

Providing Insights
that Contribute to
Better Health Policy

The State of Competition in Local Health Care Markets

Statement of Paul B. Ginsburg,
FTC/DOJ Hearings on Health Care
and Competition Law and Policy

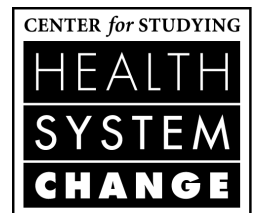
February 26, 2003

Key Points

- Rise and fall of managed care throughout the 1990s shapes competition today
- Forces outside purview of anti-trust enforcement have influenced competition
 - Many have limited competition
- Many markets have limited prospects for effective competition

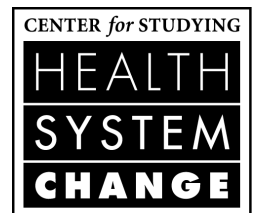
Center for Studying Health System Change (HSC)

- Research on changes in the organization and delivery of care -- and their impact on people
 - ▶ Objective information for policy makers
 - ▶ Funded by The Robert Wood Johnson Foundation
- Emphasis on health care markets
- www.hschange.org

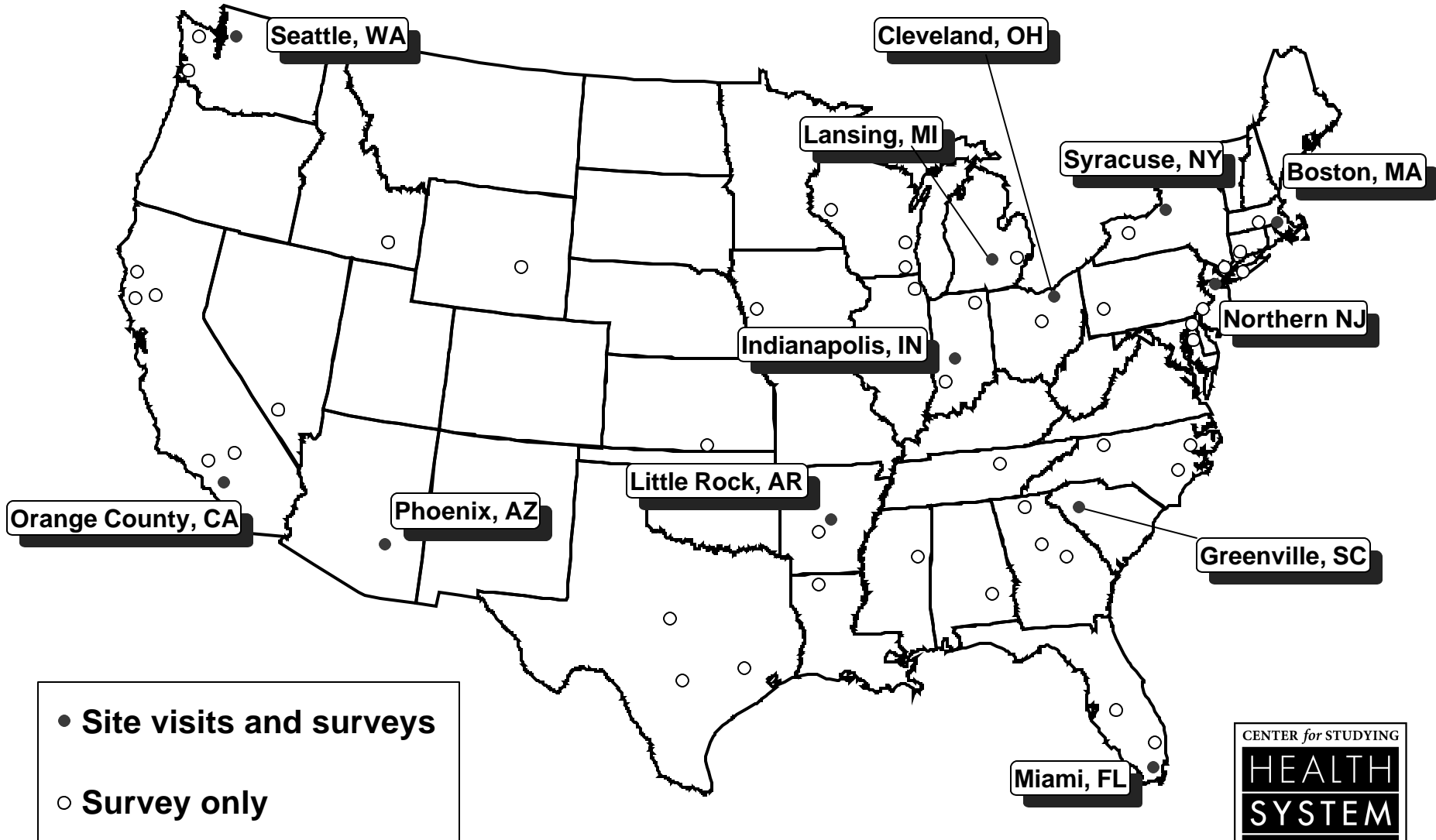


CTS Site Visits

- Insight into changing market trends
- Visit 12 randomly selected sites every two years
- Most recent visits in 2000-2001
- Conduct 50-90 interviews in each site, including a broad cross-section of local health system leaders
- “Triangulate” results



