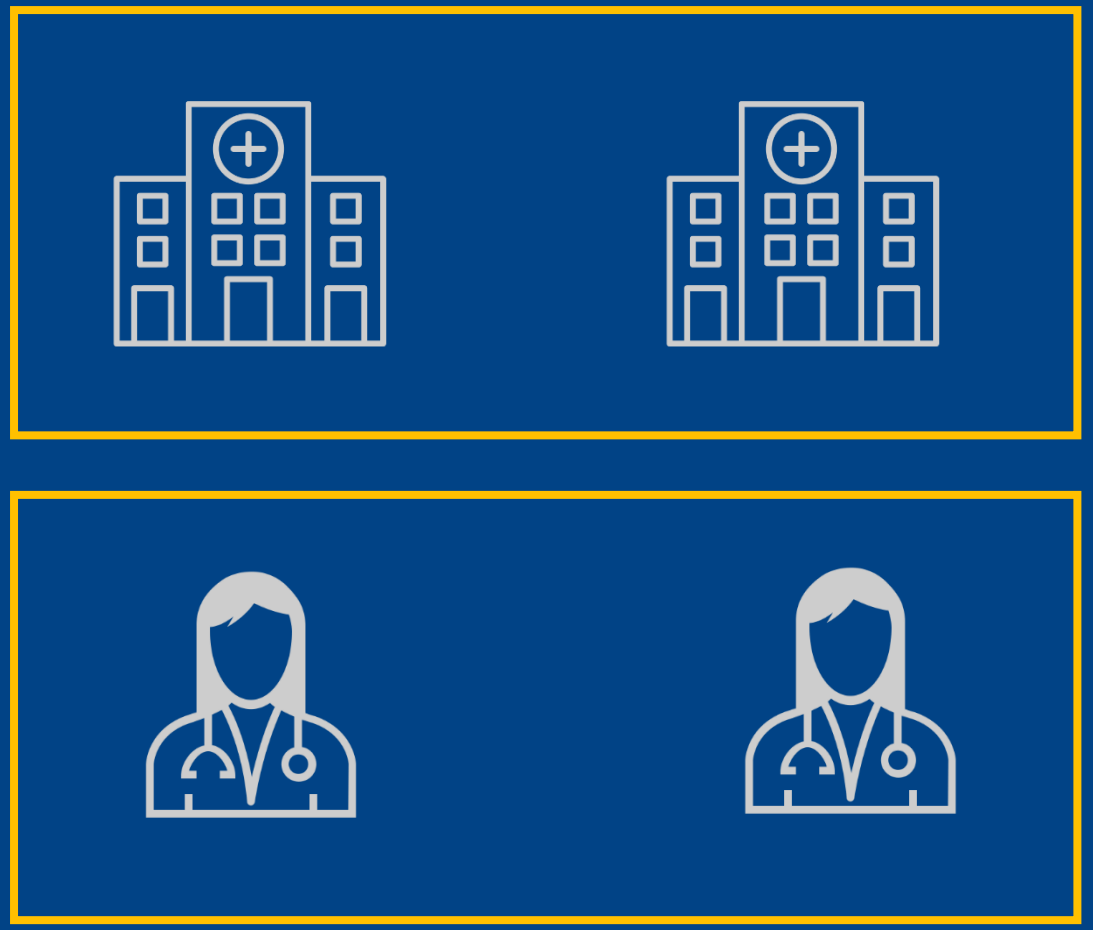
Why does consolidation look like?

