

FTC/DOJ Hearings on Health Care

Health Insurance/Providers Countervailing Market Power

May 7, 2003

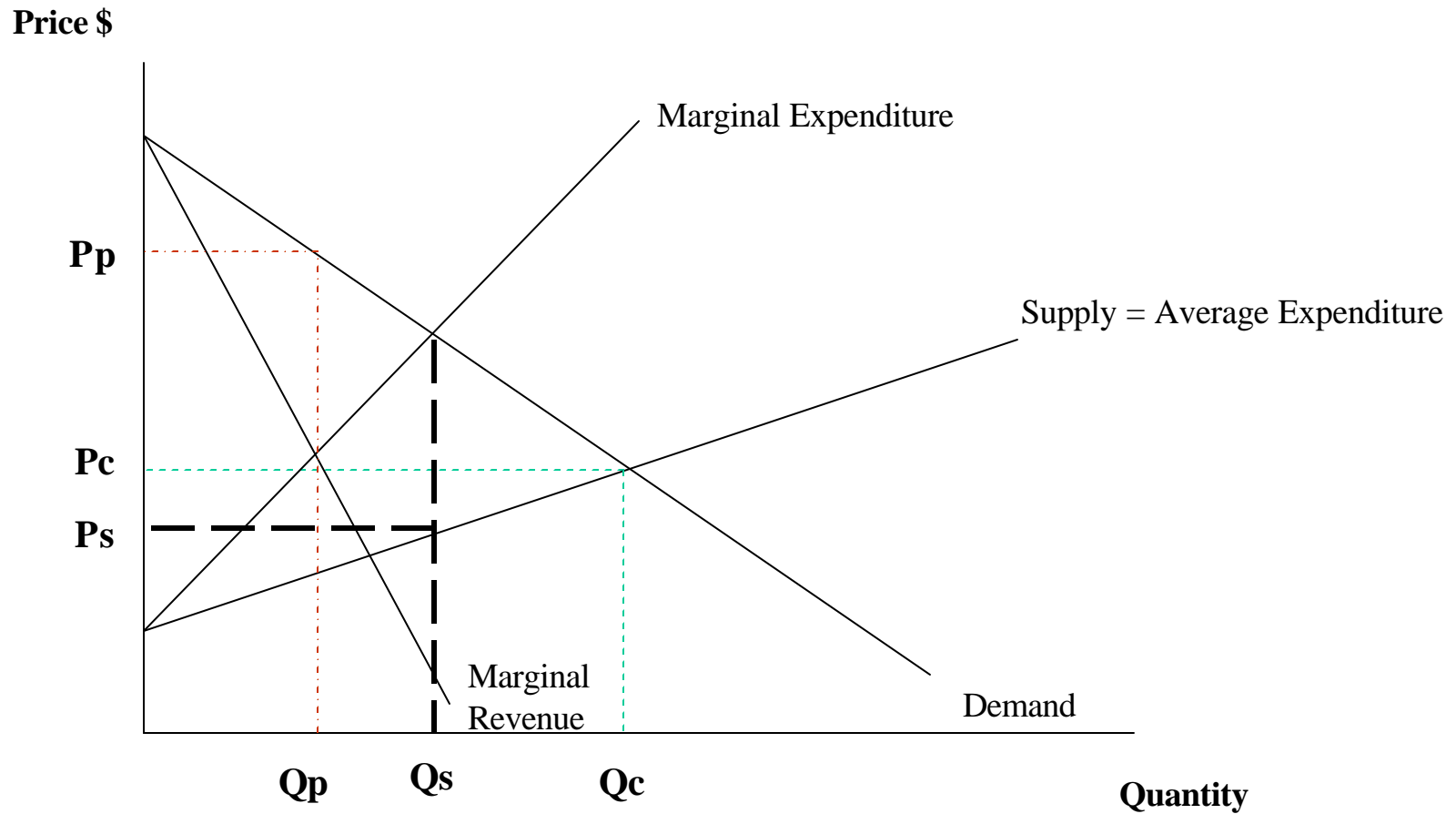
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Outline of Topics

- Basic economics of bilateral “monopolies” or “oligopolies” to improve competition
- Observations on “monopsony” & “monopoly” power of payors & providers
- Conditions for bilateral “monopolies” to improve welfare
- Policy Observations

