

Provider Consolidation

A Primer and Considerations for Oregon

K. John McConnell, PhD

Center for Health Systems Effectiveness

December 17, 2020

Center for Health Systems Effectiveness

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



Today

What does provider consolidation look like?

What does the evidence say about cost and quality?

Who pays for higher prices?

**What do we know about
consolidation in health care?**

Types of consolidation in health care

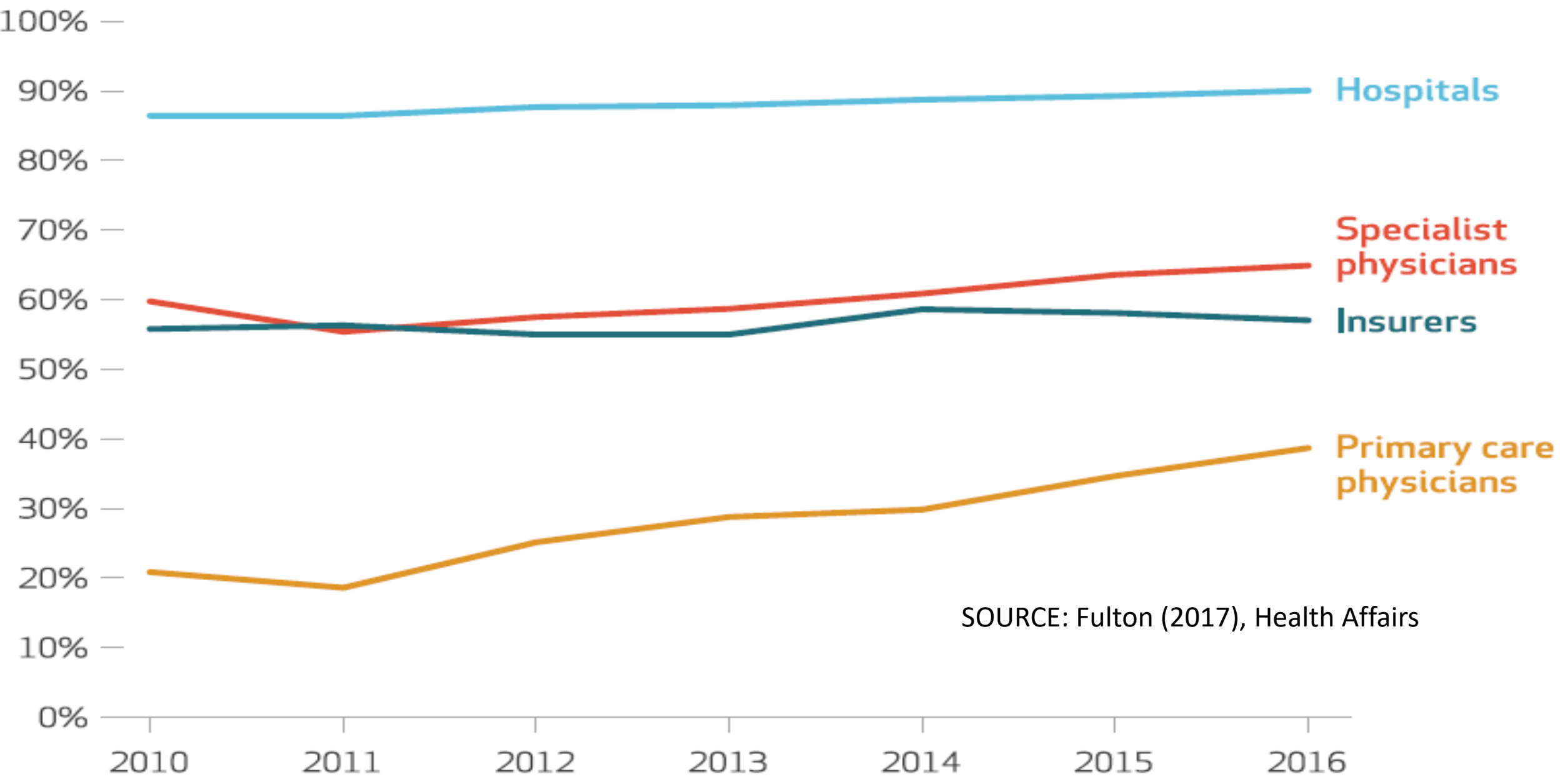
Horizontal vs. vertical

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

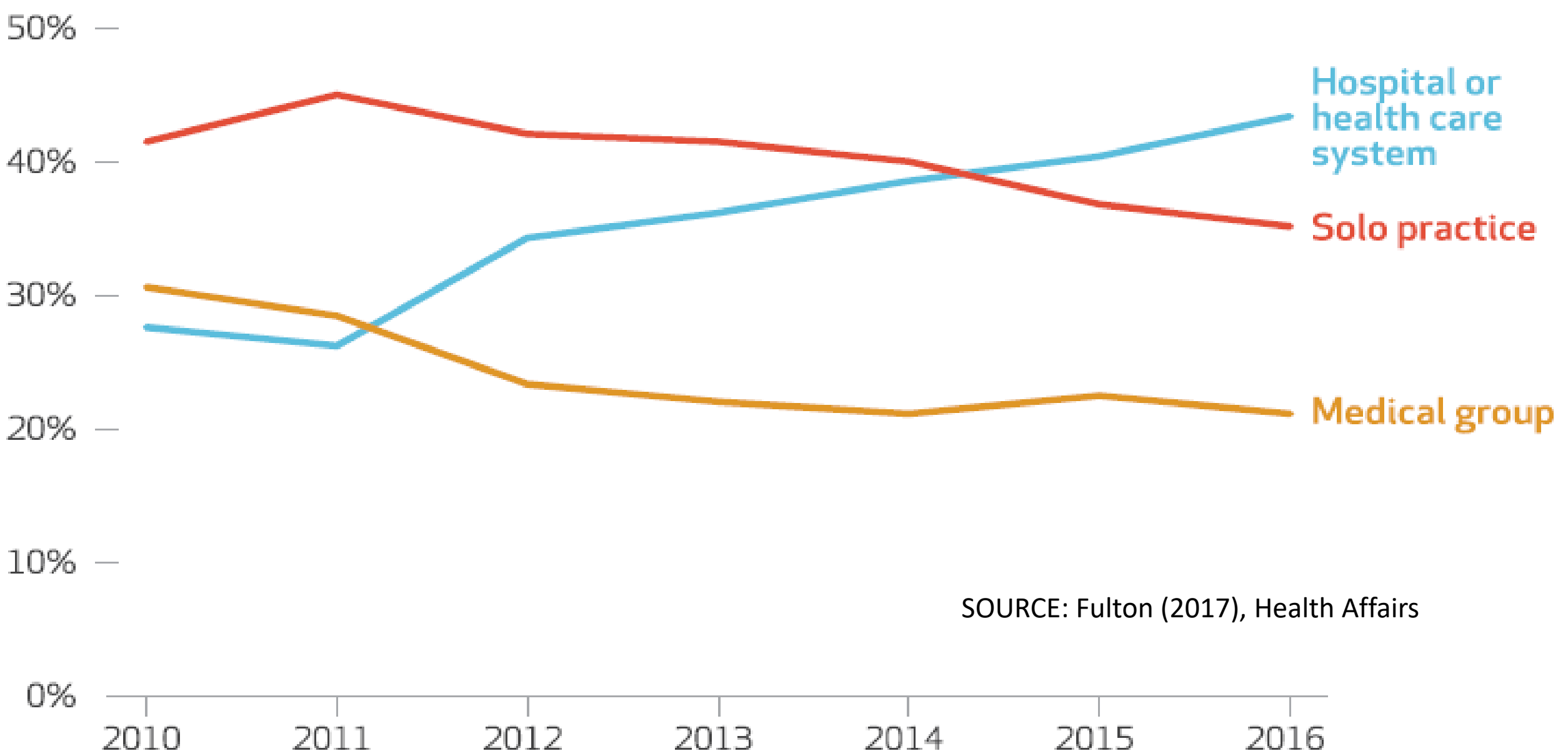


SOURCE: Fulton (2017), Health Affairs

Vertical Consolidation



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



SOURCE: Fulton (2017), Health Affairs

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)

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 \neq 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