Types of consolidation in health care

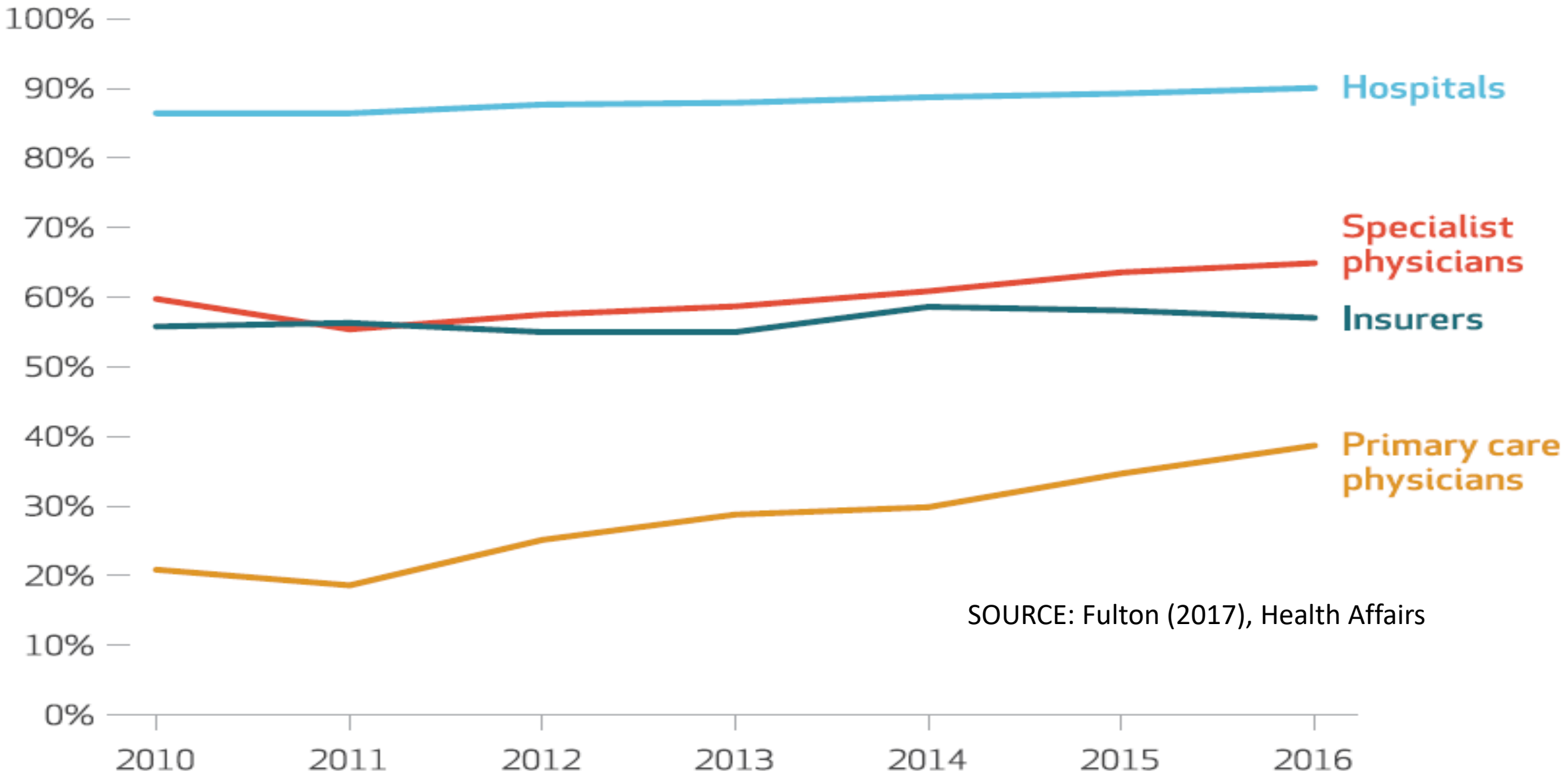
Horizontal vs. vertical

Provider vs. payer

Horizontal Consolidation

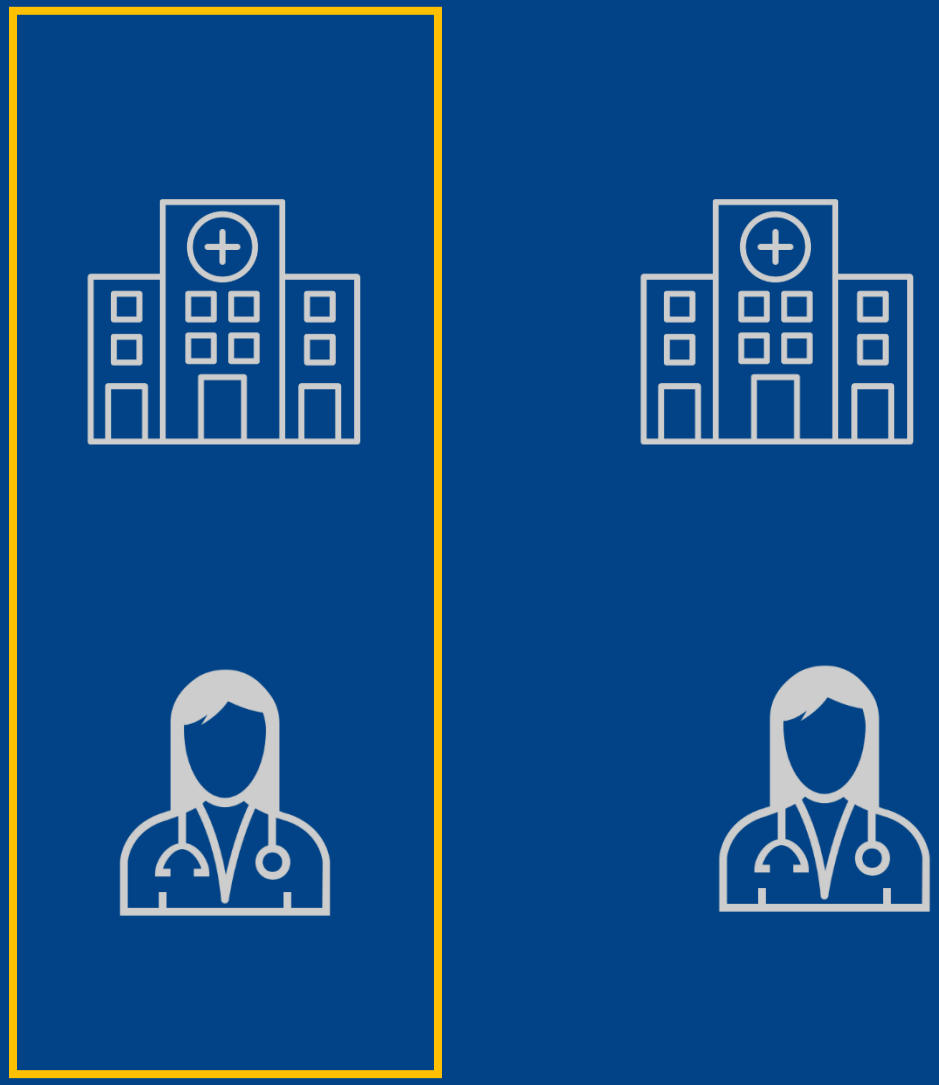


Percentages of Metropolitan Statistical Areas (MSAs) whose Herfindahl-Hirschman Index (HHI) was above 2,500 for hospitals, physician organizations, and health insurers, 2010–16

