

# American Medical Association

Physicians dedicated to the health of America



## *Competition in Health Insurance: A Comprehensive Study of U.S. Markets*

**Executive Summary**  
November 2001

### **I. THE HEALTH CARE ENVIRONMENT**

The rapid consolidation of the health insurance market over the last eight years has had a major impact on patients and their physicians. Patient complaints about health insurers have increased, including complaints that insurers are placing more barriers in the way of patient care. In addition, as markets have consolidated, many insurers have adopted a "take-it-or-leave-it" attitude toward physicians in contract negotiations, and physicians around the country report that they have little, if any, bargaining power in the face of these demands. This has very real implications for patient care because the physician contract has a significant impact on the patient-physician relationship.

Physician contracts with insurers include numerous provisions relating to quality of care, and insurers are using the physician contract to gain increased control over how medical care is delivered. The fact that many physicians feel forced to sign contracts containing provisions that a reasonable business person would not accept raises questions about the dynamic of this market.

This environment is driving calls for antitrust reform at the federal level. Large dominant insurers have been permitted unfettered freedom to set the premiums they charge employers without antitrust oversight, and premiums have, in fact, increased dramatically in the past three years. In contrast, physicians, who typically practice in solo or small group settings, have been subject to aggressive antitrust enforcement actions by the federal government.

### **II. THE NEED FOR THIS STUDY**

The first step in determining the realities of the marketplace is to obtain a real measure of health insurer market power and market concentration. To date, there has been no comprehensive analysis of health insurer market concentration around the country. Accordingly, the AMA, working with an outside health economist, set out to perform that analysis. The goal of the project was to determine health insurer market share at the most meaningful level based on current available data in order to get a better picture of the competitiveness (or the lack thereof) of health insurance markets.

### III. OVERVIEW OF FINDINGS

The study looks at market concentration in the combined HMO/PPO product market and also in separate HMO and PPO product markets. The study provides market concentration and health insurer market share information for 46 states and 40 large metropolitan statistical areas (MSAs), with populations exceeding one million. The study also examines in greater detail the market dynamics in these 40 MSAs and in 19 less populated states (populations less than five million) for which MSA data are not available.

The study confirms what patients and physicians around the country already know: In many parts of the country, health insurance markets are dominated by a few companies that have significant power over the marketplace.

The study measures market concentration by using the Herfindahl-Hirshman Index (HHI) and individual insurer market shares. The HHI is a mathematically-derived index of market concentration. It is used by the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) to evaluate the impact of proposed mergers on competition in markets. The study focuses on markets that are "highly concentrated" (HHI > 1800) according to the DOJ/FTC 1992 Horizontal Merger Guidelines (1992 Guidelines) and particularly in those markets where a single insurer has a market share greater than 30 percent. According to the 1992 Guidelines, the DOJ/FTC will not approve mergers and acquisitions in highly concentrated markets if there is even a slight increase on the HHI.

The study found a substantial level of market concentration in a significant number of large MSAs (populations over one million) around the country, as well as a substantial level of market concentration in 19 less populated states (populations less than five million) where comprehensive MSA level is unavailable. The study found substantial levels of concentration regardless of whether the product market was a combined HMO/PPO market or a separate HMO and PPO market.

We were unable to include indemnity health insurance in this enrollment study because data were unavailable. However, because indemnity enrollment constitutes just eight percent of commercial health insurance, lack of these numbers should not significantly affect the outcome of this study.

