Congressional request on health care provider consolidation

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November 7, 2019

August 2018 request for information on consolidation spanned three broad areas

Hospital-hospital consolidation

- Trends
- Effects on:
  - Prices
  - Costs

Physician-hospital integration

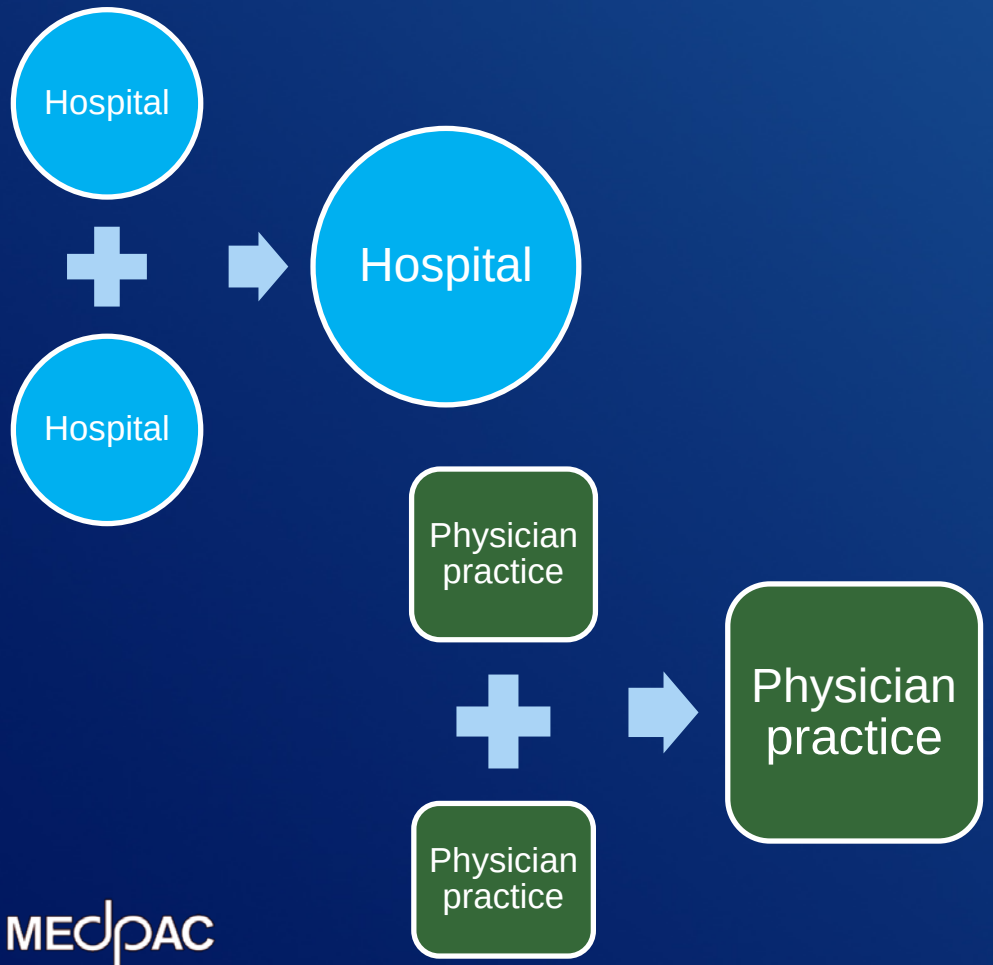
- Effects on:
  - Medicare payments
  - Beneficiary coinsurance

