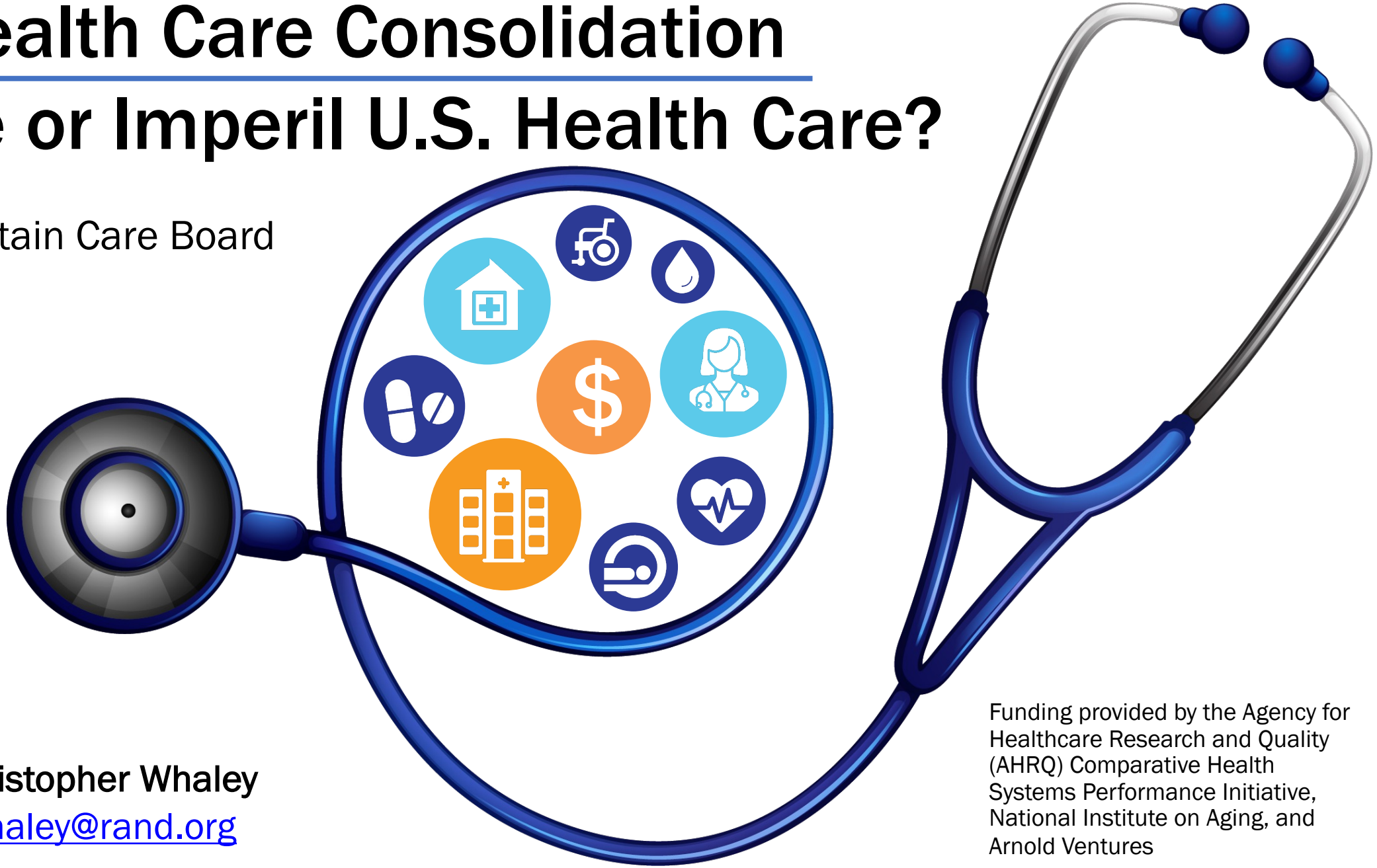
Does Health Care Consolidation Improve or Imperil U.S. Health Care?