### IV. KEY FINDINGS

For 40 large MSAs (populations over one million), the study found the following:

- In the combined HMO/PPO market, **47.5 percent** of the large MSAs are **highly concentrated (HHI > 1800) applying the 1992 Guidelines.**
- In the HMO product market, **69.8 percent** of the large MSAs are **highly concentrated (HHI > 1800) applying the 1992 Guidelines.**

## Page 3: Executive Summary

- In the PPO product market, **87.5 percent** of the large MSAs are **highly concentrated (HHI>1800) applying the 1992 Guidelines**.
- In **91 percent** of these highly concentrated MSA markets, there is at least one insurer with a market share **in excess of 30 percent**.
- In **48 percent** of these highly concentrated MSA markets, a single insurer has a market share **in excess of 40 percent**.
- In **24 percent** of these highly concentrated MSA markets, a single insurer has a market share **in excess of 50 percent**.
- Large national health insurers dominate a number of the highly-concentrated MSA HMO markets, while regional Blue Cross and Blue Shield companies have dominance in the highly concentrated PPO markets.

For 19 less populated states (populations less than five million), with no available MSA-level data, the study found the following at the state level:

- **Eighty-four percent** of the 19 less populated states have **highly concentrated (HHI>1800) combined HMO/PPO product markets applying the 1992 Guidelines**.
- **One hundred percent** of the 19 less populated states have **highly concentrated (HHI>1800) HMO product markets applying the 1992 Guidelines**.
- **Eighty-nine percent** of the 19 less populated states have **highly concentrated (HHI>1800) PPO product markets applying the 1992 Guidelines**.
- In **76 percent** of the 19 state-level markets, a single insurer has a market share **in excess of 40 percent**.
- In **56 percent** of the 19 state-level markets, a single insurer has a market share **in excess of 50 percent**.
- In **31 percent** of the 19 state-level markets, a single insurer has a market share **in excess of 70%**.

At the state level, there are clearly a number of health insurers with market shares greater than 50 percent in all product categories. Moreover, the dominance of Blue Cross and Blue Shield companies statewide, in the less populated states, is more widespread and greater than in the MSA-level analysis.

## V. DATA COLLECTION ISSUES

Although health insurers are required to report HMO enrollment to state agencies, they are not required to report PPO enrollment. In fact, many insurers refuse to participate in efforts by data collection firms to collect this information. This study represents the most extensive effort ever undertaken to fill in the gaps for missing PPO information and then to paint an accurate picture of what the health insurance market really looks like. To the extent the insurance industry would offer criticism of this study, we fully acknowledge the data limitations and would challenge the industry to voluntarily provide better information. In the absence of voluntary disclosure, stronger reporting laws are needed.

## VI. POLICY IMPLICATIONS

It should be noted that this study was conducted in an objective, data-driven manner and did not attempt to draw conclusions or make specific policy recommendations. However, the findings of this study confirm that a significant number of health insurance markets across the country are dominated by a few companies that have considerable power over those markets. Therefore, we believe that it is important to highlight the need for changes in existing policy that this study would support.

To begin, we believe the findings demonstrate a need for stricter scrutiny of health plan mergers and acquisitions. Since 1995, there have been 321 announced health insurer mergers and acquisitions. With the exception of the 1999 U.S. Department of Justice challenge of the Aetna/Prudential merger, the consolidation of the health insurance marketplace has gone virtually unchecked by federal regulators. Our findings raise questions about whether the current antitrust enforcement structure is adequate to protect competition and consumers in the health insurance market and whether stricter scrutiny of health plan mergers is necessary.

In addition, the unprecedented consolidation of health plans has provided insurers with significant leverage over patients and physicians in determining the scope, coverage, and quality of health care in this country. When physicians attempt to negotiate patient care issues with these health insurers, they are at a severe disadvantage. We believe the findings in this study offer support for initiatives to provide antitrust relief for physicians, thereby enabling them to operate as a countervailing market force. Antitrust relief is needed to enable physicians to *effectively* negotiate with health plans without fear of violating antitrust laws.

In conclusion, the recommendations mentioned above are only the initial steps to improve the current status of the health care marketplace. In the future, additional studies will need to be conducted to fully comprehend the magnitude of the existing problem. In the meantime, immediate policy changes are necessary to prevent further deterioration of competition in the health insurance industry. Regardless of the policy changes chosen, we must ask ourselves: Is the system we are moving toward one that provides optimum service and protection for consumers?