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Leonard D. Schaeffer Center
for Health Policy & Economics

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

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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
 - 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**

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