Green Mountain Care Board

April 2023



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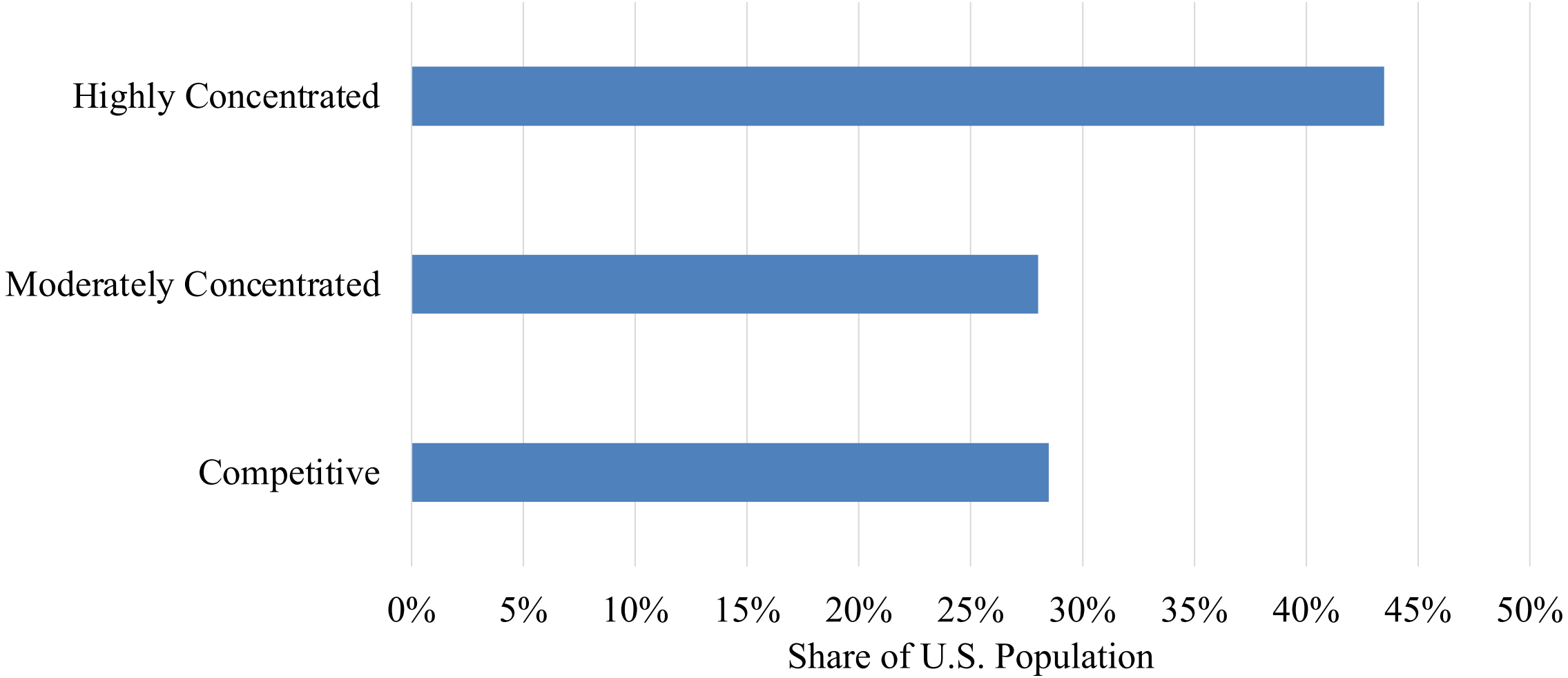
Most Americans Live in a Concentrated Hospital Market

