

Providing Insights
that Contribute to
Better Health Policy

Recent Developments in Health Care Markets and Policy Implications

Federal Trade Commission
Health Care Workshop

September 9, 2002

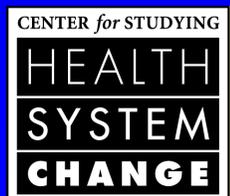
Cara S. Lesser

Overview of Major Points

- Two key trends shaping health care markets
 - ▶ Growth and retreat of managed care
 - ▶ Consolidation
- Visible effects on market dynamics and health care costs
- Lessons learned and outlook for the future

The Center for Studying Health System Change (HSC)

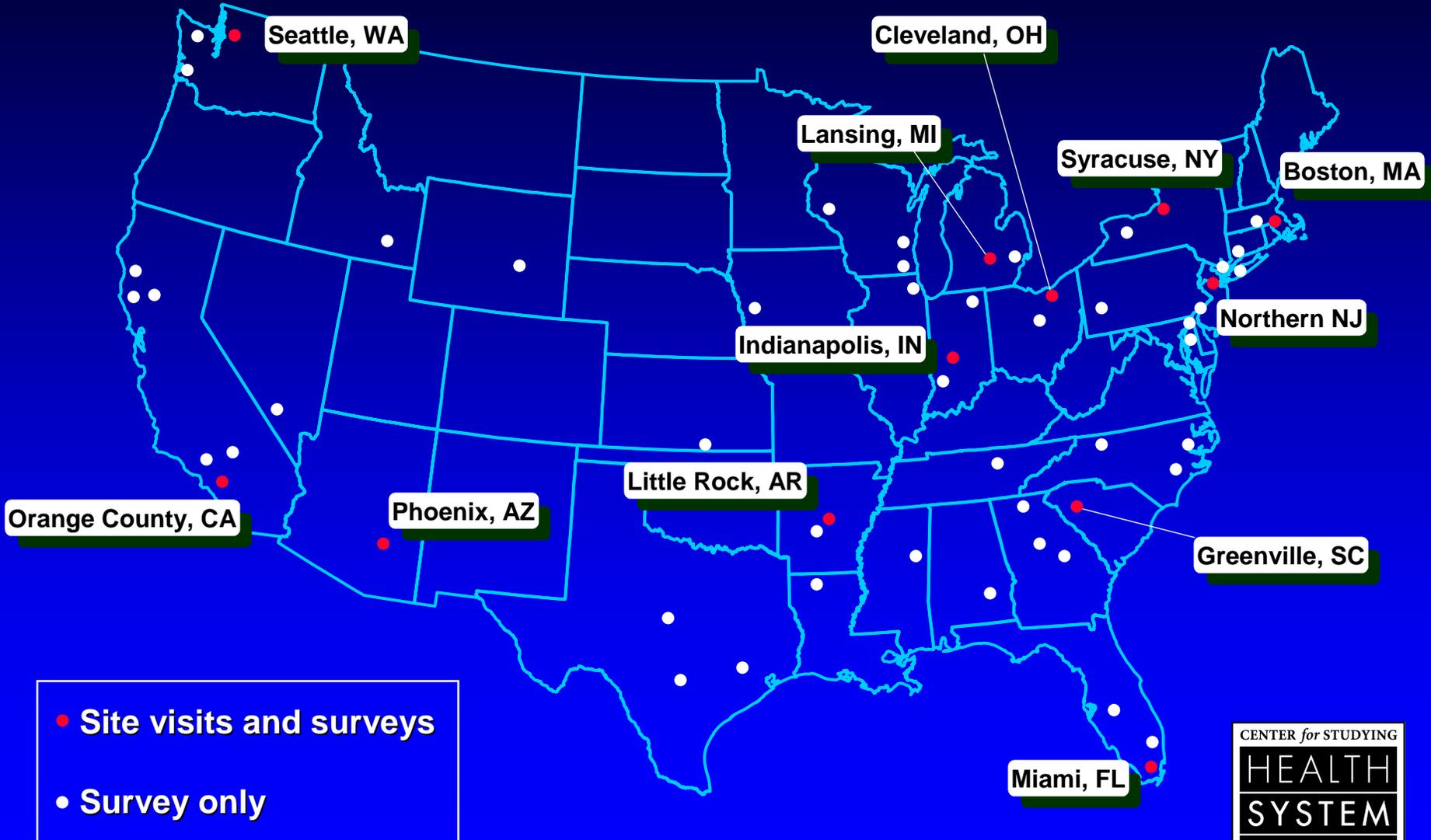
- Independent, objective research
 - ▶ Changes in private markets
 - ▶ Effects on people
 - ▶ Implications for policy makers
- Fully funded by The Robert Wood Johnson Foundation