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

**Important concept: balance of
insurer vs. provider market power**

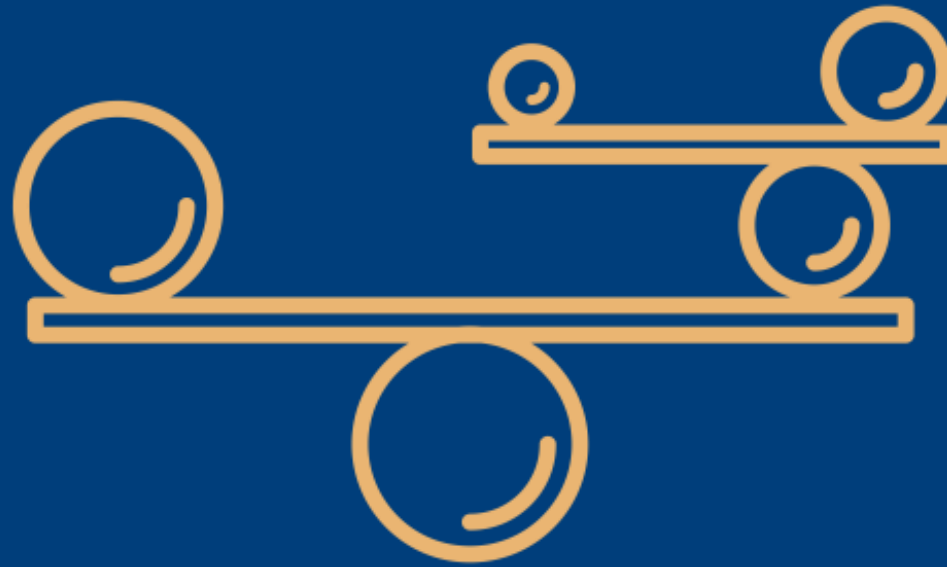


Figure 1. The Effect of Insurer Market Concentration on Health Insurance Premiums
For a Fixed Level of Hospital Market Concentration



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

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

Commercial insurers vs providers, 2016

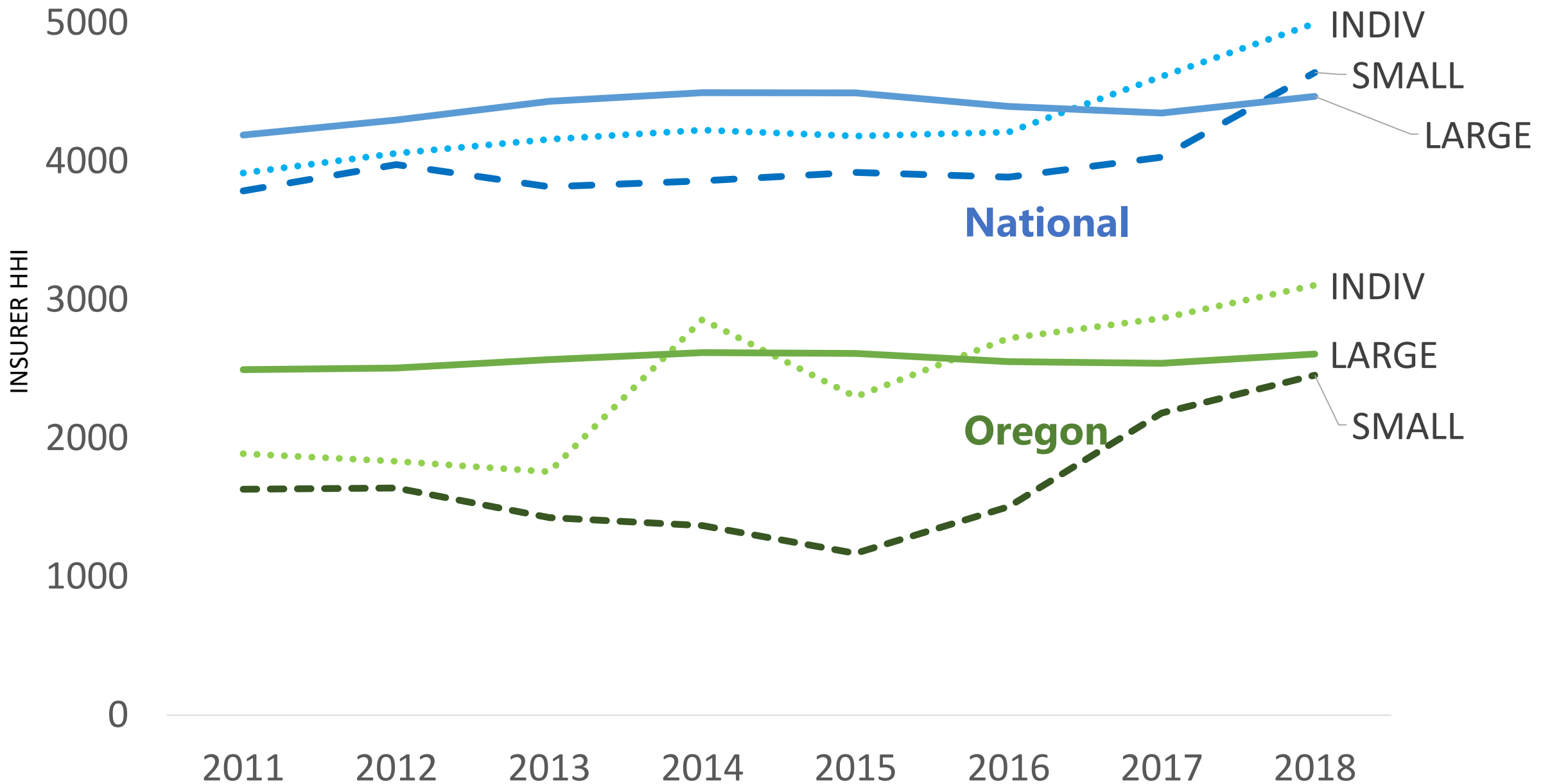
		Health care provider market concentration				
		Unconcentrated	Moderately concentrated	Highly concentrated	Super concentrated	Total
Health insurer market concentration	Unconcentrated	0.0%	0.6%	1.1%	1.9%	3.6%
	Moderately concentrated	0.0%	5.5%	16.5%	14.9%	36.9%
	Highly concentrated	0.3%	3.3%	27.5%	23.4%	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

