Health Insurance Monopsony Issues:
Competitive Effects

by

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Consulting Economists

Definition of Monopsony Power

Monopsony power is the ability of a firm to profitably set market-wide reimbursement rates below competitive levels for a sustained period of time.

Possible Conditions in the Input Market

Possible Input Market Conditions	Description
Excess Demand (or monopoly providers)	The input market contains too few providers to yield competitive reimbursements → **high rates**
Relative Equilibrium	The input market has the appropriate numbers of providers to yield competitive reimbursements → **competitive rates**
Excess Supply	The input market contains too many providers to yield competitive reimbursements → **low rates**

Likely Competitive Effects of a Health Plan Merger on the Input Market

A “monopsony” merger will likely have the following effects:

Possible Pre-Merger Input Conditions	Reimbursement Rates	Number of Providers
Excess Demand (or monopoly providers)	Decrease	Unchanged or Increase
Relative Equilibrium	Decrease	Decrease
Excess Supply	Decrease	Decrease

However, these competitive effects do not represent the exercise of monopsony power.

So What Does Monopsony Look Like?

- What to keep in mind…
  - Must distinguish excess supply markets from true monoposony
  - Must distinguish the possible success of managed care in reducing moral hazard and unnecessary care from reduced output due to monopsony
  - Need some sense of the elasticity of supply
  - Effects must be market-wide, not one provider
- What to look for…

Possible Indicia of Monopsony Power

Looking for a *pattern of multiple factors* that signal the presence of monopsony (not just a few factors)…

- Decline in market output
- Pattern of provider exit (due to low rates)
- Large share of total reimbursements from alleged monopsony payer…market-wide
- Single rate per specialty; no contract negotiations

Possible Indicia of Monopsony Power
continued…

- Low reimbursement levels to providers
  - Little variation across providers
  - Note: must find appropriate benchmarks
- Limited opportunities to treat non-commercial patients
- Low incomes or profit margins to efficient providers
  - Little variation across efficient providers
  - Note: must find appropriate benchmarks

Possible Indicia of Monopsony Power
continued…

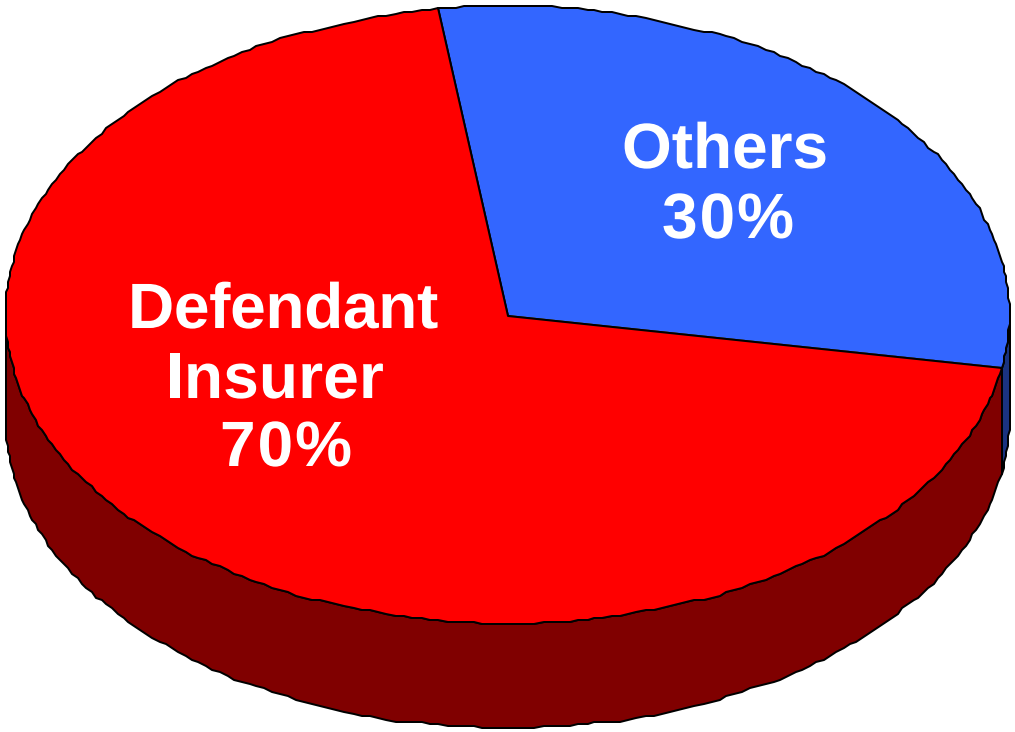
- No systemic excess capacity by providers, market-wide
- Few rival insurers, but contracting with many providers
- Low rates paid by these alternative buyers
- Entry into insurance market is difficult