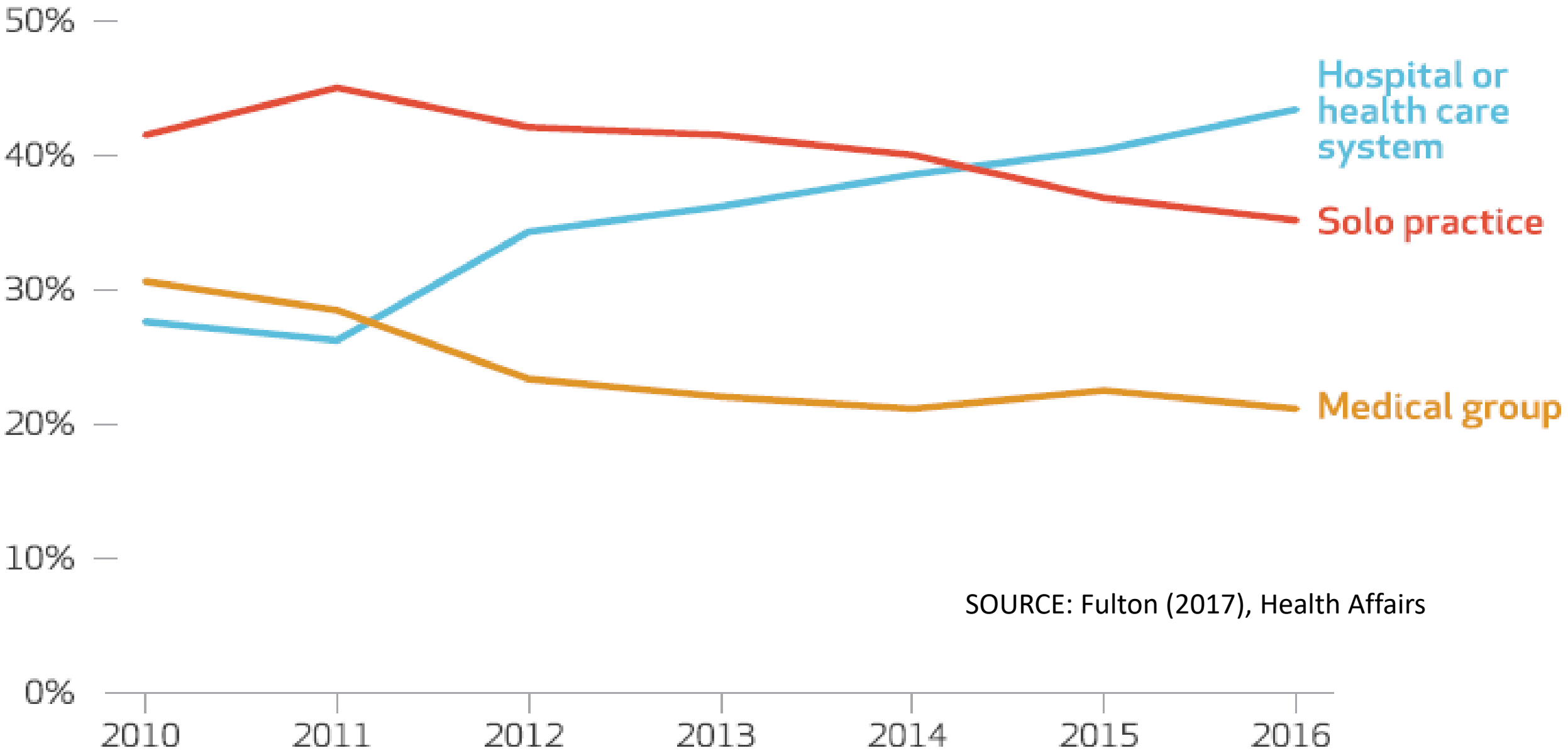


SOURCE: Fulton (2017), Health Affairs

Vertical Consolidation



Percentages of primary care physicians working in organizations, by ownership type, 2010–16



SOURCE: Fulton (2017), Health Affairs

Recent mergers and affiliations in Oregon

Mergers & Acquisitions
Providence Health & Services – St. Joseph Health (2017)
Quorum Health Corp. – McKenzie-Willamette Medical Center (2015)
Legacy Health – Silverton Hospital (2015)
Asante Health Systems – Ashland Community Hospital (2012)
St. Alphonsus Health – Trinity Health (2012)
Affiliations
OHSU, Tuality, Adventist Health (2017)
Providence Health & Services – PeaceHealth (2016)
Provider-Insurer Partnerships
PeaceHealth – Kaiser Permanente NW (2017)
Legacy Health – PacificSource Health Plans (2015)
OHSU – Moda (2015)
Providence St. Joseph Health – Providence Health Plan (2019)

Why should we care about consolidation?

Competition & commercial prices

- Commercial prices determined by negotiations between providers and insurers
- Provider's "must-have" status increases ability to negotiate higher prices
- Consolidation (and resulting increased market concentration) can bestow "must have" status

Consolidation ≠ Integration

Is Integration Good or Bad?

Aggregation of ownership → Increased Market power → Higher prices Lower quality

Coordination of production → Increased Efficiency → Lower prices Higher quality

What’s the evidence?