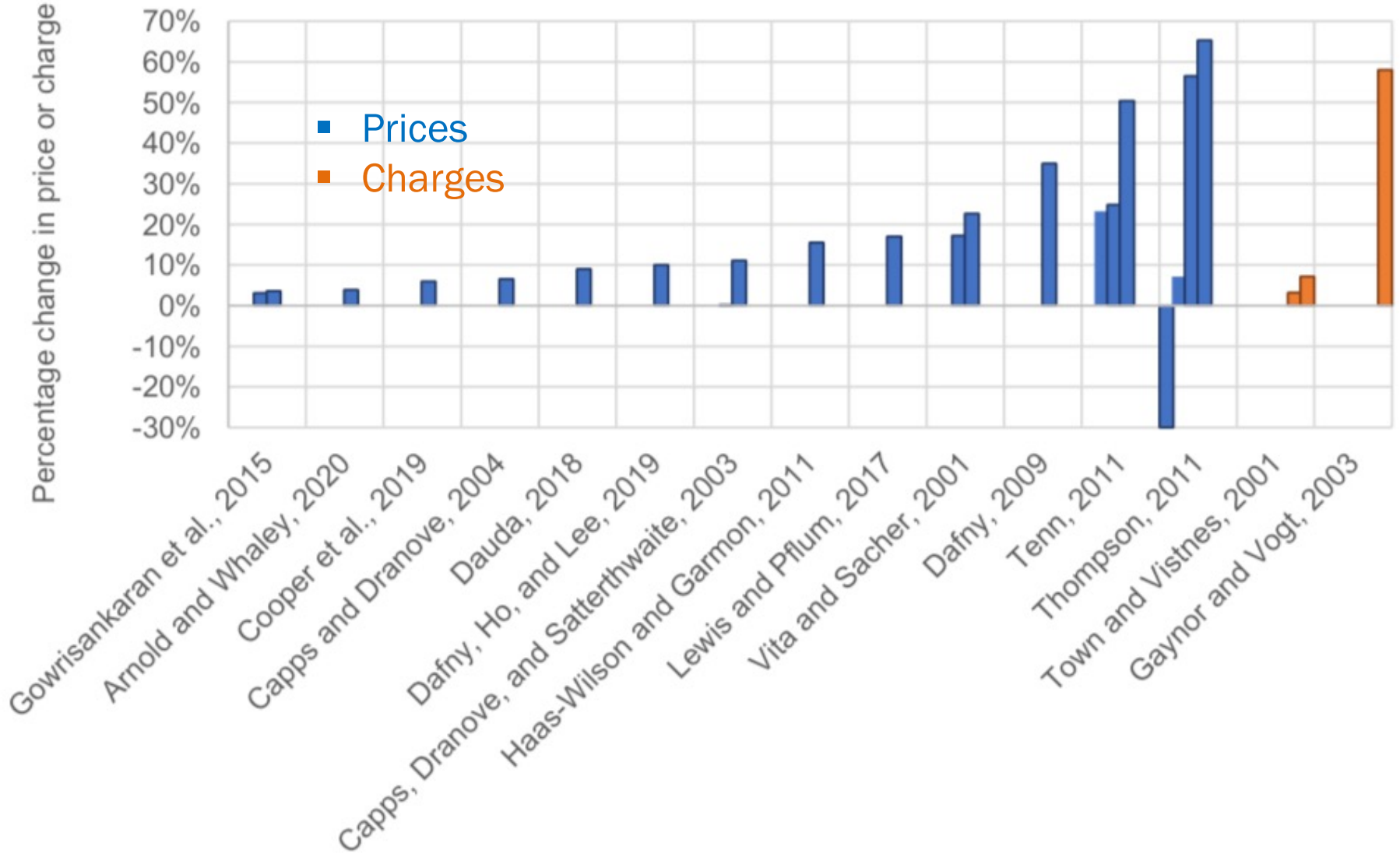


Source: Analysis of American Hospital Association Annual Survey data

Effects of Hospital Mergers

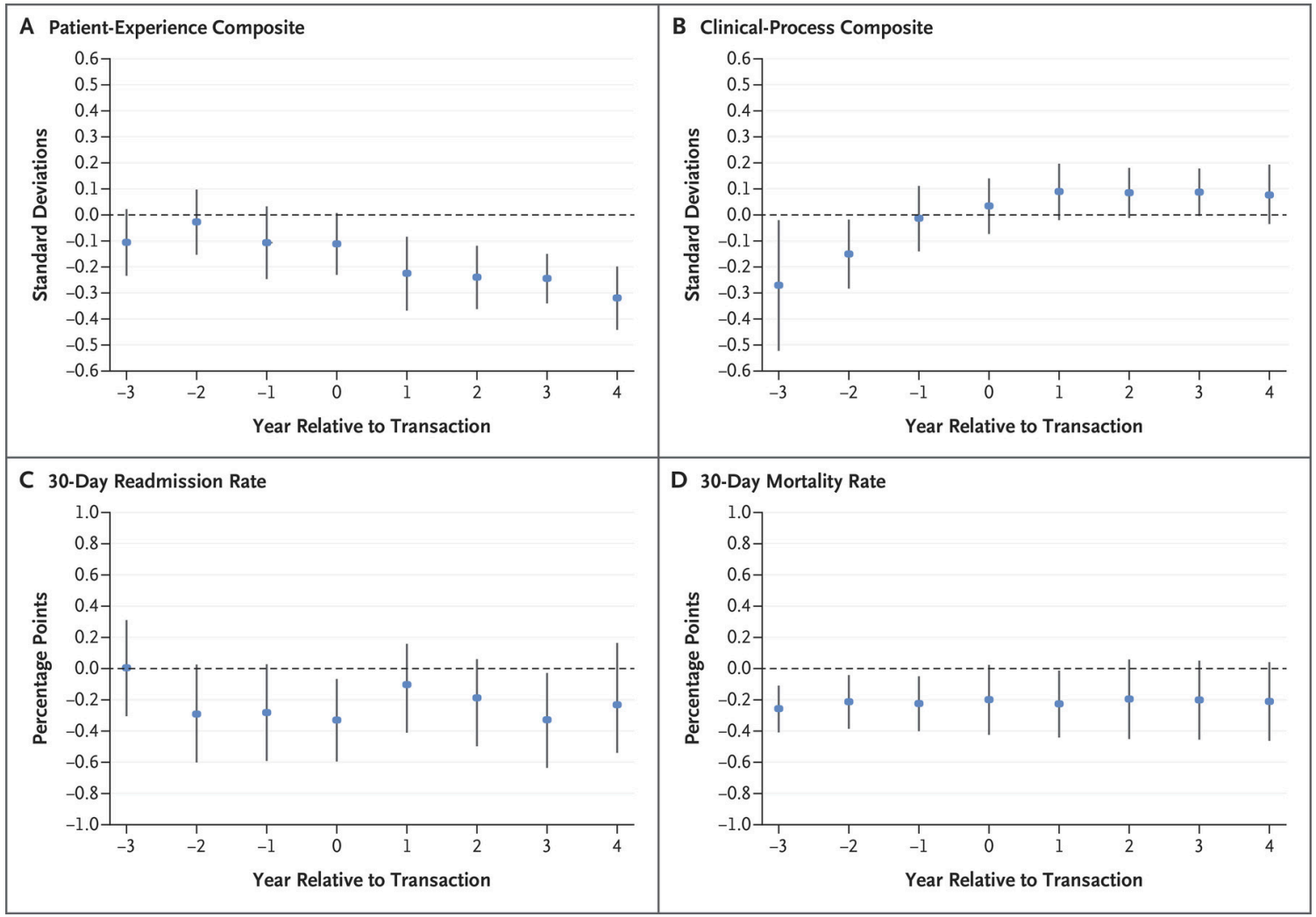
- Robust empirical literature that finds hospital mergers lead to
  - Price increases
  - No improvements in quality
  - Reduction in wages for nurses and health professionals

Hospital Price or Charge Percentage Changes Following Hospital Horizontal Consolidation