Insurer market in Oregon is not concentrated

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

Insurer HHI, US vs. Oregon



COVID-19 & Consolidation

Who bears the burden of higher prices?

Joe Oregonian

2018 median household income \$70K

2018 average premium (employer + employee) \$19K

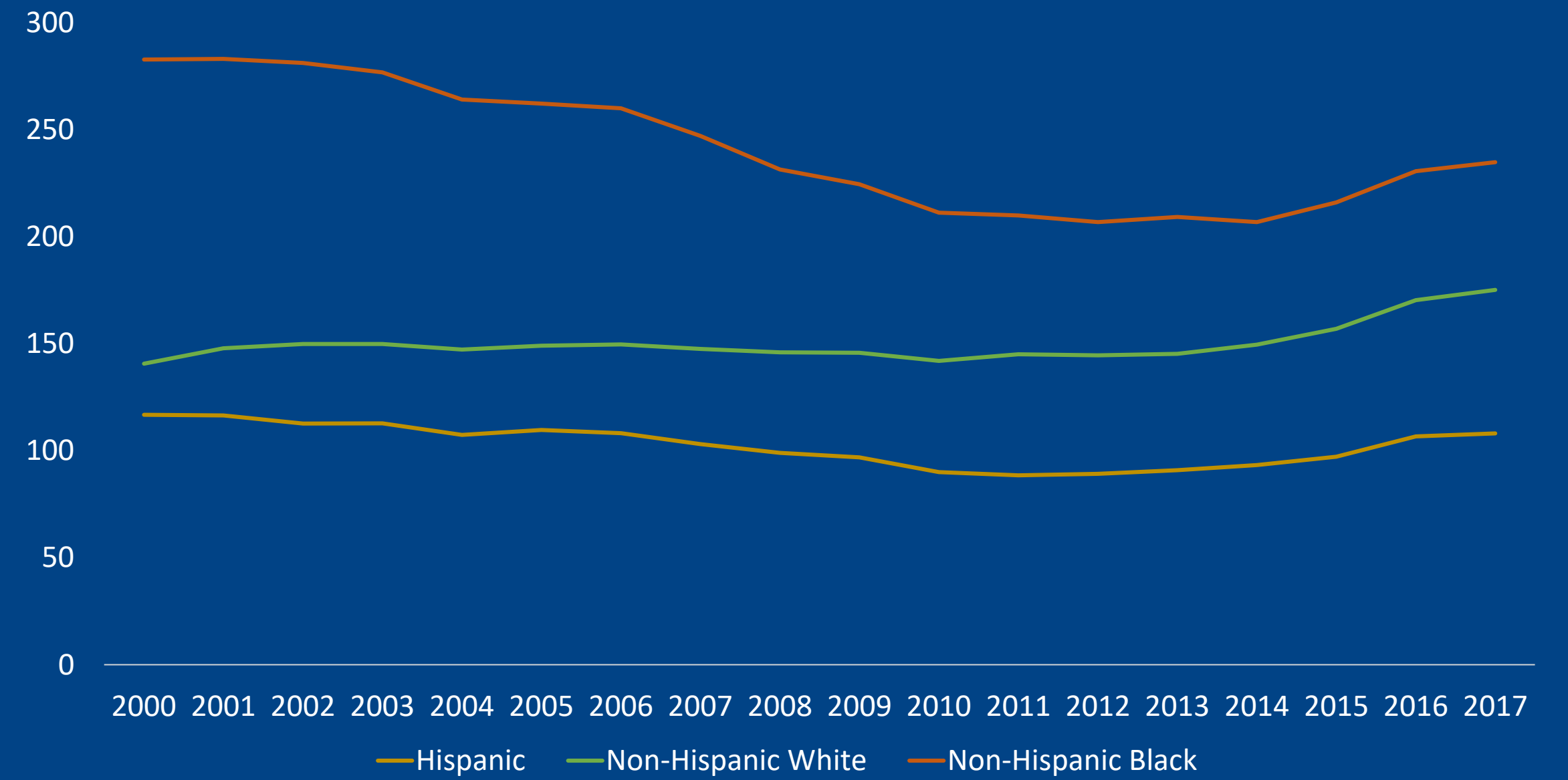
Total compensation: \$89K

Increases in premium borne by employee

**A growing recognition that our
health care system is causing harm**

Anne Case & Angus Deaton – “Deaths of Despair”

