Consolidation and Competition in US Health Care

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*The views expressed here are those of the author alone and do not necessarily represent the views of the Federal Trade Commission or any of the Commissioners.

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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.
    - Prices are high and rising, there are quality problems, there's too little organizational innovation.
    - Fragmented delivery system, need for coordination of care.
  - Consolidation, concentration, and market power have a large part to do with that.
    - Markets are highly concentrated.
    - More consolidation is happening.
  - Matters for the ACA – depends on markets.
  - Key role for antitrust agencies: enforcement, advocacy, research.
- Organization of Talk.
  - What's Happening?
  - Why Should We Care?
  - Competition Policy

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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% of GDP.
- Prices
  - High, egregious billing practices.
  - Prices are a major driver of private health spending increases.
    - Spillover into Medicare.
- Quality
  - Concerns over quality.
- Innovation, Efficiency, Service
  - Health system characterized as sclerotic, unresponsive, uncreative.
- Consolidation
  - Lots of consolidation (hospitals, physicians, insurers).

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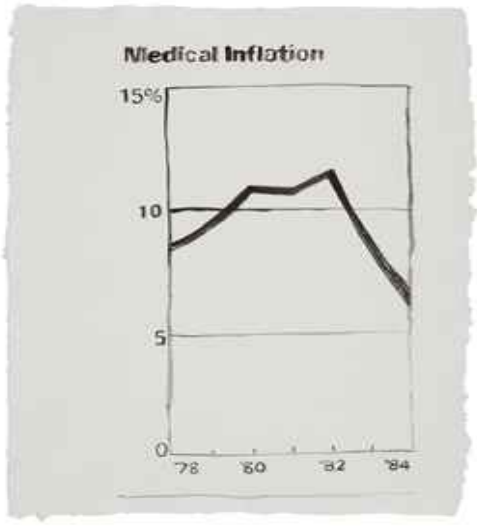
Not a New Problem



by Andy Warhol
(CMU '49)
~ 1985-86
was available via Christie's
$15-20,000

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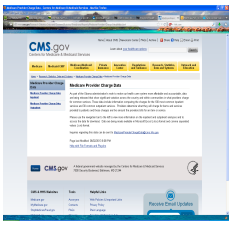
Lots of Recent Publicity About Prices (or something)

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



Angiogram	Colonoscopy	Hip replacement	Lipitor	M.R.I. scan
AVG. U.S. PRICE $914	AVG. U.S. PRICE $1,185	AVG. U.S. PRICE $40,364	AVG. U.S. PRICE $124	AVG. U.S. PRICE $1,121
CANADA $35	SWITZERLAND $655	SPAIN $7,731	NEW ZEALAND $6	NETHERLANDS $319

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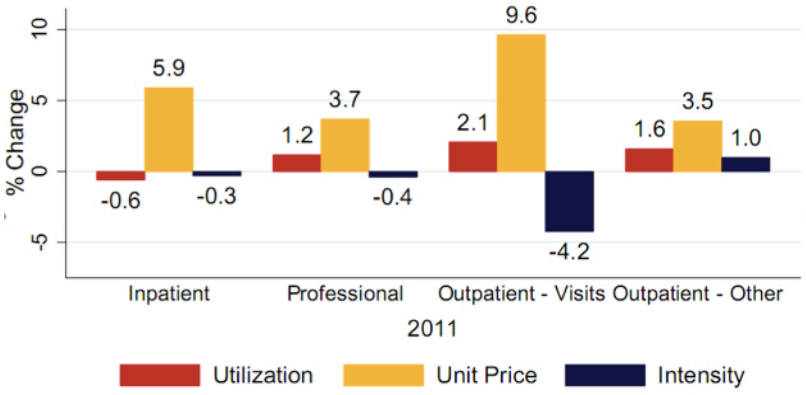
What's Driving the Growth in US Health Spending? It's The Prices

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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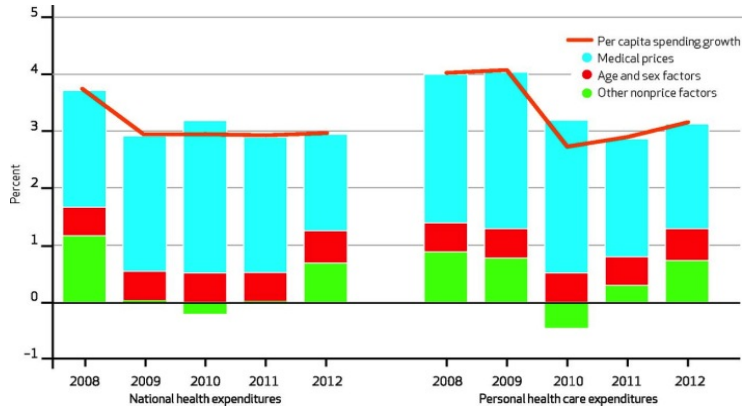
It's the Prices - Over Time

Factors Accounting For Growth In Per Capita National Health Expenditures And Personal Health Care Expenditures, Calendar Years 2008–12.



Martin A B et al. Health Aff 2014;33:67-77

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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."

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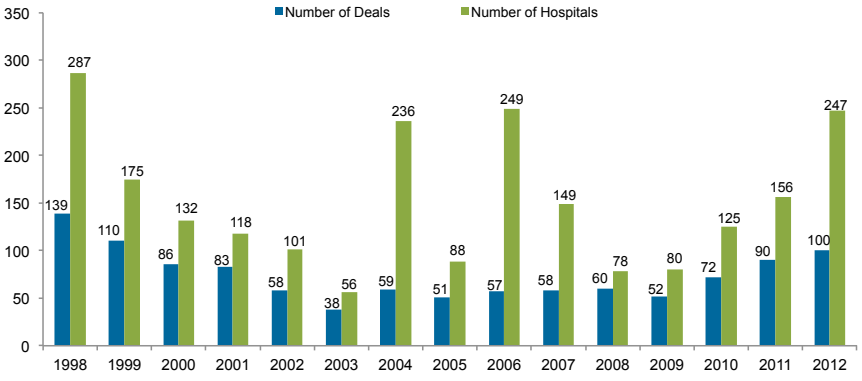
Hospital Mergers

- 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*, Nineteenth Edition, 2013.
(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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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.
- Acquisitions of physician practices by hospitals can reduce competition in the physician services market.
  - Example: town with 2 hospitals, 10 physician practices in 10 specialties.
    - Hospital acquisition: 10 practices per specialty → 2 practices.
    - Physician integration: 10 practices per specialty → 10 multispecialty practices.

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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.

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Evidence

- Consolidation drives up prices.
  - Hospitals: certain mergers 20%, 40%, 50%.
  - Physicians, Insurers
- Quality
  - Competition increases quality.
  - Substantial impacts – 1.46 percentage points lower mortality rate in least concentrated markets for Medicare heart attack patients.
- Not-for-profits
  - Does not affect pricing.
- Efficiencies
  - Little evidence of efficiencies
  - Is merger/acquisition required to achieve efficiencies?
    - Can they be achieved via other means?
- Innovation

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Competition Policy in Health Care

- Antitrust enforcement key to vital markets.
  - Static: prices, quality, service.
  - Dynamic: keeping open opportunities for new, innovative forms to enter and compete.
- Antitrust key part of health reform.
- Very hard to undo problematic arrangements.
- Many actors affect health care markets.
  - Federal: CMS, HHS, FTC, DOJ, FDA,…
  - State: legislatures, regulatory agencies.
- Coordination/harmonization very important.

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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.

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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.

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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

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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.

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