Effect of the 340B program

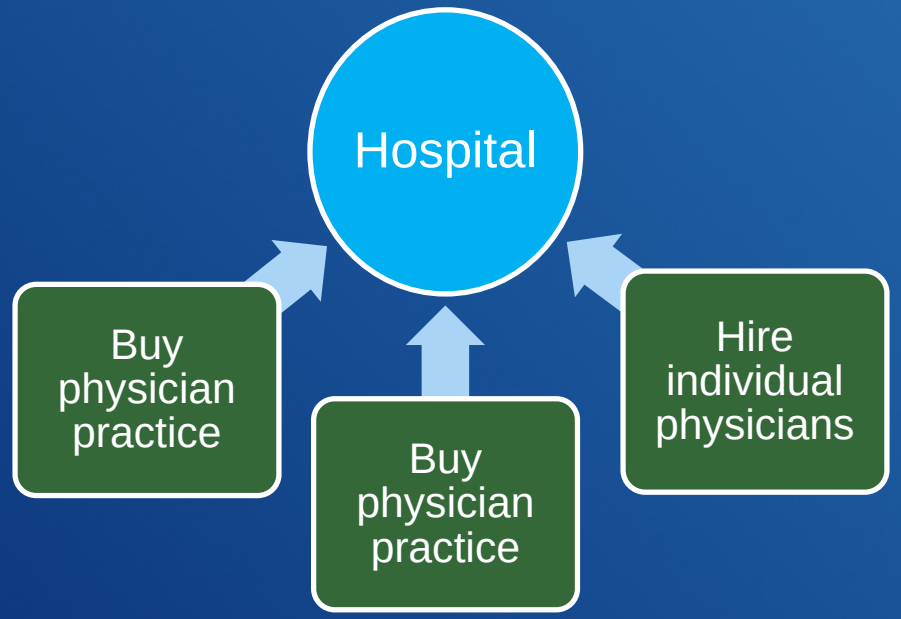
- *We will discuss in January 2020*

Consolidation in health care refers to two concepts

Horizontal consolidation

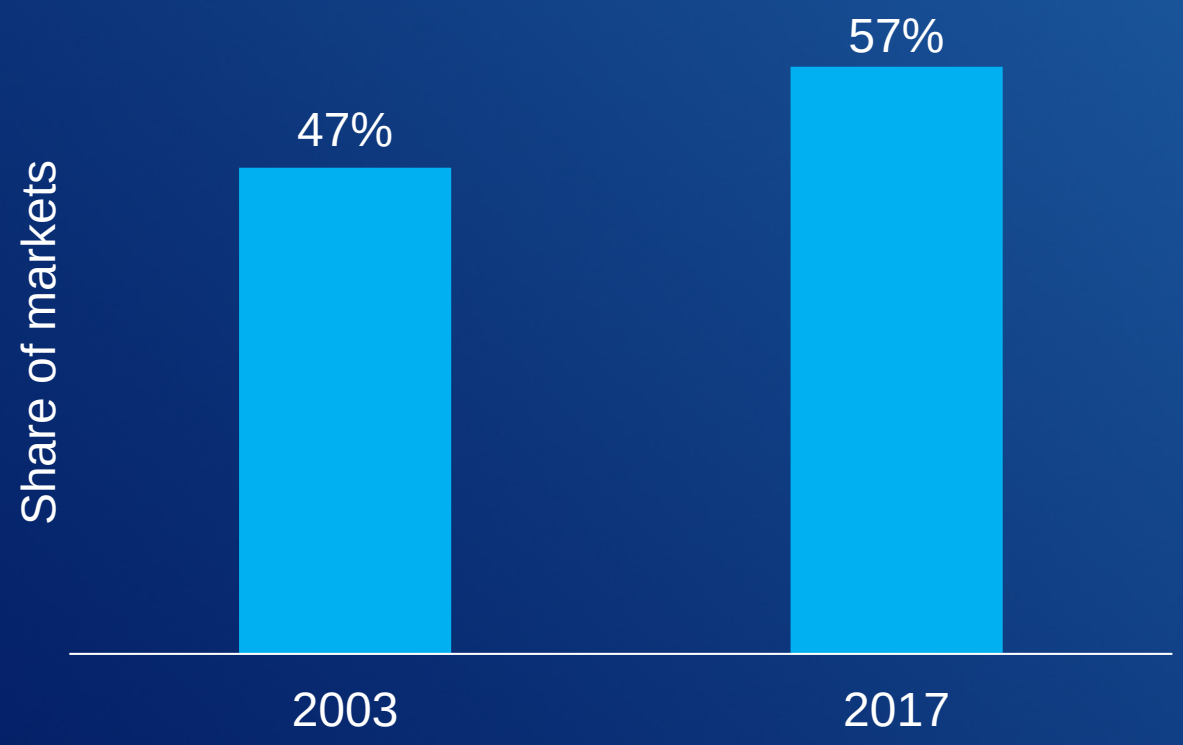


Vertical integration



MEDPAC

Trends in hospital consolidation: Since 2003, “super concentrated” markets have increased