The CTS Sites



Plan of Talk

- Background: Experience of 1990s
- Hospitals
- Physicians
- Insurers
- Provider/Insurer relations
- Purchasers
- Overall potential for competition

Background: Ascendancy of Managed Care

- Narrow networks, provider risk, and authorizations become core components of financing
- National and regional managed care plans formed and expand vigorously
- Hospitals form systems and consolidate
- Managed care and Medicare cuts pressure hospitals to contain costs
- Physicians chafe at loss of autonomy and income

Background: Retreat of Managed Care

- Less restrictive model of managed care emerges in response to backlash and economic boom
 - ▶ Broader provider choice
 - ▶ Fewer requirements for authorizations
 - ▶ Reduced use of risk contracting

Background: Provider Response to Retreat of Managed Care

- Provider structures developed for managed care unravel
 - ▶ Less basis for vertical integration
 - ▶ Little follow through on clinical integration
- Providers regain leverage with health plans

Slowing of Trend of Hospital Consolidation

- Fewer players left—reaching the limits
- Managed care less threatening
- Little excess capacity in face of increasing demand

Hospitals Focus Competition on Perceived Quality

- Vigorous competition in some consolidated markets
 - Mostly on non-price dimensions
- Return of the “medical arms race“ for profitable services
- Sharp increase in promotional activity

Hospitals Facing Entry Threat: Specialty Facilities (1)

- Focus on profitable services
 - ▶ Inadvertent market signals
 - ▶ Specialization increases impact of pricing distortions
- Tool for hospitals to invade others' geographic turf
- Additional threat from physician-owned facilities

Hospitals Facing Entry Threat: Specialty Facilities (2)

- Potential for erosion of traditional cross subsidies
- Plan resistance to contracting

Physician Consolidation into Single-Specialty Groups

- Key motivations
 - ▶ Achieve scale to purchase profitable equipment
 - ▶ Increase leverage with health plans
- Lack of emphasis on multi-specialty groups
- Decline in physician-hospital organizations

Insurer Consolidation Mostly Across Markets

- Fewer opportunities for consolidation within markets
 - ▶ Some opportunities for entry through purchase of hospital-owned plans
 - ▶ Many examples of failed entry
- Most plan mergers oriented to scale economies
 - ▶ Information technology
 - ▶ Care management technology
 - ▶ Marketing economies
 - ▶ But scale economies difficult to achieve

Nature of Health Plan Competition

- Product innovation
 - ▶ Customization for diverse employers
 - Competing with other vendors
 - ▶ Emphasis on case management
 - ▶ Novel benefit structures
- Customer service
- Pricing “discipline”

Blue Cross-Blue Shield: Solidified Dominance in Some Markets

- Historically large market shares
- Benefit from shift in consumer preferences
 - Broad networks
 - ▶ PPOs rather than HMOs

Blue Consolidation Intertwined with Conversion

- States less resistant
 - Potential revenue source
- Greater attention to price
- Split within Blue world on virtue of conversion

Hospitals Gaining Leverage Over Plans

- “Must have” status of leading hospitals
- Constrained hospital capacity
- Hospitals have resisted tiered networks
- Evidence of moderately higher price trends

Physician Leverage Has Grown Less

- Brand-name status carries less clout for physicians
 - ▶ Key exception is some single-specialty groups
 - ▶ Most physicians are price takers
 - ▶ Price trend has remained low
- Trend towards leaving networks and boutique medicine

Purchasers Influence Nature of Plan and Provider Competition

- Demands for broad networks
- Taking sides in showdowns
- Shape of benefit package
- Willingness to pay for quality

Changing Purchaser Behavior

- Decline in collective activity
 - ▶ National mergers
 - ▶ Smaller HR departments
 - ▶ Lack of success in past
- Behavior follows economic cycles
 - ▶ Profitability
 - ▶ Tightness of labor markets

Competition on Clinical Quality Limited by Lack of Information

- Mixed experience with hospital report cards
- “Private regulation” approach of Leapfrog Group
- Government may need to act as catalyst

Many Markets Have Limited Potential for Price Competition

- Small numbers of hospital systems and health plans
 - ▶ Entry difficult
- Barriers to consumer price incentives
 - ▶ Limits to cost sharing
 - ▶ Absence of useful information on clinical quality
 - ▶ Leaders' desire to protect cross subsidies to care for the uninsured

How to Deal with Absence of Competition

- Informal “public utility” pressures
 - ▶ Can prevent egregious behavior
 - ▶ But unlikely to meet other goals for competition
- Medicare payment provides incentives to control costs
- Alternative options
 - ▶ 1970s-style regulation
 - ▶ Increase patient financial responsibility