Hypothetical Case 1

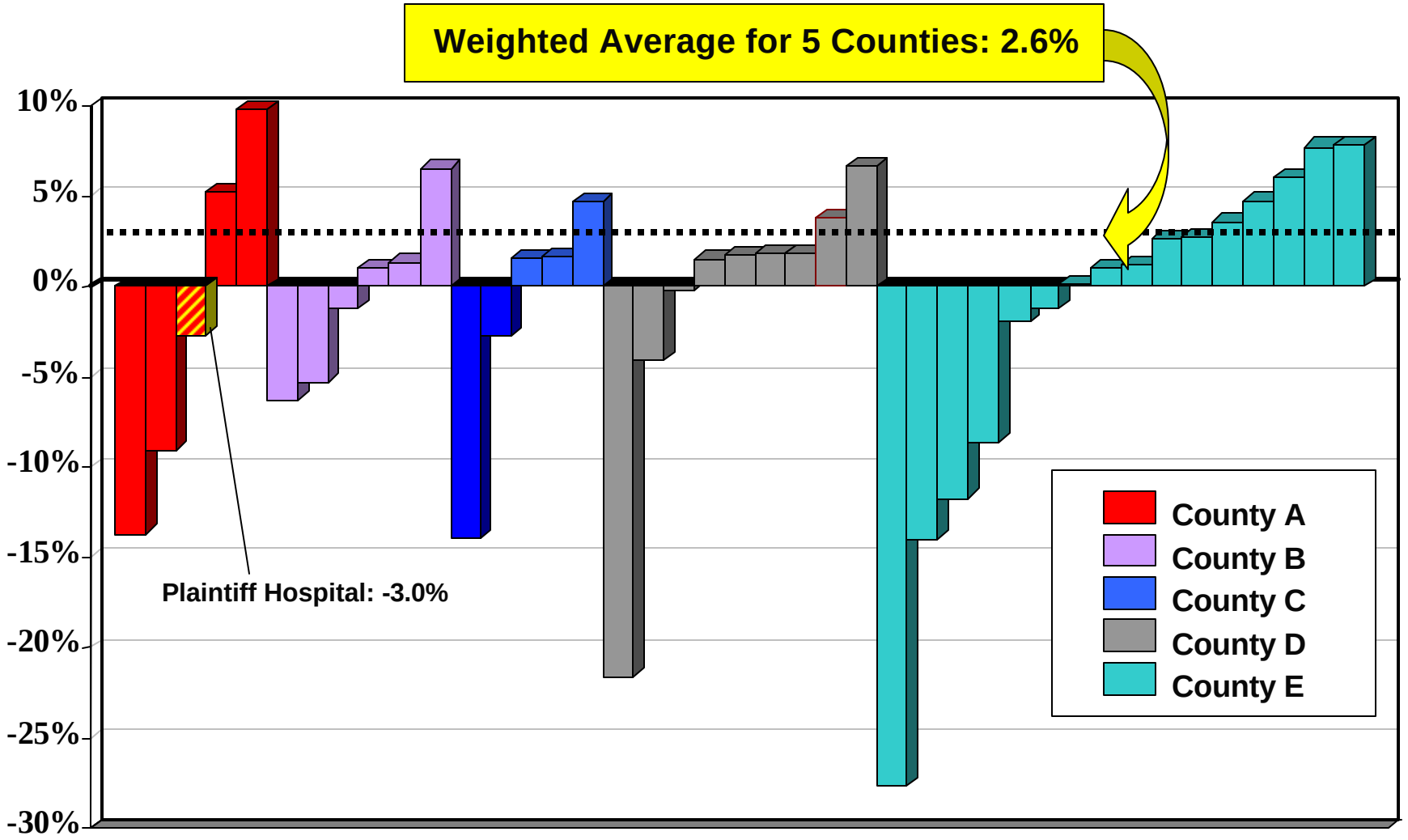
Alleged Unilateral Monopsonization

A hospital is suing an insurer claiming that the insurer has monopsony power.