New competitors rarely enter the most consolidated markets

Source: MedPAC analysis of Medicare cost reports from CMS and the American Hospital Association Annual Survey of Hospitals.
Note: “Super concentrated” indicates a Herfindahl-Hirschman Index exceeding 5,000. Hospital markets are defined as metropolitan core-based statistical areas.

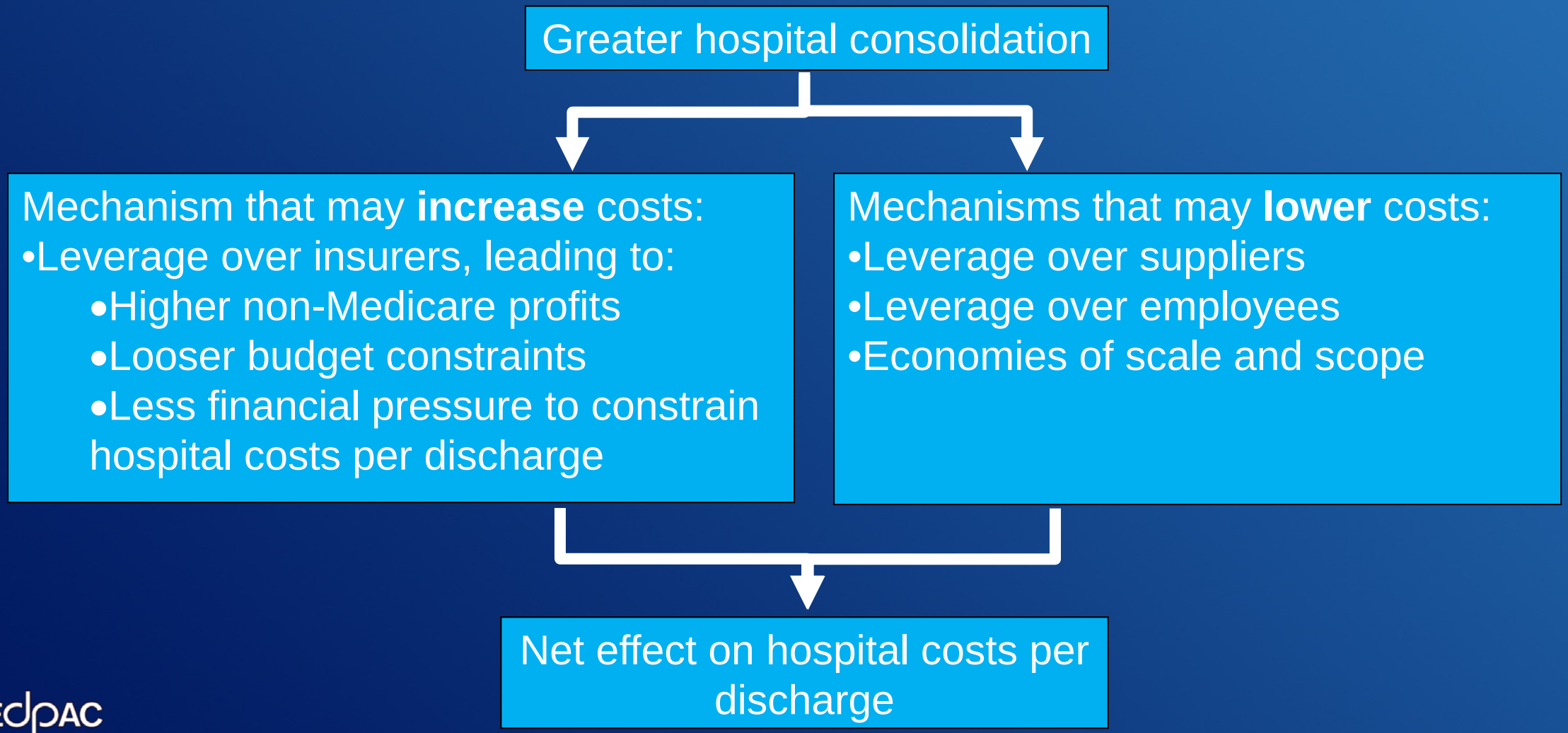
The role of Federal policy in hospital consolidation