Age-specific death rates for persons aged 25–44, by Hispanic origin and race: 2000–2017



A growing recognition that our health care system is causing harm

Anne Case & Angus Deaton – “Deaths of Despair”

“What has eaten away at the foundations of working class life?”

“...[o]ur candidate for the leading villain is...the American healthcare system.”

Things are tough all over (?)

COVID-19 has led to unprecedented job loss

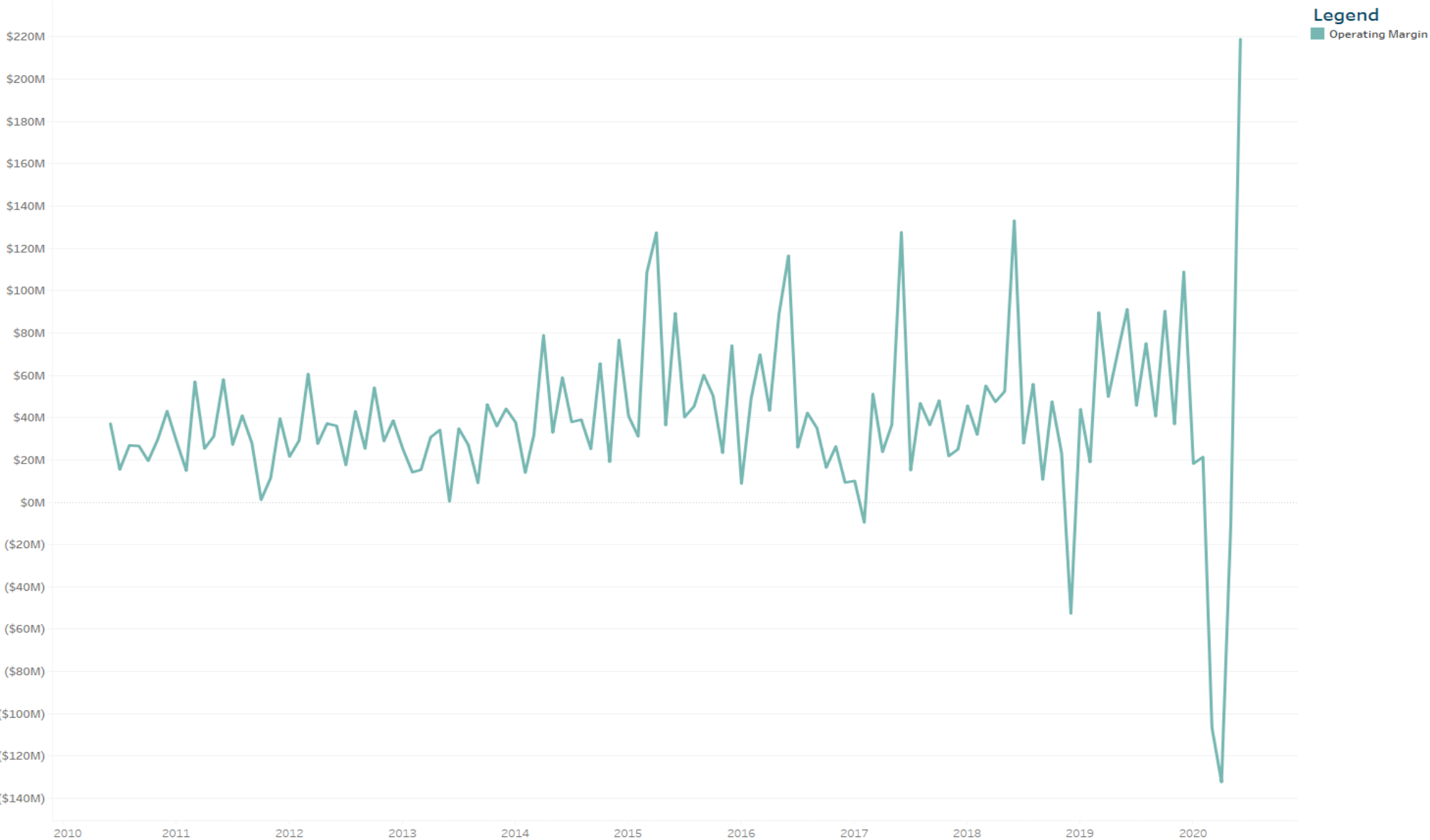
Many health care providers hit hard in first part of the year