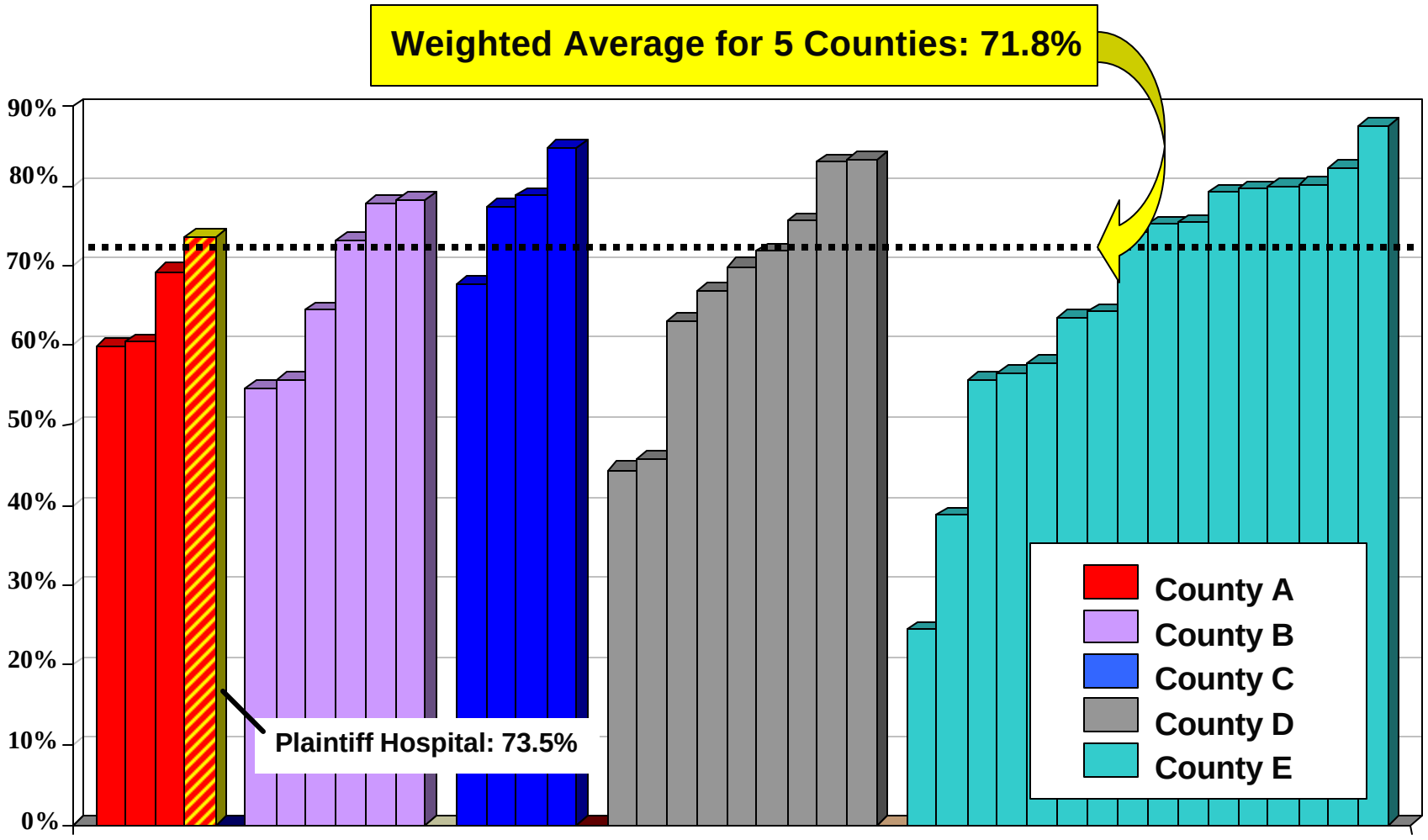
Alleged Monopsonist's Share in the Commercial Insurance Segment



Relative Operating Margin for Hospitals in 5-County Geographic Market



Relative Occupancy Rate for Hospitals in 5-County Geographic Market



Hypothetical Case 2

Alleged Conspiracy to Monopsonize

Physician providers are suing a group of insurers claiming that the insurers have conspired to underpay providers, which has led to a reduction of hospitals and physician services in the market.

Number of Hospital Beds and Average Annual Change in Hypothetical MSA: 1992-2002

Location	Number of Hospital Beds		Average Annual Percent Change
	1992	2002	
3-County Total	5,800	3,653	-4.5 %
State Total	42,263	33,849*	-2.7
U.S. Total	920,943	823,560*	-1.4
3-County Occupancy Rate	63.9%	67.4%	0.5 %

* Data are for 2000.

Source: AHA Guide, 1992 and 2002-2003; AHA Hospital Statistics, 1993-1994 and 2002.

