

Health Insurance Monopsony Issues: *Product Market Definition*

by

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Where Does the Monopsony Issue Arise?

- Merger Analysis
 - DOJ Consent with *Cargill*
 - DOJ Consent with *Aetna*
- Litigation
 - Various physician “provider track” class actions
 - ⇒ Alleged conspiracy to monopsonize
 - Lawsuits by hospitals against payers
 - ⇒ Alleged unilateral monopsonization

Why Has Monopsony Become an Issue?

- Some argue, due to consolidation in the health insurance industry.
- In many markets, there has been a significant amount of excess capacity for many providers, especially hospitals and physician specialists.
- Insurers have used selective contracting and risk sharing to keep premiums low...competitive pressure on provider reimbursements.
- Physician frustration with managed care contracting
- The DOJ's *Aetna* and *Cargill* Consents

Is Monopsony Likely to Be an Issue in the Future?

- It is not likely to be as big an issue in the future due to the following factors:
 - ➔ Managed care backlash has shifted bargaining strength to providers in many areas
 - ➔ Unwillingness and/or inability of many providers to bear risk
 - ➔ Provider consolidations
 - ➔ Resolution of the “provider track” class actions

Is Monopsony the Flip Side of Monopoly?

- Generally, many similarities and symmetries, but...
- Bottomline, two fundamental differences exist
 - First, monopsony underpricing is *not* sustainable over the long run, but supracompetitive monopoly pricing is.
 - ⇒ A buyer cannot afford to drive its suppliers out of business by sustained underpayment, especially if capital investments are involved; inputs are mobile
 - ⇒ A health care example: the exit of Medicare+Choice HMOs

Is Monopsony the Flip Side of Monopoly?

Continued...

- Second, there is a technical asymmetry with potentially important implications
 - ⇒ In analysis of monopoly, market demand curves are negatively sloped (and logically, must be)
 - ⇒ In the analysis of monopsony, input market supply curves can be positively sloped, flat, or even negatively sloped...
 - ⇒ If the input supply curve is flat or negatively sloped, the analysis is not symmetrical.

Is Monopsony the Flip Side of Monopoly?

Continued...

- Does that mean the agencies should not care about monopsony?
 - The differences should be at least “cautionary”
 - ⇒ The conditions for monopsony may not be present, especially input supply conditions
 - ⇒ Mobility of resources tends toward self-correction, especially in the long run
 - But, if the conditions are present, the possible duration of the problem may drive intervention
 - ⇒ How “sustained” must the problem be before the antitrust agencies should worry?

Monopsony in Health Care

- The differences between monopoly and monopsony (noted above) apply here too
 - Inputs are generally mobile in health care
 - Hospitals disinvest in LR; physicians move
- Health care rarely fits the textbook case of monopsony
- This conclusion applies to both hospital services and physician services input markets

Textbook Case vs. Most Health Care Cases

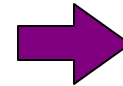
Key Assumptions of Textbook Monopsony Case

There is one dominant buyer in the input market facing an upward sloping supply curve for the input.

The affected sellers cannot move to other input markets.

The affected sellers do not impact the quality in the output market.

There is a single market clearing price in the input market.