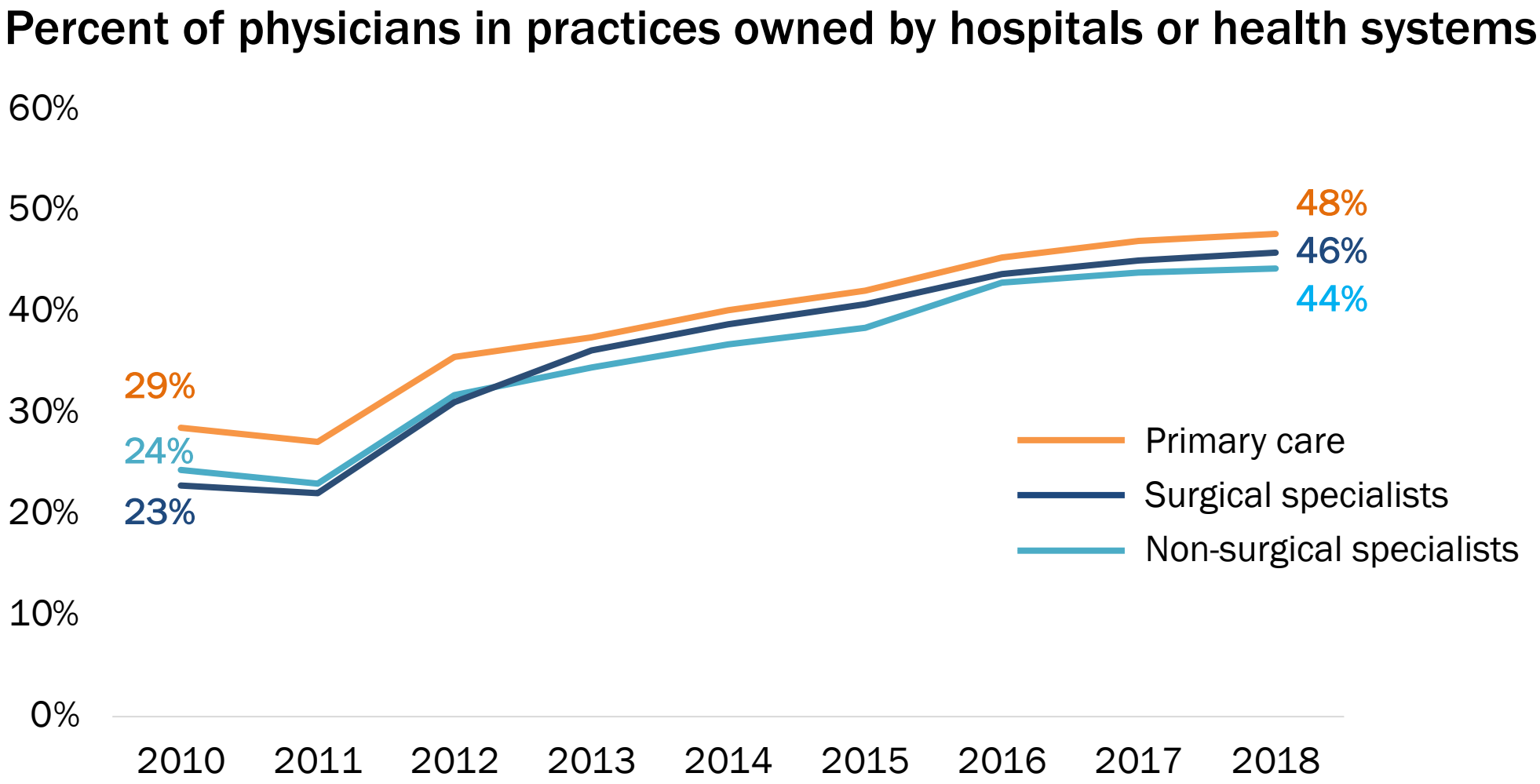
Source: Liu et al. 2022. Environmental Scan on Consolidation Trends and Impacts in Health Care Markets

No Improvement in Quality Following Hospital Mergers



Source: Beaulieu et al. 2020. "Changes in Quality of Care after Hospital Mergers and Acquisitions." *The New England Journal of Medicine*