- Minimal change in anti-trust regulation since the 1980s
  - The Federal Trade Commission won several challenges to hospital consolidations in the 2010s
  - The FTC challenges 2 to 3 percent of mergers each year
- Because Medicare generally pays set rates for inpatient hospital services, changes in hospital market share do not affect payments for these services
- Medicare pays differential rates for care provided in a physician office compared with hospital outpatient department (HOPD), which may create an incentive for vertical integration

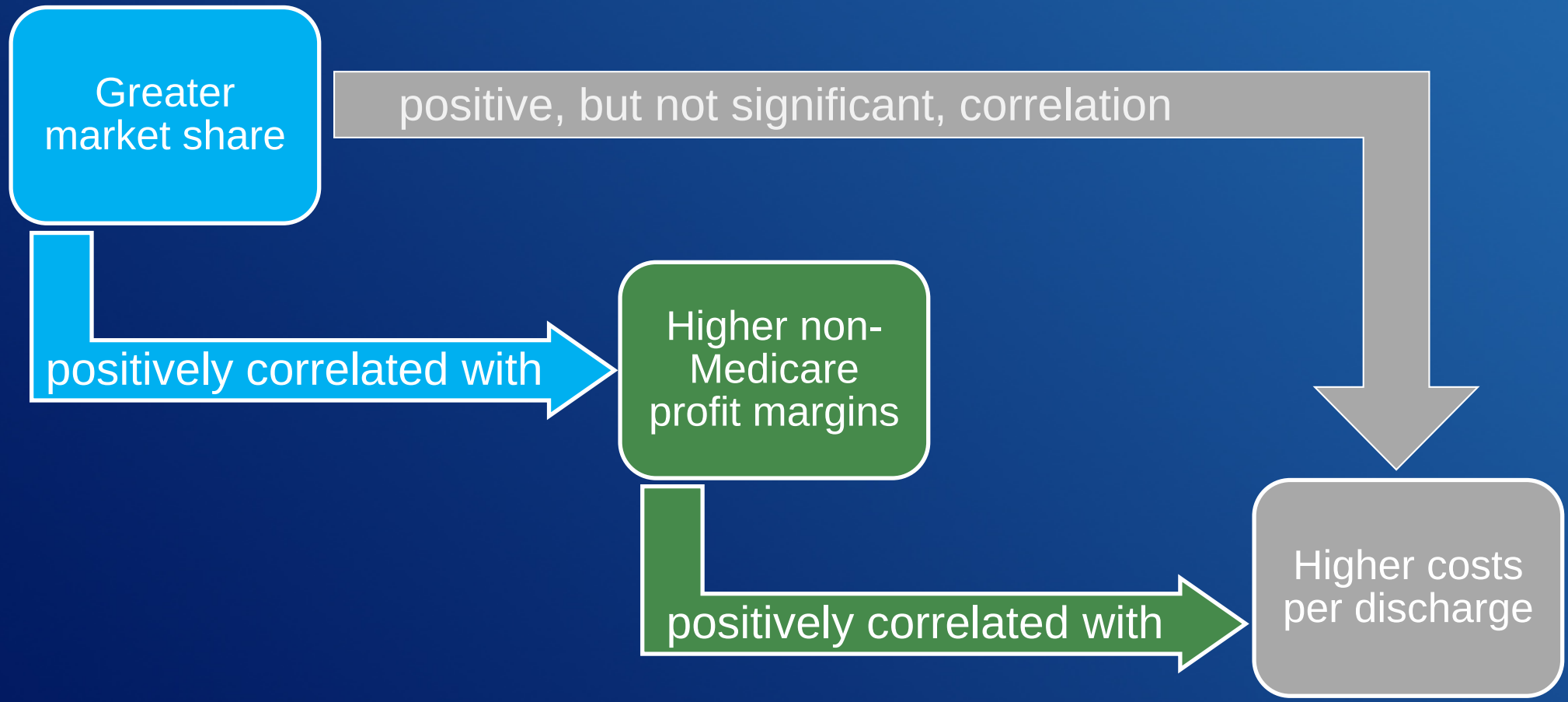
Hospital consolidation and commercial prices