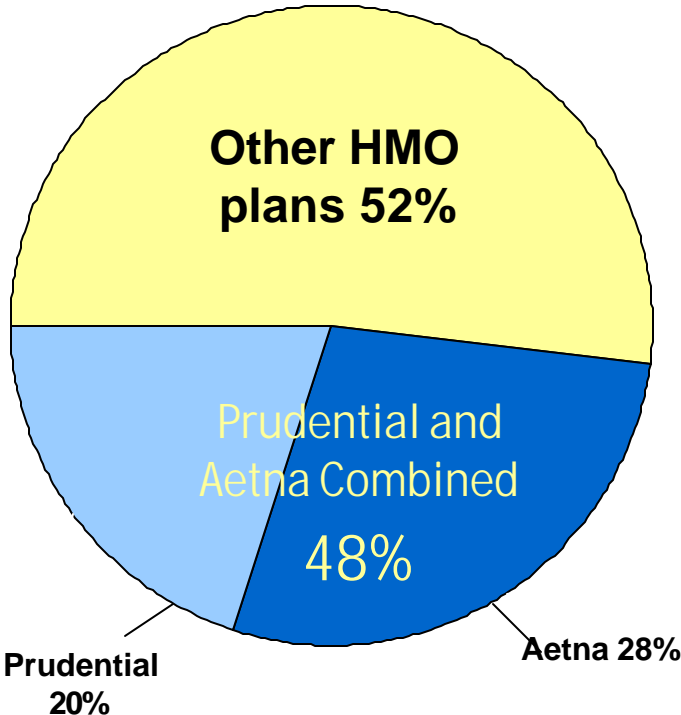


Stylized Facts for Most Health Care Cases

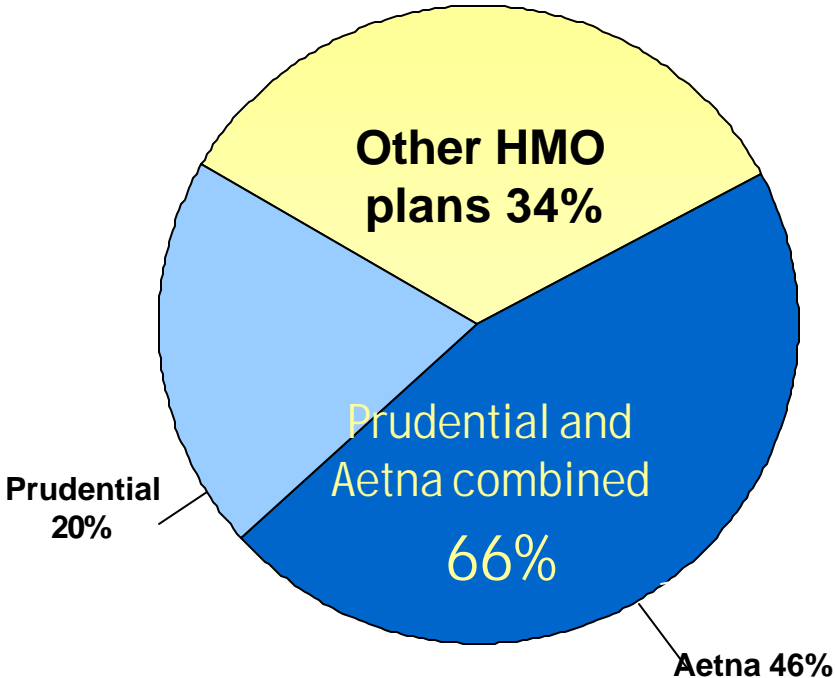
Usually many different payers, incl. gov't; supply flat due to excess capacity

Aetna's Expected Post-Merger Output Share in Dallas and Houston

Dallas



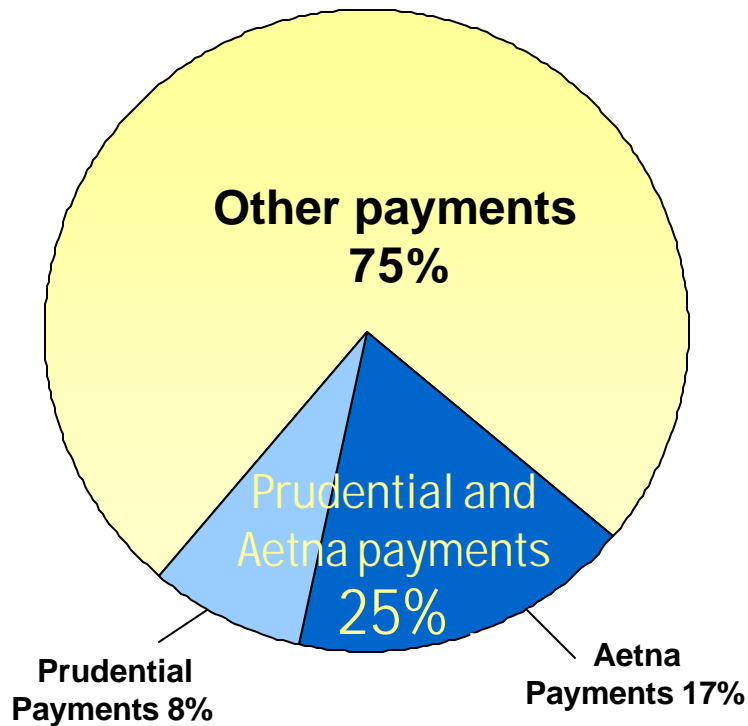
Houston



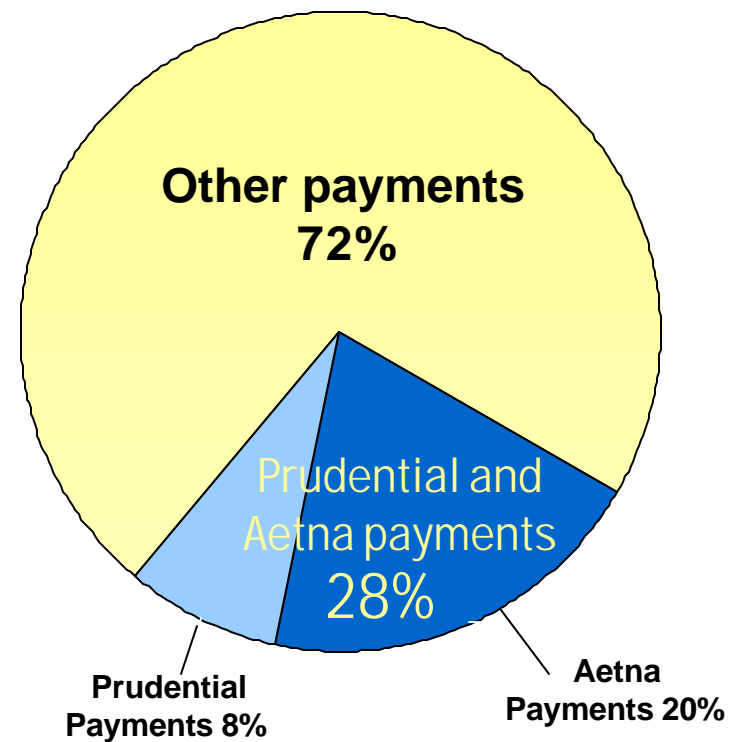
Source: HCFA, Department of Census, Aetna and Prudential

Aetna's Expected Post-Merger Share of Reimbursements in Dallas and Houston

Dallas



Houston



Source: HCFA, Department of Census, Aetna and Prudential

Textbook Case vs. Most Health Care Cases

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Stylized Facts for Most Health Care Cases

- ➡ Usually many different payers, incl. gov't; supply flat due to excess capacity
- ➡ Many providers can readily move to other markets; all can serve other insurers.
- ➡ Provider underpayment affects the quality of care.
- ➡ Generally, a distribution of reimbursement rates and negotiated contract terms.

Monopsony Market Definition Comments

- Product market issues
 - Generally, a specialty-specific analysis is needed
 - ⇒ Caveat: possible supply substitution and cross-specialty competition
 - Use all sources of revenue for that specialty, not just payments from commercial payers
- Geographic market issues
 - Generally, wherever the affected providers compete
 - Could be regional or national for some specialties (e.g., anesthesiology); mostly “local”

END OF PRESENTATION

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