



Advising the Congress on Medicare issues

Provider consolidation and prices

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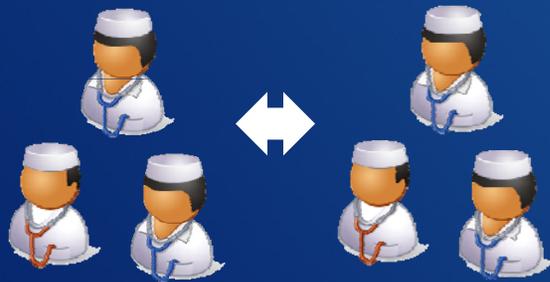
Providers are consolidating

- Providers are consolidating, continuing a trend since the 1990s
 - Horizontal integration
 - Vertical integration
 - Mix of both
- Reasons for consolidation have evolved over time

Horizontal and vertical consolidation

Horizontal

Physicians



Hospitals



Vertical



Why does this matter for Medicare?

- Consolidation can lead to market power, and in turn, higher prices for health care services
- If consolidation increases private payer prices, this can adversely affect Medicare beneficiaries and the sustainability of the program

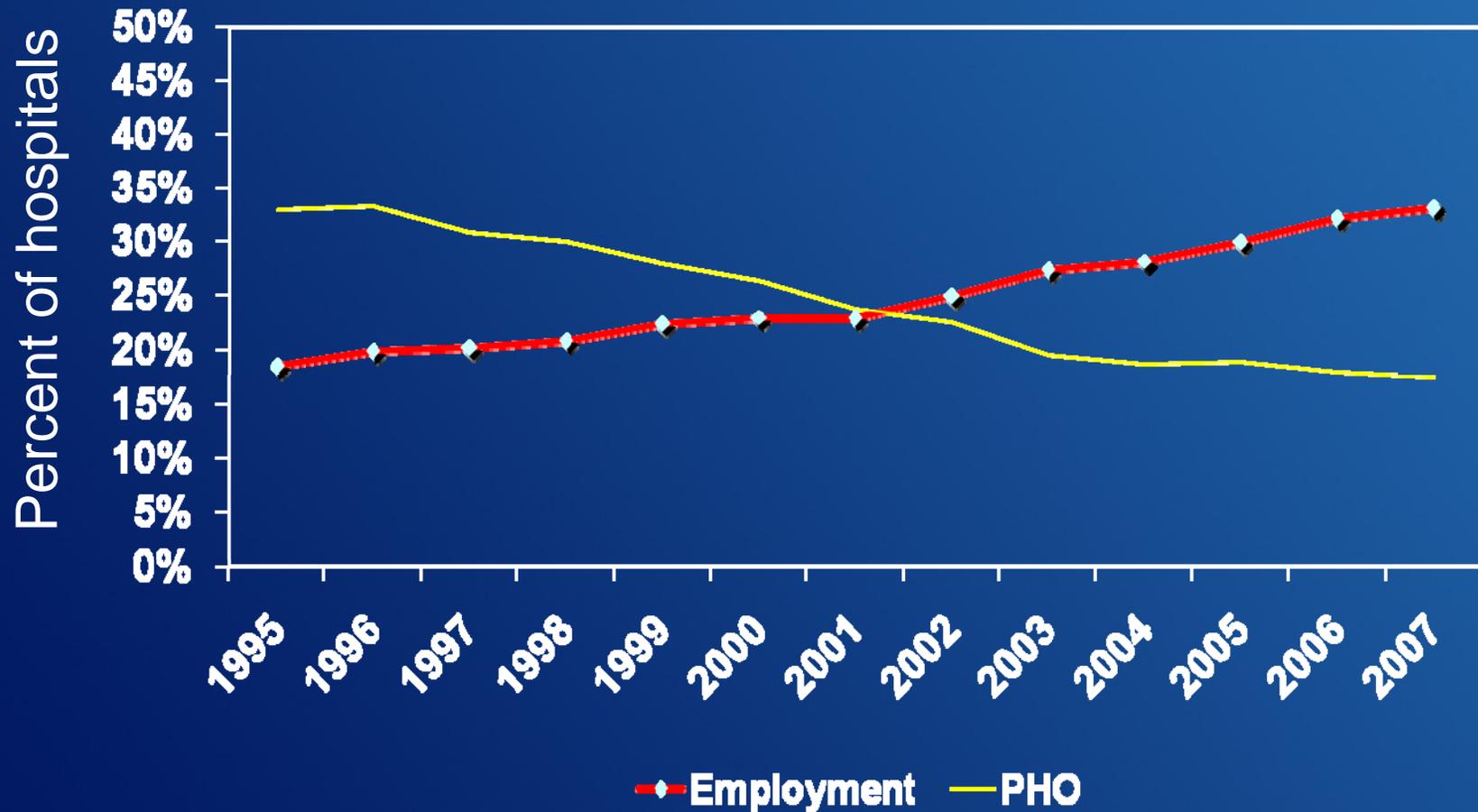
Why does this matter for Medicare? (cont.)