- Historically, most studies indicate hospitals with greater market share obtain higher prices from commercial insurers
- Recently, a study funded by the AHA challenged this finding but did not use actual price data
- However, other recent studies that used price data from claims have found consolidation was associated with higher prices

How hospital consolidation may affect costs



The correlation between hospital market share and costs is positive, but not significant



Results preliminary; subject to change

Hospital consolidation has an insignificant correlation with costs per discharge in 2017

Insurer consolidation	Hospital consolidation: Other hospital concentration (HHI ≤ 5,000)	Hospital consolidation: "Super" hospital concentration (HHI >5,000)	Total
Other insurer concentration (HHI ≤5,000)	$12,058	$12,457	$12,159
"Super" insurer concentration (HHI >5,000)	$11,846	$11,968	$11,866
Total	$11,994	$12,291	

Source: MedPAC analysis of Medicare cost reports from CMS, the American Hospital Association Annual Survey of Hospitals, and the National Association of Insurance Commissioners.
Note: HHI (Herfindahl-Hirschman Index). Costs per discharge charge are standardized for case mix, input prices, interest cost, and other factors.

Trends in vertical integration of hospitals and physician practices

- Hospitals have been acquiring physician practices
- Share of physicians employed by hospitals has increased (Physician Advocacy Institute):
  - 2012: 26 percent
  - 2018: 44 percent

Hospital-physician integration increases prices and spending

- Three factors lead to higher physician prices for Medicare and commercial insurers
  - Hospitals expanding market share of physician practices increases prices for commercial insurers
  - Hospital-owned physician practices have more bargaining power with commercial insurers
  - Site of service differential: Prices higher for Medicare
- Vertical integration does not materially reduce volume
- Vertical integration increases program spending

Since 2012, billing has shifted from offices to HOPDs

Percent change in service volume, 2012-2018

	Physician offices	HOPDs
Chemo admin	-16.6%	52.9%
Echocardiography	-4.8	33.8
Cardiac imaging	-26.3	0.0
Office visits	-2.0	37.0

Source: MedPAC analysis of Medicare hospital outpatient and carrier claims, 2012-2018.
Note: HOPDs (hospital outpatient departments).

Results preliminary; subject to change

Other effects of vertical integration

- Vertically integrated physicians refer more patients to hospital-based facilities
  - Referrals motivate hospitals to acquire physician practices
  - Patients' travel time may increase without improvement in quality
- Effects on quality
  - Some believe vertical integration can improve quality through care coordination
  - Literature does not find material improvements in quality

Effect of consolidation on beneficiaries

- Horizontal consolidation does not affect beneficiaries' costs; Medicare sets prices
- Vertical integration
  - Service shift from offices to higher-priced HOPDs increases cost sharing
  - Medicare payment rates lower for drugs provided in HOPDs of 340B hospitals than in offices, decreases cost sharing
  - However, price for drug administration higher in HOPDs (including 340B) than in offices, offsets some of the decreased cost sharing on 340B drugs

Consolidation generally results in higher prices

- Hospital consolidation is associated with higher commercial prices
  - Federal policy not driving hospital mergers
  - No clear findings on how consolidation affects hospital costs or quality
  - Mergers have little effect on Medicare beneficiary cost sharing
- Vertical integration leads to higher prices by Medicare and commercial insurers
  - Medicare payment policy encourages these mergers
  - Integration increases beneficiary cost sharing
  - Site-neutral rates could reduce incentives for mergers that do not result in greater efficiency

Discussion

- Questions on material presented
- Guidance on finalizing content to meet the March 2020 report deadline