Horizontal Hospital Consolidation

Higher prices for insurers

Lower or unchanged quality (e.g. mortality rate)

Some scale economies

Costs lower only when facilities combined (e.g. hospital closure, consolidating service lines)

Horizontal Hospital Consolidation

Cooper, Craig, Gaynor and Van Reenen (2018):

Average 6% price increase for mergers of geographically close hospitals, 2007-2011
Monopoly hospitals have 12% higher prices
Monopoly hospitals' contracts place more risk on insurers (e.g., prices as share of charges)

Vertical Integration

Vertical integration associated with higher prices (e.g. 6% higher in independent practices vs. hospital-owned)

Almost all savings from Medicare MSSP ACO program come out of physician-owned ACOs; no savings from hospital-integrated ACOs

No change in quality from integration

Types of consolidation in health care

Horizontal vs. vertical

Provider vs. payer

Payer consolidation

Evidence on commercial (lots)

Evidence on Medicaid (less)

Important concept: balance of insurer vs. provider market power

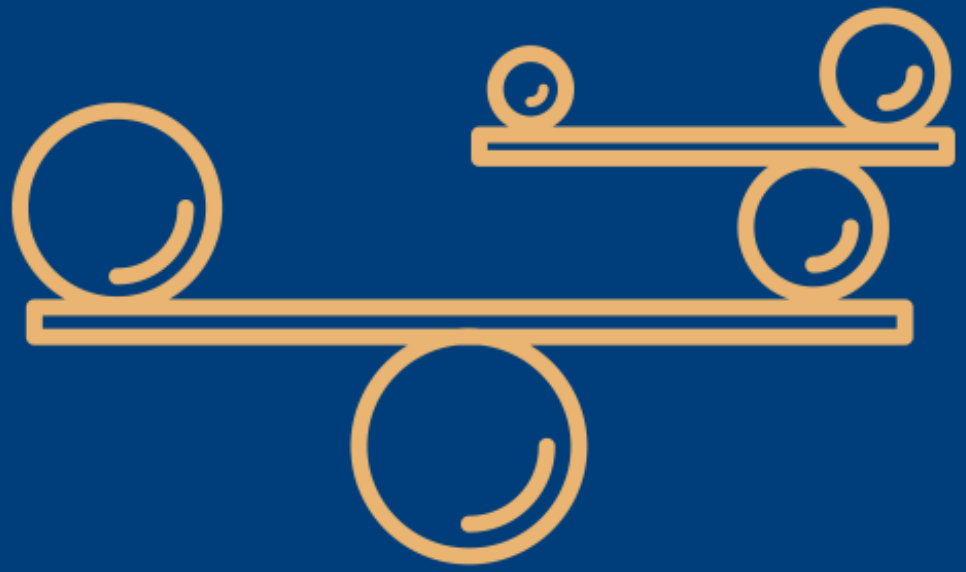


Figure 1. The Effect of Insurer Market Concentration on Health Insurance Premiums For a Fixed Level of Hospital Market Concentration

Insurer consolidation - prices

Allows insurers to negotiate lower provider prices

- In one study, insurers with market shares of 15% or more negotiated prices for physician office visits that were 21% lower than those with less than 5% market share

Insurers require greater market share to negotiate lower prices with larger provider groups

Insurer consolidation - premiums

Savings from lower provider prices are not passed on to the consumer as lower premiums

Insurer consolidation tends to lead to premium increases

Findings may differ between for-profit/not-for-profit insurers

Making headlines

CNN BUSINESS Markets Tech Media Success Perspectives Video

Aetna-Humana & Anthem-Cigna: Two mergers die in one day

by Aaron Smith and Jackie Wattles @CNNMoneyInvest

February 14, 2017: 5:31 PM ET

CRAIN'S NEW YORK BUSINESS

Home › Health Care

March 28, 2019 11:49 AM

More Medicaid consolidation as Centene plans $17.3 billion WellCare purchase

JONATHAN LAMANTIA

CRAIN'S CHICAGO BUSINESS

Home › Health Care

June 07, 2019 02:56 PM

What happened to all the Medicaid managed care insurers?