The Community Tracking Study (CTS)

- Longitudinal study of health system change
 - ▶ Tracking markets since 1996
- Community focus
 - ▶ 60 communities that are nationally representative
- Multiple data sources
 - ▶ Surveys of households, physicians, employers
 - ▶ Site visits

The CTS Sites



Timely, Accessible Analysis

- Issue Briefs, Tracking Reports
- Community Reports
- Journal articles, Working Papers
- Briefings and conferences
- www.hschange.org

Managed Care in Ascendance

Early to mid-1990s:

- Rapid enrollment growth in HMOs and PPOs
- Selective provider networks
- Gatekeeping and prior authorization
- Capitated payment

Managed Care in Decline

Late 1990s-2002:

- HMO enrollment growth stagnates
- Emphasis on broad provider networks
- Loosening of utilization management
- Retreat from risk contracting

Horizontal Consolidation: Legacy of the Managed Care Revolution

- Extensive consolidation among hospitals within markets
- Physician market remains relatively fragmented
- Health plans experienced more consolidation across geographic markets

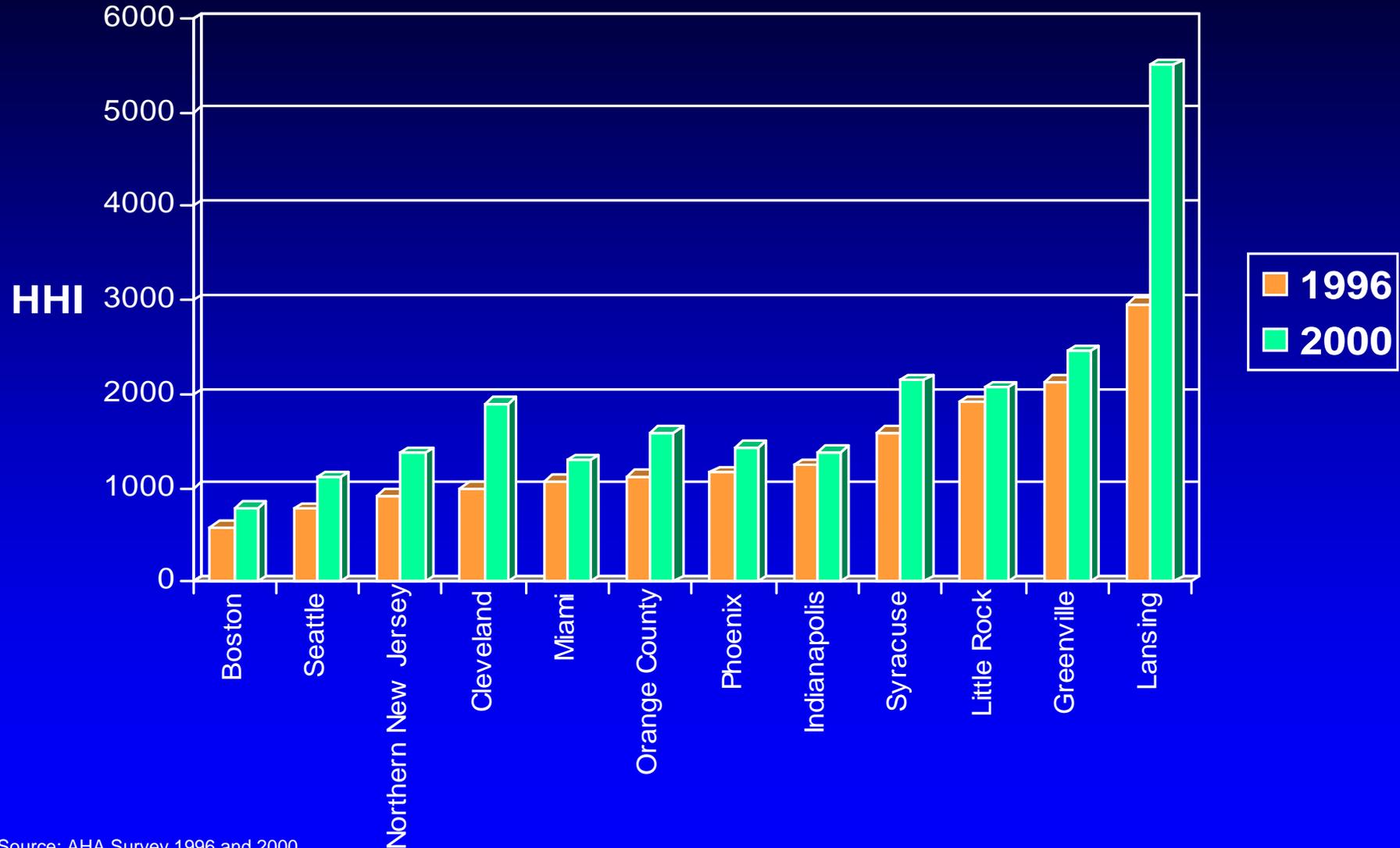
Hospital Consolidation

- Extensive merger activity in early to mid-1990s
 - ▶ Mostly local, not-for-profits merging with one another
- Strategy driven by two goals
 - ▶ Streamline operations
 - ▶ Improve leverage with health plans

Outcomes of Hospital Mergers

- Extensive administrative consolidation
- Little consolidation of clinical services or capacity
- Increased concentration of ownership

Hospital Concentration, 1996-2000



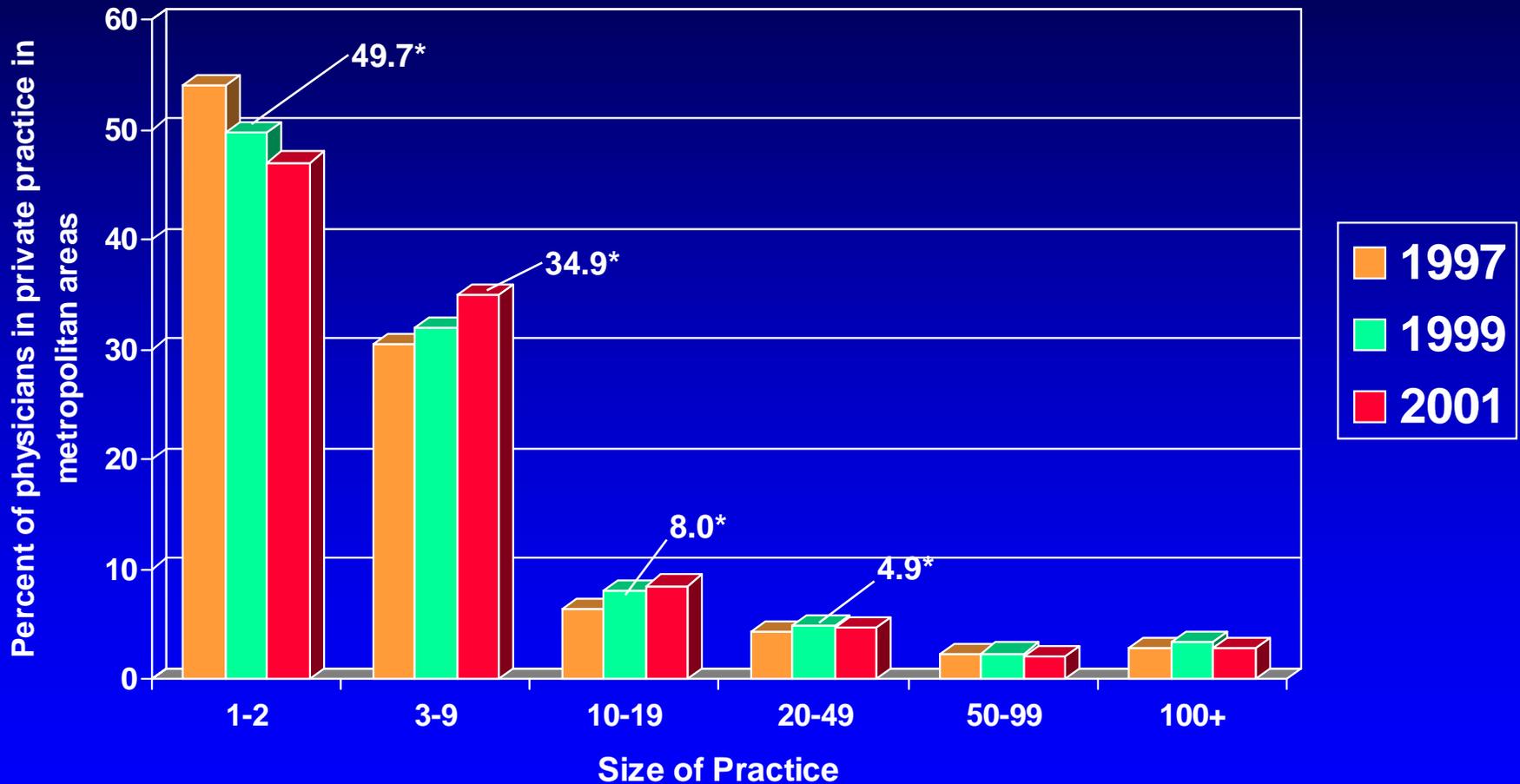
Source: AHA Survey 1996 and 2000.