Health insurers have done well; nationally, net income is double this year what it was in 2020

Impacts differ across sectors, regions & providers

Statewide operating margin for Oregon Hospitals, June 2010-June 2020

Statewide



Consider tradeoffs

Consolidation may help keep some providers afloat

Evidence: higher prices; quality does not improve

Direct & indirect impacts on Joe Oregonian are real

References

References (by slide #)

6 -9, Fulton, "Health Care Market Concentration Trends In The United States: Evidence And Policy Responses", Health Affairs 2017

References (slide 16)

Higher prices:

Haas-Wilson and Garmon (2011)
Tenn (2011)
Thompson (2011)
Vita and Sacher (2001)
Gaynor and Vogt (2003)
Dafny (2009)
Nevo, Gowrisankaran, and Town (2015)
Cooper, Craig, Gaynor, and Van Reenen (2018)
Lewis and Pflum (2017)

Quality unchanged or reduced:

Tsai and Jha (2014)
Vogt and Town (2006)
Kessler and McClellan (2000)
Cooper et al (2011)
Gaynor et al (2014)
Bloom et al (2015)
Romano and Balan (2011)
Capps (2005)

Costs/scale economies:

Schmitt (2017)
Burns et al (2015)
Vogt and Town (2006)
Gaynor, Kleiner, and Vogt (2015)

References (by slide #)

17. Cooper, Craig, Gaynor and Van Reenen (2018)

18. Vertical Integration of Hospitals and Physicians: Economic Theory and Empirical Evidence on Spending and Quality

Brady Post, Tom Buchmueller, Andrew M. Ryan

Medical Care Research and Review 2018

Also Ho, Metcalfe, Short, Morrow, JGIM 2019; Mcilliams et al NEJM 2018

21. Frakt, 2010. The Future of Health Care Costs: Hospital-Insurer Balance of Power

22-23. Dafny (2015); Scheffler (2017); Adrion (2019)

24-25. Brent D. Fulton, Daniel R. Arnold, and Richard M. Scheffler, "Market Concentration Variation of Health Care Providers and Health Insurers in the United States," To the Point (blog), Commonwealth Fund, July 30, 2018.

References (by slide #)

25. Competition in Health Care: A Comprehensive study of US Markets
American Medical Association 2018

26. Kaiser Family Foundation. Health Insurance & Managed Care <https://www.kff.org/state-category/health-insurance-managed-care/insurance-market-competitiveness/>

28. Census, <https://www.qualityinfo.org/-/a-closer-look-at-oregon-s-median-household-income>; Kaiser Family Foundation State Health Facts

31. Anne Case & Angus Deaton, Deaths of Despair and the Future of Capitalism, Princeton University Press, 2020

30. SOURCE: NCHS, National Vital Statistics System, Mortality

32. Unexpected Health Insurance Profits and the COVID-19 Crisis
Caroline F. Plott, Allen B. Kachalia, Joshua M. Sharfstein
JAMA. 2020;324(17):1713-1714.

33. Oregon Health Authority Hospital Financial & Utilization Dashboard https://visual-data.dhsoha.state.or.us/t/OHA/views/Databankdashboard/MonthFinancialTrends?iframeSizedToWindow=true&embed=y&:display_count=n&:showAppBanner=false&:origin=viz_share_link&:showVizHome=n