Big mergers leave the market with even fewer competitors after the state culled the herd

STEPHANIE GOLDBERG

Forbes Billionaires

15,243 views | Feb 12, 2018, 08

Insurers Signal Medicare Advantage Buyouts Ahead

Bruce Japsen Senior Contributor

Healthcare

I write about healthcare business and policy

Commercial insurers vs providers, 2016

		Health care provider market concentration				
		Unconcentrated	Moderately concentrated	Highly concentrated	Super concentrated	Total
Health insurer market concentration	Unconcentrated	0.0%	0.6%	1.1%	1.9%	3.6%
	Moderately concentrated	0.0%	5.5%	16.5%	14.9%	36.9%
	Highly concentrated	0.3%	3.3%	27.5%	23.4%	54.5%
	Super concentrated	0.0%	0.3%	1.9%	2.8%	5.0%
	Total	0.3%	9.6%	47.1%	43.0%	100.0%

Providers tended to be more consolidated than insurers in most MSAs

Commercial insurers vs providers, 2016

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Provider concentration higher than insurers
in 58.4% of MSAs

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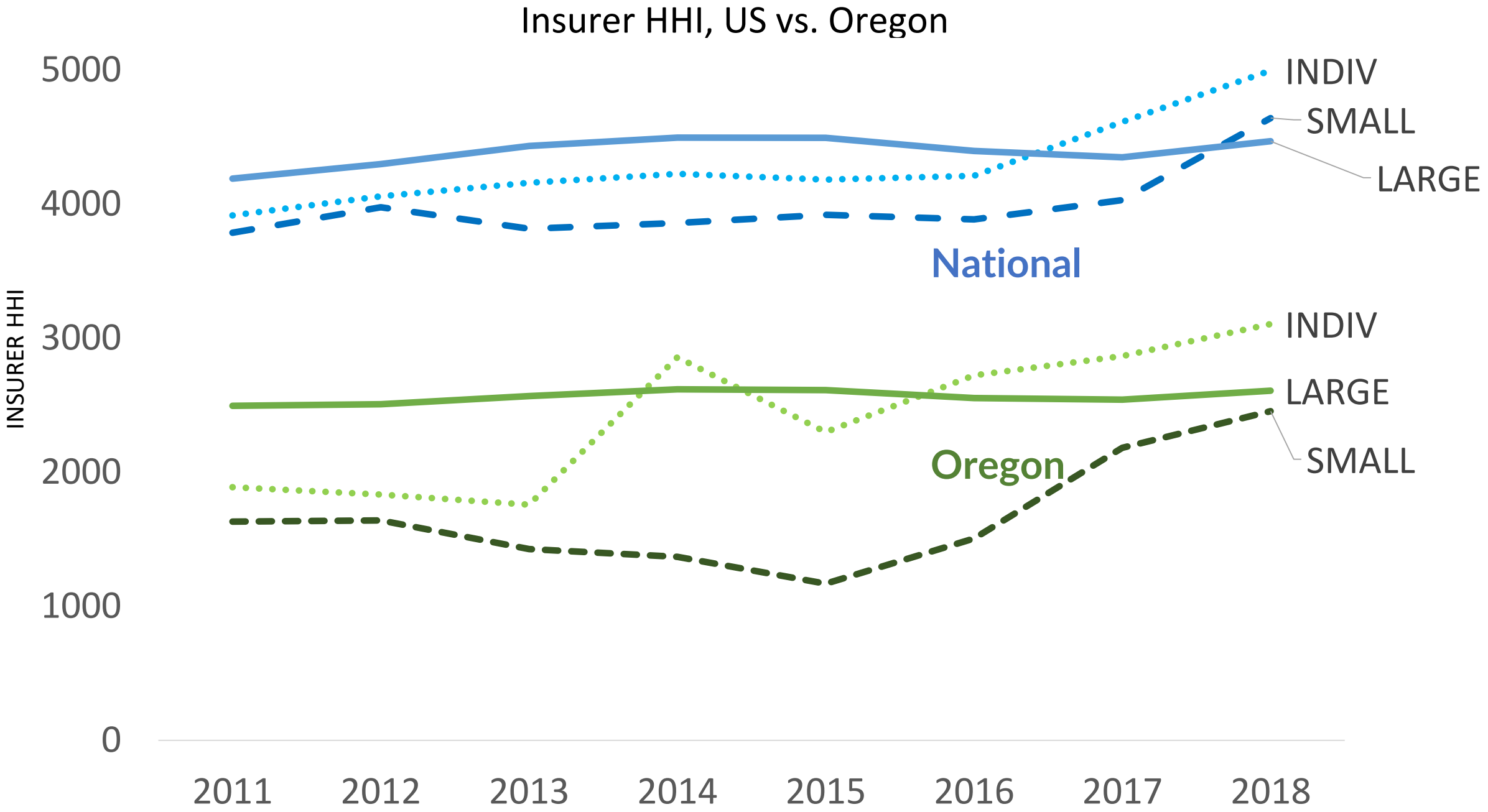
	Total	0.3%	9.6%	47.1%	43.0%	100.0%