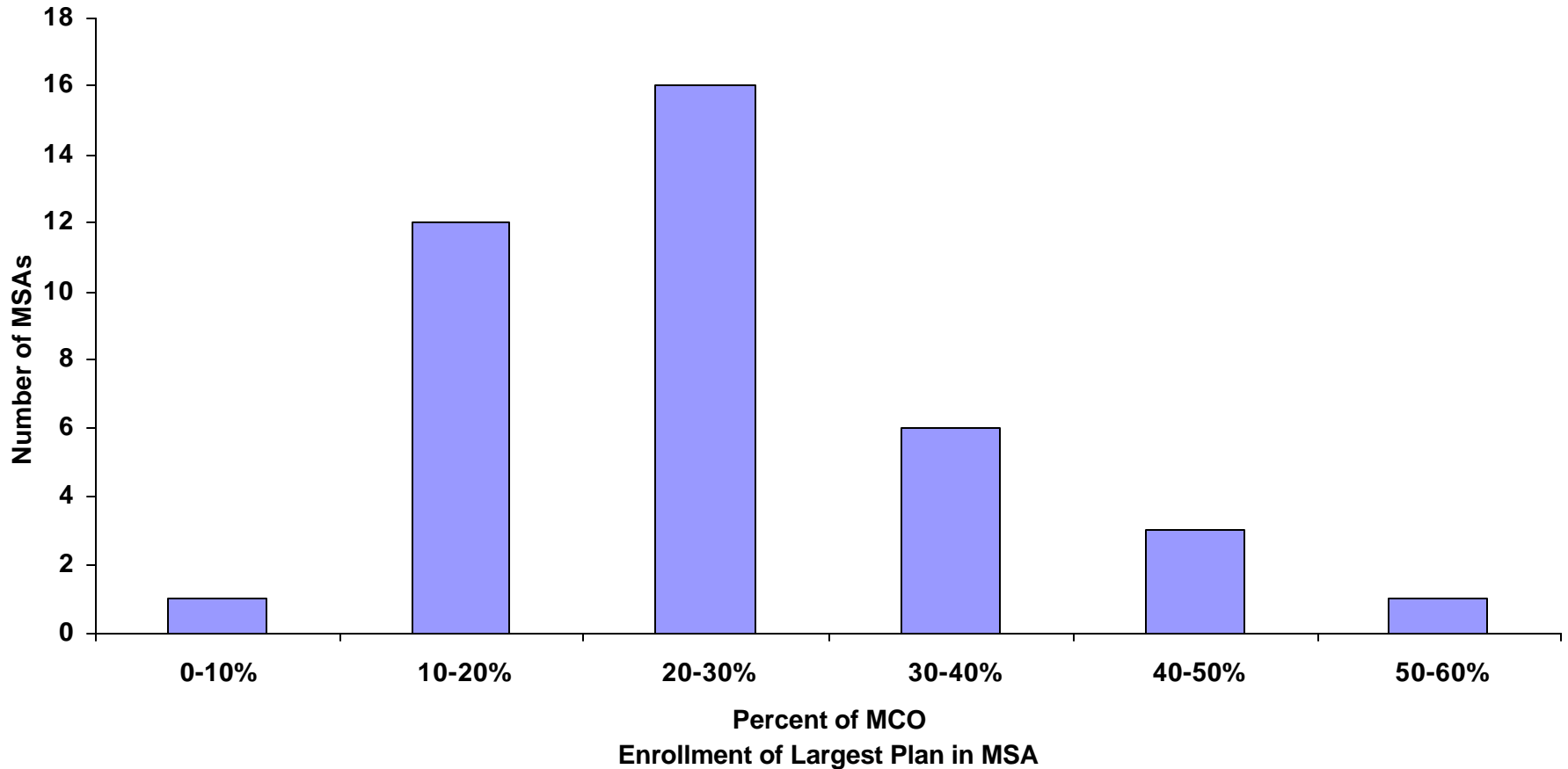
Bilateral Monopoly



Necessary Conditions - Monoposony

- For there to be monopsony or oligopsony, there must be:
 - Well defined markets
 - Few buyers
 - Barriers to entry for buyers
 - Relatively inelastic supply and demand curves

Share of MCO Enrollees in Largest MCO Plan Among 39 MSAs*



* Share of largest HMO or PPO by MSA, if the same company owns both the largest HMO and PPO, their shares are combined.

Source: AIS Health Industry Market Intelligence Data, July 2002

Observations on Payors

- Is managed care a separate market?
- Ease of entry/expansion of new payors may depend on:
 - Product differentiation
 - State regulations
 - Implicit or explicit agreements among payors
 - Minimum Viable Scale
- Vary by locality

Necessary Conditions - Monopoly

- For there to be monopoly or oligopoly with bargaining power, there must be:
 - Well defined markets
 - Few sellers
 - Barriers to entry for sellers
 - Relatively inelastic supply and demand curves

Observations on Providers

- Some geographic areas are relatively concentrated (See Cara S. Lesser 9/9/03)
 - Hospitals
 - Physician Practices
- In some areas there are barriers to expansion/entry
 - Certificate of Need
 - Minimum Viable Scale (specialties)
 - Some payors can enter through vertical integration
- Some hospitals and physician groups in some areas must be included in payor plans
- Vary by locality

Conditions for bilateral “monopolies” to improve welfare

- High concentration for payors
- Substantial market power of payors
- Payors market power is large relative to providers’ market power
- Relatively inelastic supply of payors

Policy Observations

- Since relative market power of payors & providers vary by location, across-the-board legislative changes are not appropriate
- If payors have monoposony power due to collusion, then existing antitrust laws should be adequate absent antitrust exemptions for insurance

Policy Observations

- If payors have substantially more monopsony/oligopsony power than providers in a market, then there is little antitrust can do directly
- In considering the competitive impact of specific provider joint venture or merger, should
 - Consider carefully whether there is substantial monoposony/oligopsony power of payors
 - Be more permissive, all else being equal, in permitting such j.v.'s or mergers