Vertical integration is dominant integration trend in the United States

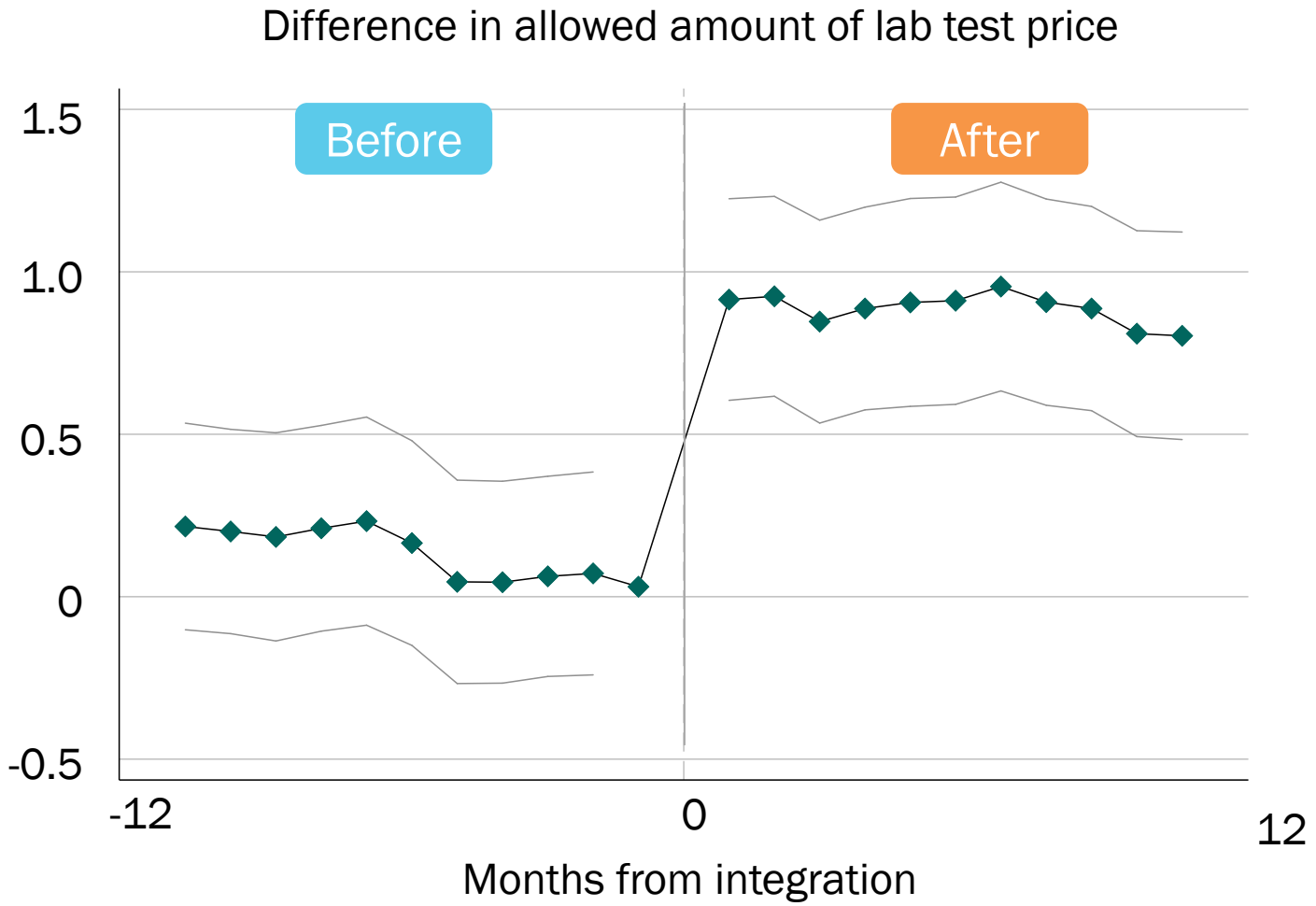


Source: Whaley, Christopher M., Daniel R. Arnold, Nate Gross, and Anupam B. Jena. 2021. "Physician Compensation In Physician-Owned And Hospital-Owned Practices." *Health Affairs*

Vertical integration creates “arbitrage” opportunity

Shift to hospitals increases prices and spending for lab and imaging

- Increases in number of diagnostic lab and imaging tests
- Shift from free-standing to hospital tests
- **$73M** increase in Medicare spending for 5 imaging and lab tests



Source: Whaley, Christopher M., Xiaoxi Zhao, Michael Richards, and Cheryl L. Damberg. 2021. "Higher Medicare Spending On Imaging And Lab Services After Primary Care Physician Group Vertical Integration." *Health Affairs*

RAND Hospital Price Transparency Study

Obtain claims data from

- self-funded employers
- APCDs
- health plans

Measure prices in two ways

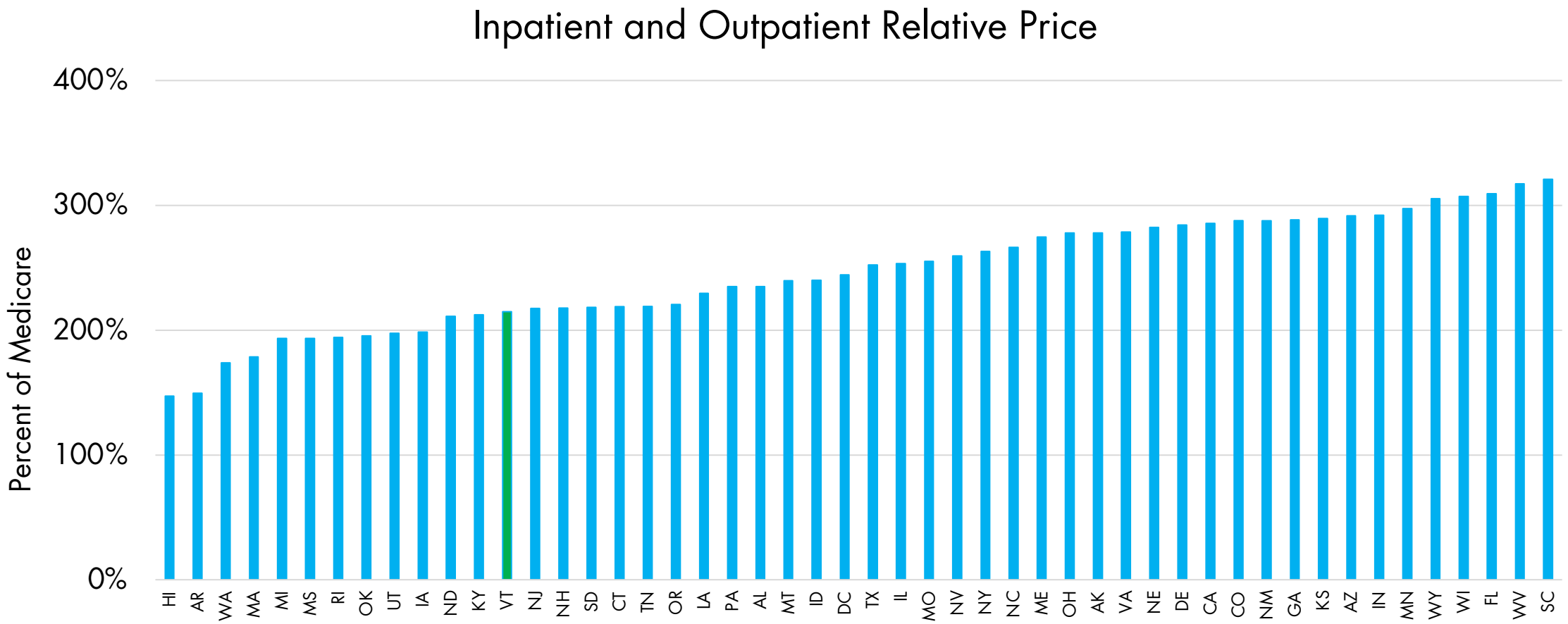
- relative to a Medicare benchmark
- price per case-mix weight

