Competition in Consolidated Markets

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Increasingly Consolidated Markets (1)

• Consolidation in both provider and insurer markets already extensive
• Trend will continue even without additional mergers
  – Providers: Increasingly challenging environment to be a small hospital or medical practice
    • Pressure on reimbursement
    • New contracting models
    • Electronic medical records
    • Lifestyle choices by younger physicians
Increasingly Consolidated Markets (2)

- Insurers: Challenging environment for small insurers
  - Multi-state employers prefer national accounts
  - Scale economies in building analytic capabilities
  - Limited ability to contract with providers with alternative payment models

- Implications: Consolidation will increase even without mergers
  - Need public and private initiatives beyond antitrust to make markets more competitive

Increasing Competition

- Provider markets: network strategies
  - Narrow/limited networks
  - Tiered networks

- Insurer markets:
  - Insurance exchanges
    - Public exchanges
      - ACA Marketplaces
      - Exchange for Medicare Advantage?
    - Private exchanges
Network Strategies (1)

• Shifting volume from high-priced to low-priced providers
  – Three potential sources of savings
    • Higher proportion of care at lower-priced providers
    • Price reductions from providers to qualify for narrow network
    • (Long term) greater effort by providers to reduce costs

Network Strategies (2)

• Potential for using broader measures of price and incorporate quality
  – Analytic parallels to alternative payment models
    • Cost per patient or per episode
• Opportunity for integration through provider-led plans or joint ventures with insurers
Narrow vs. Tiered Networks (1)

• Narrow networks a more powerful tool
  – Stronger patient incentives for steering
  – Attraction of large premium reduction
    • Around 15 percent in ACA Marketplace plans
  – Exchanges provide ideal environment
    • Fixed contributions mean strong incentives to seek lower premiums
    • Absence of “one-size-fits-all” constraint faced by many employers
    • Potential to ease comparisons of networks across plans

Narrow vs. Tiered Networks (2)

• Tiered networks have potentially larger consumer acceptance
  – Point of service choices
    • Popularity of PPOs and tiered formularies
  – PPO networks in CA where ACO is preferred tier
  – Dominant providers have blocked tiered networks
    • 2010 legislation in Massachusetts led to mushrooming of tiered plans
Challenges for Network Approaches

• Need for better transparency about networks
• Getting network adequacy requirements right
  – Balance between cost saving and consumer protection
  – Importance of speedy appeals on specialist needs
• “Surprise balance bills” an issue for broad as well as narrow networks

Insurance Exchanges

• Increase competitiveness by facilitating consumer comparisons of plans
  – Comparable information in one place
  – Standardization of benefits
    ♦ What is covered
    ♦ Actuarial value
  – California’s active purchasing model
    ♦ Uniform benefit design
    ♦ Limits on numbers of plans offered
      o Competition on wholesale level as well as retail
Policy Agenda to Promote Competition

• Vigorous anti-trust enforcement
  – More attention to hospital acquisition of medical practices
  – Issues not involving mergers, e.g. access to IT
• Support for independent hospitals and medical practices
  – Level playing field on payment
• Wise policies on network adequacy and insurance exchanges