- Higher prices can lead to higher costs; Higher costs can increase pressure to raise Medicare rates
 - MedPAC finding that hospitals with less financial pressure (e.g., high private-payer payment rates) have higher costs
- Higher private prices creates a disparity in payment rates that could lead to an access to care problem
- Need to be aware of implications for policy proposals (e.g., ACOs, bundling)

Horizontal integration continues

- Hospital consolidation through the 1990s
 - FTC challenged, but lost
- Merging hospitals versus system membership
 - Some evidence of efficiency from early mergers in 1980s and early 1990s
 - More recent integration into systems generates higher prices
- Market power can exist in markets with several hospitals in a market
 - “Must have” systems for certain services

Vertical integration: share of hospitals employing physicians continues to grow for several reasons



Vertical and horizontal integration

	Hospital Competition (No horizontal integration)	Hospital systems (Horizontal integration)
Physicians independent of the hospital (No vertical integration)	Competition, but a possible lack of care coordination	Hospital market power, but a possible lack of care coordination
Physician and hospital under joint ownership (Vertical integration)	Competition and care coordination	 Powerful systems

Consolidation and its effect on prices

- Horizontal consolidation
 - Hospital mergers raise prices by at least 5 percent and likely by significantly more
 - Physicians say part of motivation for consolidation is to obtain better negotiating leverage
- Vertical consolidation
 - In theory could be pro-competitive or anti-competitive; little empirical evidence

Consolidation and its effect on quality and providers' costs

- Horizontal consolidation
 - Hospital mergers appear to reduce the quality of care, although research is mixed
 - Some mergers reduce costs; others do not
- Vertical consolidation
 - Evidence suggests that integrated systems are more likely to use care management processes and IT to improve quality of care

Price variation: a NJ insurers' payments to hospitals

	CABG	Appendectomy	Hip replacement
Hospital A	\$26,342	\$2,708	\$3,330
Hospital B	\$32,127	\$2,852	\$3,444
Hospital C	\$34,277	\$3,320	\$4,200
Hospital D	\$36,792	\$3,412	\$4,230
Hospital E	\$37,019	\$3,524	\$5,028
Hospital F	\$45,343	\$4,230	\$5,787

Source: New Jersey Commission on Rationalizing Health Care Resources

Price variation: a California insurers' payments to hospitals

	CABG	Appendectomy
Hospital A	\$33,000	\$1,800
Hospital B	\$54,600	\$2,900
Hospital C	\$64,500	\$4,700
Hospital D	\$72,300	\$9,500
Hospital E	\$99,800	\$13,700

Source: New Jersey Commission on Rationalizing Health Care Resources

Next steps

- Clarifying questions for us
- Panel presentation and discussion