Consolidation and Competition in US Health Care

Martin Gaynor
Director, Bureau of Economics
Federal Trade Commission*

THE 21st PRINCETON CONFERENCE
THE CHANGING HEALTH CARE LANDSCAPE
Princeton, NJ, May 15, 2014
*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.

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
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).

Not a New Problem

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

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

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

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.

- Per capita spending growth
- Medical prices
- Age and use factors
- Other nonprice factors

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

©2014 by Project HOPE - The People-to-People Health Foundation, Inc.

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

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

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.
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.

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
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.

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.