Concentration measured by Herfindahl index based on total adjusted hospital inpatient days. Markets with HHIs of less than 1000 are considered unconcentrated, 1000-1800 moderately concentrated and greater than 1800 highly concentrated. (U.S. Department of Justice and the Federal Trade Commission. "Horizontal Merger Guidelines." Issued: April 8, 1997. Section 1.5)

Physician Consolidation

- Limited growth of large groups
- Current emphasis on single-specialty groups
 - ▶ Relatively small groups can gain significant leverage
- PHOs and IPAs devalued in light of retreat from risk contracting

Physician Practice Size, 1997-2001



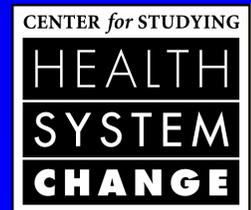
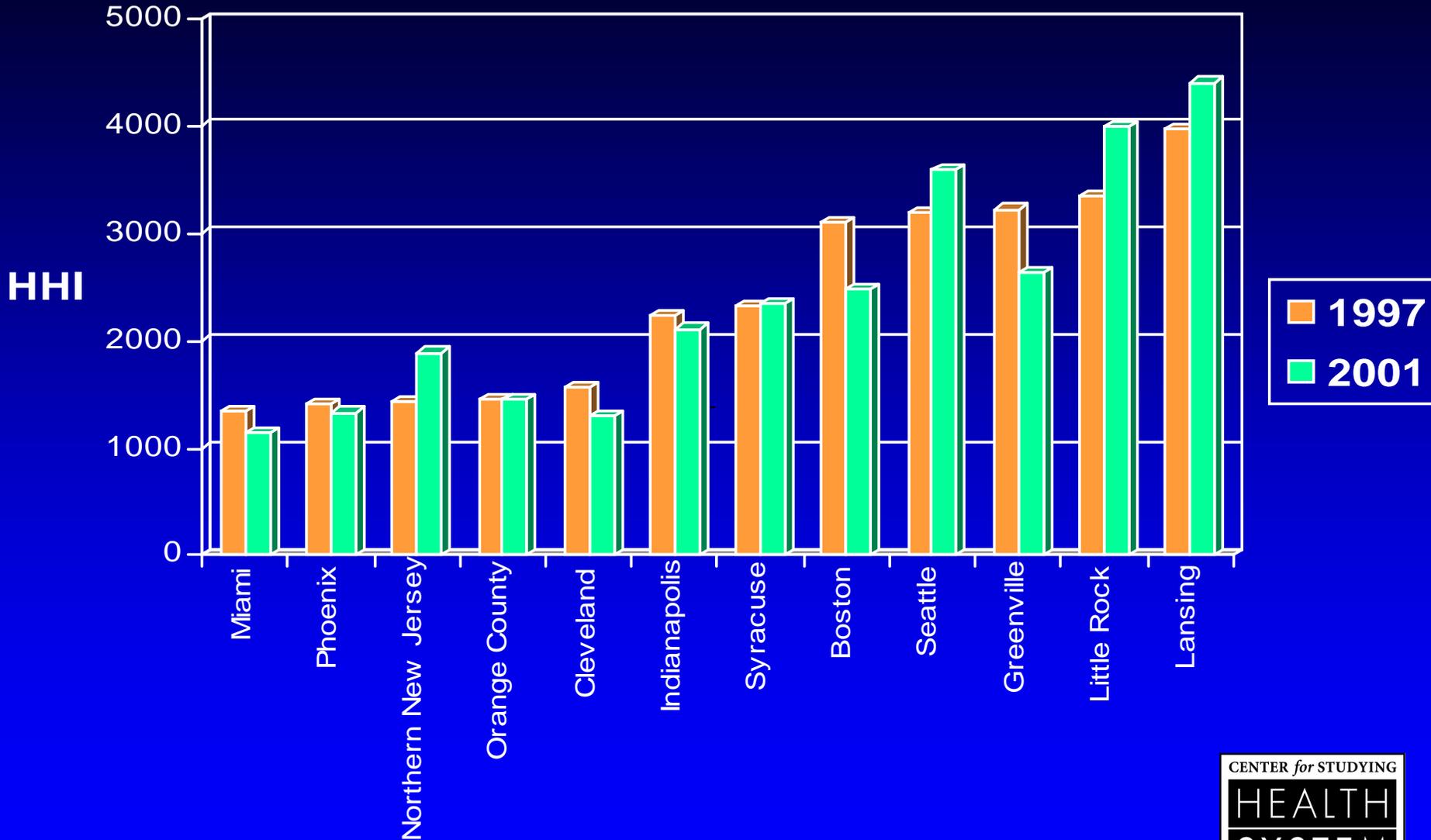
Source: Community Tracking Study Physician Surveys, Rounds 1-3.

* Significantly different from previous round, $p < .05$.

Health Plan Consolidation

- Most local health plan markets already concentrated in 1996
 - ▶ Exacerbated in some cases by short-lived entry of nationals and provider-sponsored plans
- Focus has been on consolidation across geographic markets
 - ▶ Mergers of national firms and regional Blues plans

HMO Concentration, 1997-2001



Sources: Interstudy Competitive Edge, 8.1 (data as of July 1, 1997), 10.2 (data as of July 1, 1999), 11.2 (data as of January 1, 2001).

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Consequences of Market Trends

- Contract showdowns and network instability
- Return of the medical arms race
- Return of rapidly rising costs

Lessons Learned about Competition in Health Care Markets