Insurer consolidation higher than providers
in only 5.8% of MSAs

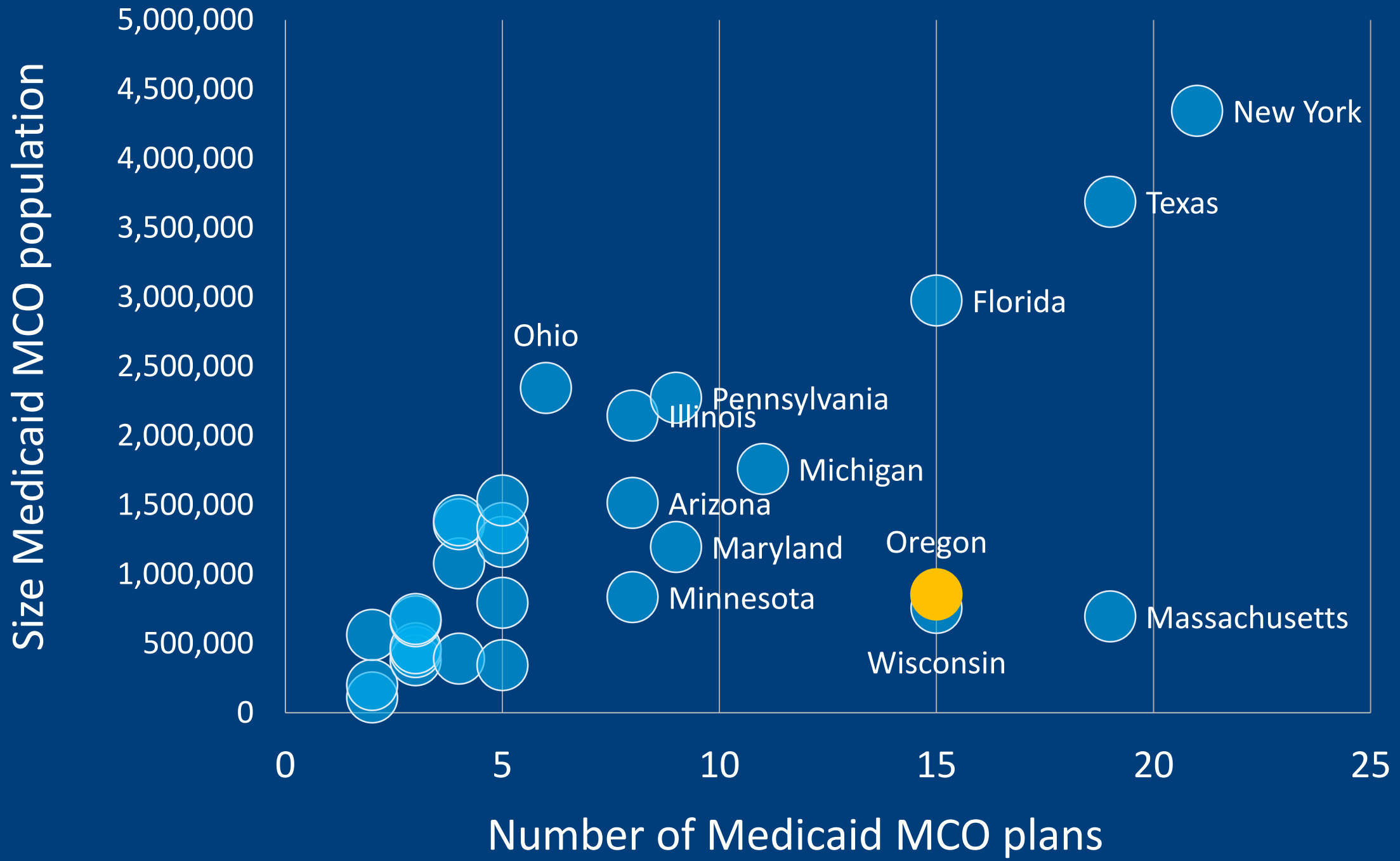
Local markets are more relevant to consumers. How does Oregon compare in the commercial setting?