Create a *public* hospital price report

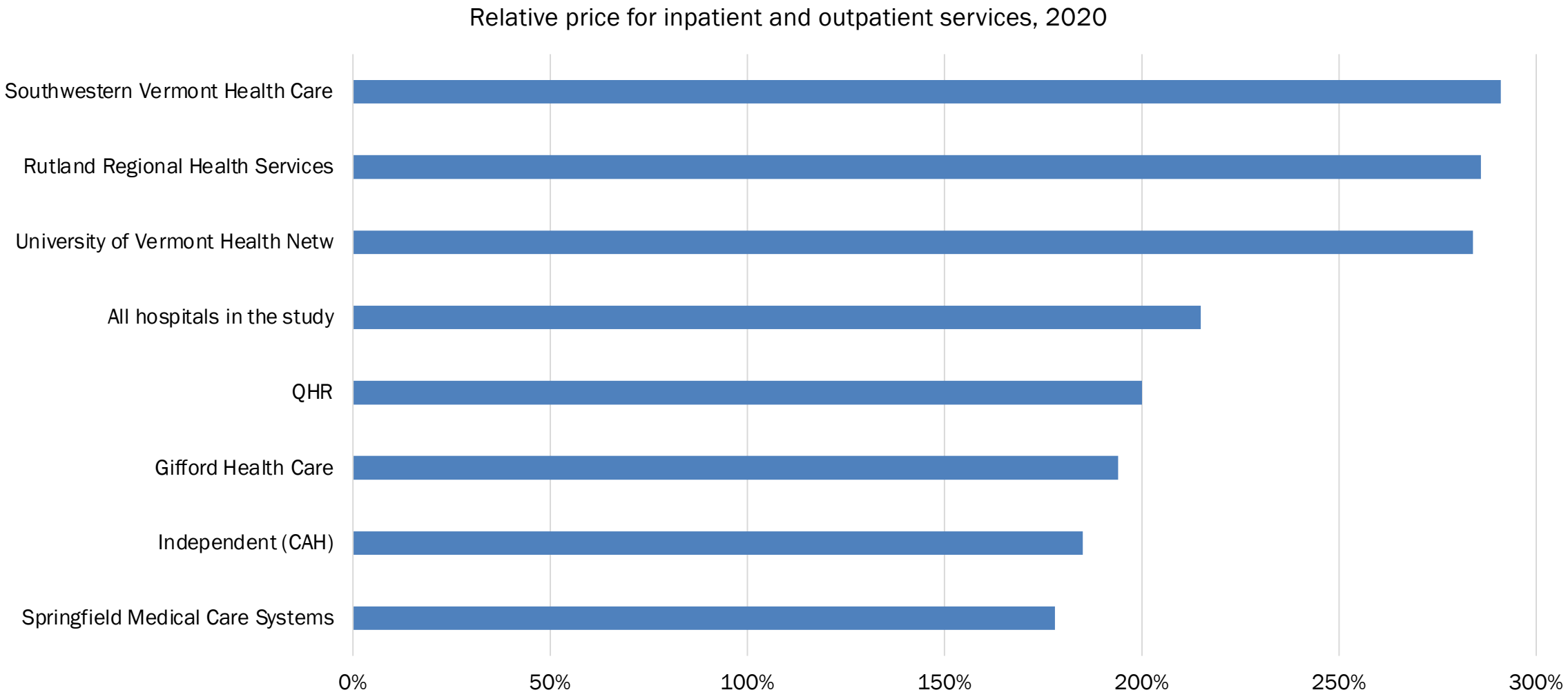
- posted online, downloadable
- named facilities & systems
- inpatient prices & outpatient prices