- Health care markets are already concentrated; competitive environment needs to be considered in context
- Ease of entry may be changing
- Market share alone does not determine leverage; multiple factors at work

Factors Influencing Provider Leverage

Internal Factors:

- Market share
- Reputation/ stature
- Strength of physician-hospital relationships
- Comprehensiveness of service offerings
- Financial stability
- Capacity levels

Environmental Factors:

- Market concentration
- Competitive pressures from substitutes
- Market-wide capacity levels
- Purchaser product preferences
- Policy climate

Factors Influencing Plan Leverage

Internal Factors:

- Membership base
- History/ standing in the market
- Tightness of relationships with providers
- Breadth of product array

Environmental Factors:

- Market concentration
- Competitive intensity among plans
- Purchaser product preferences
- Regulatory context/ policy climate

Changes on the Horizon

Potential to decrease provider leverage

- Increased capacity, but slowing of utilization growth
- Increased pressure from specialty facilities

But labor shortage, squeeze on Medicare payment will maintain or exacerbate urgency to push for higher private rates

Changes on the Horizon, cont'd

Potential to increase plan leverage

- Increased purchaser interest in cost-control
- Greater consumer investment in cost-control

But plans' new strategies to manage costs (e.g., tiered networks) have met with resistance; pressure for loosely managed products remains