Consolidation

A Primer and Considerations for Oregon

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September 7, 2021
Our mission is to provide the analyses, evidence, and economic expertise to build a more sustainable health care system.
Today

What does 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
The share of physicians in health systems has increased in Portland.

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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 ≠ Integration
Is Integration Good or Bad?

Aggregation of ownership → Increased Market power → Higher prices

Coordination of production → Increased Efficiency → Lower prices

Higher quality

Lower 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
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.
Consider tradeoffs

Consolidation may help keep some providers afloat

Evidence: higher prices; quality does not improve

Higher prices are passed on in the form of higher premiums and lower wages for most Oregonians
6 -9, Fulton, “Health Care Market Concentration Trends In The United States: Evidence And Policy Responses”, Health Affairs 2017

References (slide 18)

Higher prices:
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Tenn (2011)
Thompson (2011)
Vita and Sacher (2001)
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)
Romano and Balan (2011)
Capps (2005)

Costs/scale economies:
Schmitt (2017)
Vogt and Town (2006)
19. Cooper, Craig, Gaynor and Van Reenen (2018)

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


24-25. Dafny (2015); Scheffler (2017); Adrion (2019)