Create *private* hospital price reports for self-funded employers

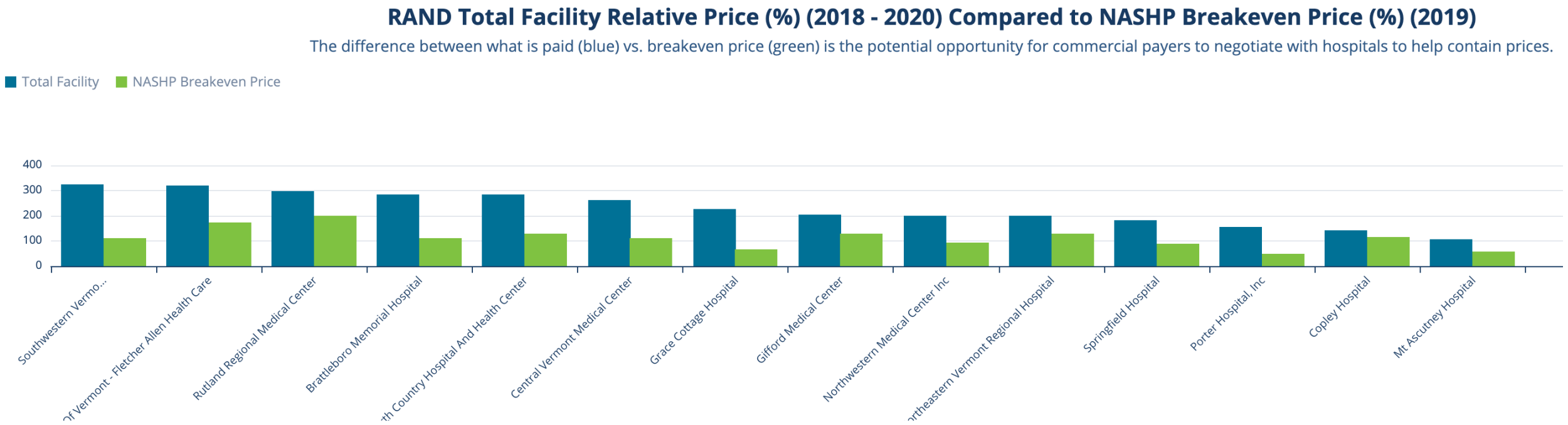
Hospital prices vary widely



Price variation among Vermont health systems



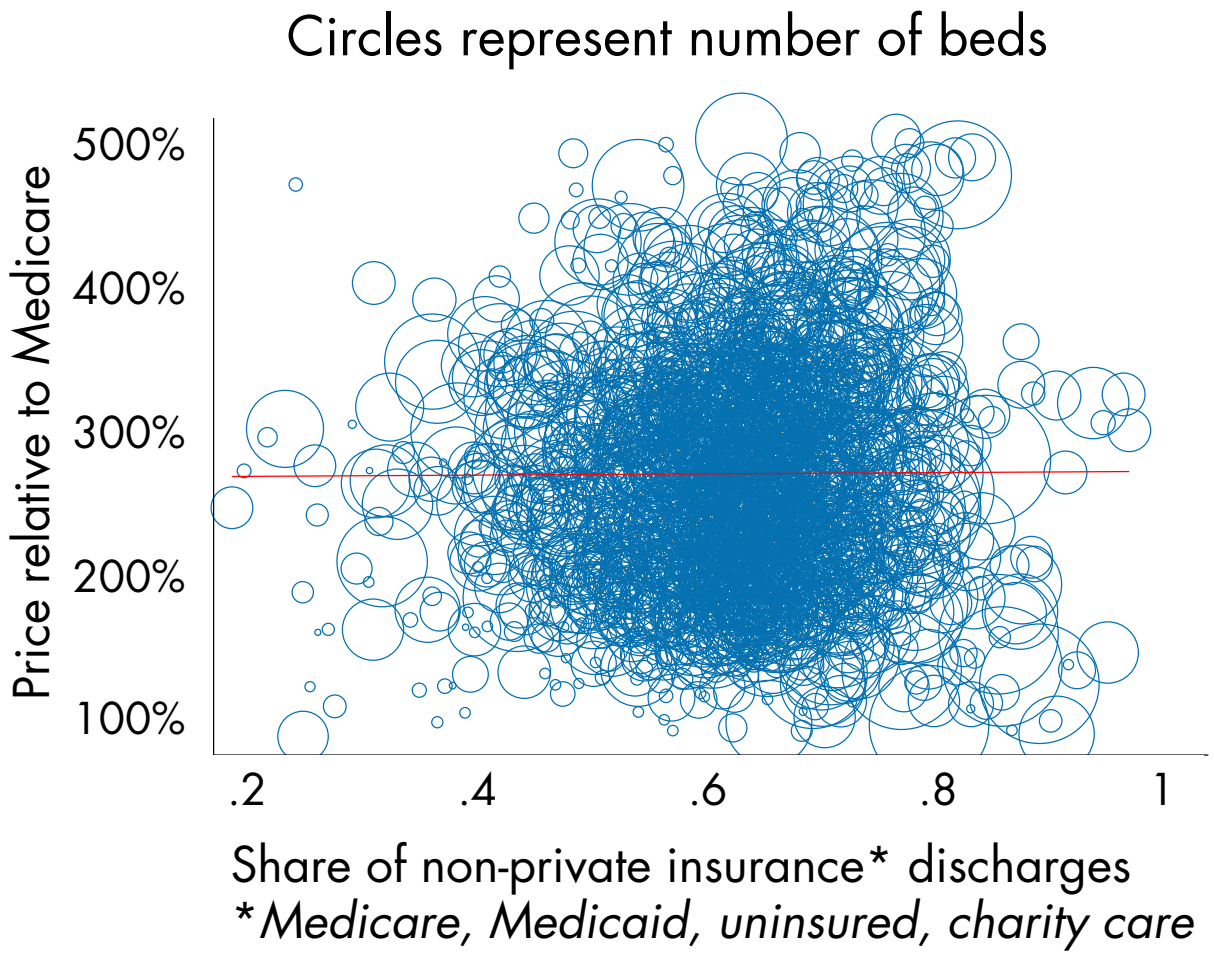
SAGE Transparency (dashboard.sagetransparency.com)



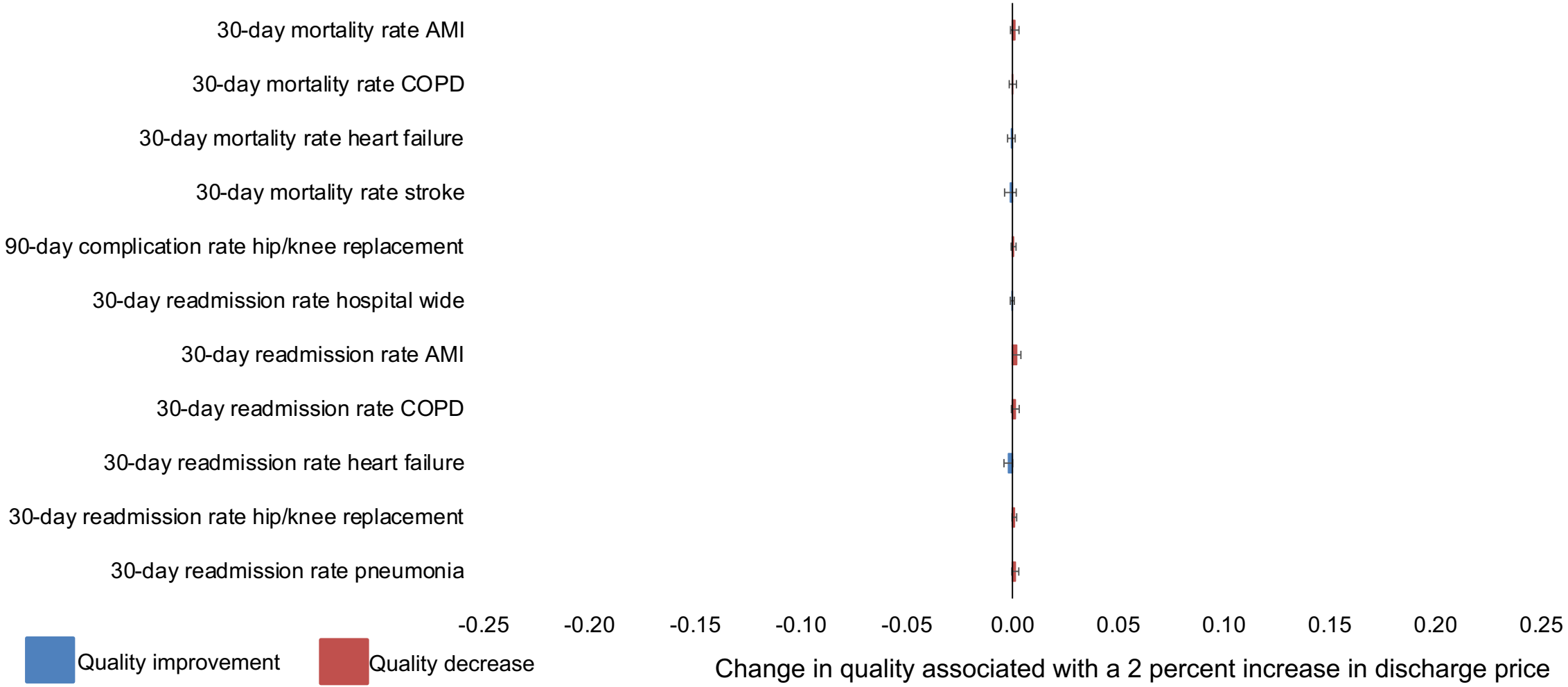
What drives prices?