Number of Physicians and Average Annual Change in Hypothetical MSA: 1990-2000

Location	Physicians		Average Annual Percent Change
	1990	2000	
County 1	361	513	4.2 %
County 2	147	389	16.5
County 3	2,821	3,300	1.7
3-County Total	**3,329**	**4,202**	**2.6 %**
State Total	**19,586**	**24,211**	**2.4 %**
US Total	**487,796**	**631,431**	**2.9 %**

Source: American Medical Association

END OF PRESENTATION

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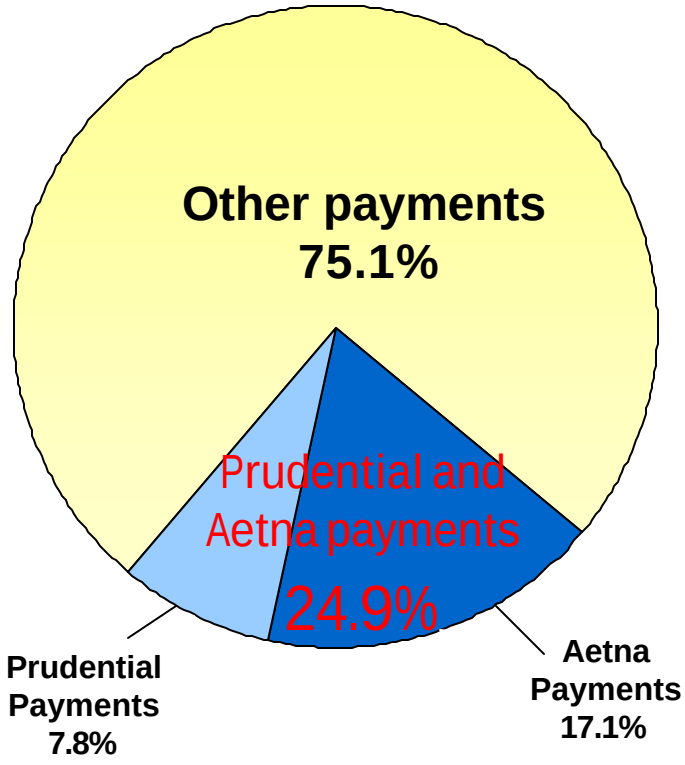
Changes in Number of Physicians in Texas MSAs

	Specialists in 1997	% Change 1997-98	PCPs in 1997	% Change 1997-98
Dallas	2,961	3.5%	1,008	4.2%
Fort Worth	1,310	4.6%	576	6.3%
Galveston	413	-12.8%	145	-2.8%
Houston	3,753	4.5%	1,094	11.7%
San Antonio	1,672	6.6%	545	10.8%

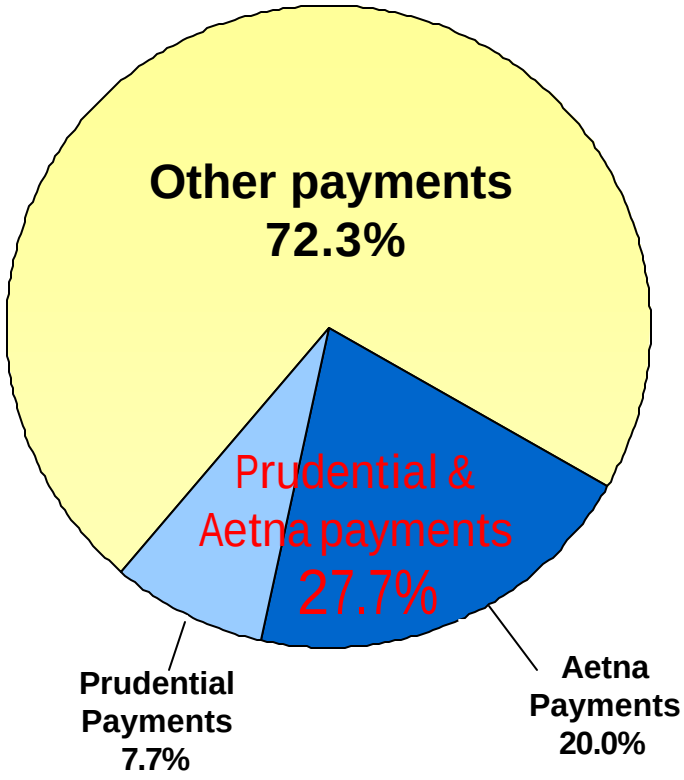
Source: Info USA "575,000 Physicians & Surgeons."

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

Dallas



Houston



Source: HCFA, Department of Census, Aetna and Prudential