Commercial concentration

In contrast to national picture, Oregon is the only state where no MSAs exceeded threshold for “highly concentrated” commercial markets in 2017


Insurer HHI, US vs. Oregon
INSURER HHI
5000
4000
3000
2000
1000
0
2011
2012
2013
2014
2015
2016
2017
2018
INDIV
SMALL
LARGE
National
INDIV
LARGE
SMALL
Oregon

What about Medicaid?


Size Medicaid MCO population
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
0
5
10
15
20
25
Number of Medicaid MCO plans
New York
Texas
Florida
Ohio
Pennsylvania
Illinois
Michigan
Arizona
Maryland
Oregon
Minnesota
Massachusetts
Wisconsin

Competition in Medicaid MCOs

Medicaid MCOs don't compete on premiums. What do they compete on?

Best case scenario: compete for beneficiaries on the basis of provider/plan offerings (assumes risk adjustment/capitation is working)

Worst case scenario: compete on selection: who can attract the best risks/avoid (exploits flaws in risk adjustment/capitation)

Competition in Medicaid MCOs

Evidence: Not much

Two studies using 2002 data (NY, CA)

More competition → worse quality

Consolidation in Medicaid MCOs

Best case scenario: nonprofit monopolist uses market power to control provider market power; maximizes access & quality w/nonprofit budget constraint

Worst case scenario: for-profit monopolist uses its market power to squeeze providers, maximizes profit w/constraint on minimal level of access & quality

Policy solutions

NIHCM FOUNDATION

Summary of Proposed Policy Solutions for Addressing Emerging and Existing Market Power[a]

Strengthening Antitrust Enforcement

- ❑ Increase funding for FTC and DOJ antitrust work
- ❑ Extend FTC authority to challenge anticompetitive actions by non-profit health systems
- ❑ When evaluating mergers, give greater consideration to possible non-price detrimental impacts
- ❑ Use existing rule-making authority to clearly define unfair methods of competition
- ❑ Increase use of structural presumptions
- ❑ Discontinue states' use of certificates of public advantage
- ❑ Provide FTC technical assistance to state regulators

Enhancing Competition & Constraining Pricing Power

- ❑ Prohibit anti-competitive contracting methods
- ❑ At the state level, eliminate any willing provider and certificate-of-need laws
- ❑ Encourage consumer choice of high-value providers through benefit designs like reference pricing and other forms of value-based contracting
- ❑ Improve transparency regarding provider prices and quality
- ❑ Establish caps on provider payment levels
- ❑ Implement all-payer rate setting

Deeper dive 1: cap price increases

Cap hospital price increases according to HHI (concentration)

Hospitals w/greater monopoly power limited in rate increases; those in competitive market more freedom

Accomplishes two things:

1. Limits rate increases for those w/market power
2. Reduces incentives to consolidate

Deeper dive 2: out-of-network care

Establish limits on total payments for out-of-network care

If designed appropriately, can reduce in-network negotiated rates

Limits should apply to total payments, including plan and patient (i.e. no “balance billing” to patient)

In simpatico w/legislation to avoid surprise bills

Closing thought

Oregon has a price problem, likely driven by strong provider market power and weak insurer market power

The burden of high prices is not fully transparent

Effective policies should translate to reductions in out-of-pocket burden and increased take-home pay for the average Oregonian

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