- **No correlation** with Medicare, Medicaid, or uncompensated patients (“cost shifting” not true)
- **Minimal correlation** with quality and safety
- **Strong correlation** with market power and concentration

Non-private patients doesn't explain hospital prices



Hospital Price Increases Don't Lead to Quality Improvements



Source: Crespin, Daniel J., and Christopher Whaley. 2022. "The Effect of Hospital Discharge Price Increases on Publicly Reported Measures of Quality." *Health Services Research*.

How Should Policy Makers Address Health Care Market Competition

- Many policy options proposed
  - e.g., price transparency, antitrust enforcement, rate regulation
- Little comparison of impacts of alternative policies
- We sought to create “menu” of impacts

Our approach

Focused on reforms that have been proposed by policymakers or researchers

Estimated the potential impact on spending under different specifications

Used Hospital Cost Report Information System (HCRIS) and simulation model data to estimate reductions in hospital prices and spending

Our approach

Regulating prices

Improving price transparency

Increasing competition

Our approach

Regulating prices

Improving price transparency

Increasing competition

Set or cap prices

Considerations

- price level
- scope of payers and providers
- political receptivity
- impact on quality of care

Our approach

Regulating prices

Improving price transparency

Increasing competition

Collect and disclose prices to help patients, employers, and plans shift care to lower-cost hospitals and pressure hospitals to reduce prices

Considerations

- responses by patients, employers, and plans
- time horizon
- price collusion

Our approach

Regulating prices

Improving price transparency

Increasing competition

Reduce hospital market power and challenge anticompetitive behavior

Considerations

- approaches, e.g., prevent consolidation, facilitate market entry, break up systems

Estimated impacts

- Rate setting leads to largest reductions, but impacts depend on program design
  - —Largest disruption potential
- Smaller impacts for price transparency and increased market competition
  - —Modest disruption potential

Policy Scenario		Percentage Change in Average Hospital Price Paid by Private Plans	Change in Hospital Spending ($ Billions)	Percentage Change in National Health Spending
Rate setting in all private plans				
100	% of Medicare rates	–41.7	–236.6	–6.5
125	% of Medicare rates	–27.2	–152.8	–4.2
150	% of Medicare rates	–12.6	–61.9	–1.7
175	% of Medicare rates	+1.9	+36.1	+1.0
Rate setting in a public option				
100	% of Medicare rates	–4.5	–23.0	–0.6
125	% of Medicare rates	–2.9	–13.2	–0.4
150	% of Medicare rates	–1.4	–4.7	–0.1
175	% of Medicare rates	+0.2	+2.3	+0.1
Rate setting for dominant hospitals				
100	% of Medicare rates	–4.8	–25.4	–0.7
125	% of Medicare rates	–3.4	–17.9	–0.5
150	% of Medicare rates	–2.0	–9.7	–0.3
175	% of Medicare rates	–0.6	–1.0	–0.0
Capped rates in all private plans				
100	% of Medicare rates	–43.2	–246.4	–6.8
125	% of Medicare rates	–30.8	–178.5	–4.9
150	% of Medicare rates	–20.5	–119.1	–3.3
175	% of Medicare rates	–12.7	–72.8	–2.0
200	% of Medicare rates	–7.6	–42.7	–1.2
Price transparency				
Patient-driven response with	34% shoppable services	–1.7	–8.7	–0.2
	43% shoppable services	–1.4	–11.1	–0.3
Employer-driven response toward	75th percentile price	–2.2	–13.2	–0.4
	median price	–4.7	–26.6	–0.7
Increased hospital competition				
HHI decrease **of** up to 1,000 points	small price response	–1.0	–6.2	–0.2
	medium price response	–1.9	–12.4	–0.3
	large price response	–7.0	–43.8	–1.2
HHI decrease **to** 1,500	small price response	–1.6	–9.9	–0.3
	medium price response	–3.1	–19.7	–0.5
	large price response	–11.2	–68.9	–1.9

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