

# Academic Articles & Reports Roundup: December 2016

Happy New Year everyone! As we wrapped up 2016, we saw several fascinating and comprehensive articles published on competition issues in health insurance and provider markets, including articles discussing (1) the relationship between insurer market participation and provider market power|(2) economic models of decreased insurance competition|(3) the Anthem-Cigna antitrust trial|and (4) the role of quality in hospital merger cases. We hope you enjoy!

## Insurer Market Participation & Provider Market Power

Daria Pelech's article [\*Dropped Out or Pushed Out? Insurance Market Exit and Provider Market Power in Medicare Advantage\*](#) (Journal of Health Economics) explores how provider market power influences the markets in which insurers choose to operate. Pelech studies the effect of a 2008 law which resulted in the cancellations of two-thirds of Medicare Advantage plans by requiring these plans to build new provider networks and eliminating their ability to pay traditional Medicare fee-for-service prices. She compares the markets in which insurers kept Medicare Advantage plan operating to markets in which Medicare Advantage plans exited following the new law. Her research finds that insurers were more likely to exit in markets with the greatest level of provider market concentration. Specifically, "insurers in the most concentrated hospital markets were 9 percentage points more likely to exit than those in the least concentrated markets, while insurers in the most concentrated physician markets were 13 percentage points more likely to exit than insurers in the least concentrated." These findings provide significant empirical evidence that provider market power reduces insurer

market participation. Pelech's research also finds, unsurprisingly, that insurers with the greatest market power are the least likely to exit markets, with insurers with the greatest market power being 20 percent less likely to exit a market than insurers with the least market power.

## **Economic Modeling of Decreased Insurer Competition**

Kate Ho and Robin S. Lee published [\*Insurer Competition in Healthcare Markets\*](#) (forthcoming Econometrica), which presents an economic framework for studying the effect of insurer competition on premiums, hospital prices, and impact on consumers. The article focuses on two sides of decreased insurer competition: potential cost increases from higher premiums and hospital payments, and potential cost savings from increased bargaining leverage with hospitals. The authors seek to understand and measure this trade-off by building an economic model based on California admissions, claims, and enrollment data, which simulates the effects of an insurer exiting the market. The authors conclude that their model demonstrates that while premiums typically increase when an insurer exits the market, increases in healthcare costs depend on several factors. They argue that restraints on premium setting, such as negotiations with larger employers or policies such as medical loss ratio requirements, can mitigate premium increases if an insurer exits the market. Despite this, even if premium prices are predicted to decrease, their model finds that insurer exits still harm consumers by as much as \$200 per capita per year, due to reduced consumer choices. Overall cost increases following the removal of an insurer are largely determined by the characteristics of the insurer that exists the market, and whether there are restraints on premium setting set by employers or institutions.

## **Anthem-Cigna Antitrust Trial**

In [\*The Anthem/Cigna Merger Trial: Sifting Through The Evidence\*](#) (Health Affairs Blog), Source Advisory Board Member Thomas Greaney writes about the strongest arguments raised by the merger partners in their antitrust trial, and the weaknesses in their defense. The insurers' main argument in the case is that the merger will create efficiencies by allowing the insurers to extract lower prices from hospitals and networks. As Greaney explains, these savings may not be legally cognizable or significant enough to mitigate other harms to insurance competition. The government actually concedes that the merger could potentially lead to cost savings (though not to the degree argued by the insurers), but argues that the cost savings are not legally cognizable because they result from an antitrust violation. The harmful monopolistic effects created by the merger, while potentially creating savings from the insurers, would still be anticompetitive. On the issue of proper market definition, Greaney says that the government demonstrated the existence of a distinct market of insurance sold to large employers, yet it is unclear which insurers operate in this market. The article also details the rules governing the national Blue Cross networks, which further limit competition. Greaney concludes by emphasizing that no court has ever allowed a merger to proceed based solely on the basis of projected efficiencies, and that the efficiency arguments in this case are particularly strained due to the contentious relationship and in-fighting between Anthem and Cigna.

## **The Role of Quality in Hospital Merger Cases**

Theodosia Stavroulaki published [\*Integrating Healthcare Quality Concerns into the US Hospital Merger Cases, A Mission Impossible?\*](#) (World Competition), which discusses how healthcare quality has been addressed by courts in antitrust

hospital merger cases, and suggests how future cases should take quality into consideration. She finds that past cases have focused on the effect of hospital mergers on prices, while downplaying the role of quality. By narrowing the focus of antitrust cases to price concerns, these cases discourage policymakers from studying the effects of mergers on quality and discourage hospitals from raising arguments about potential quality improvements created by mergers. Stavroulaki argues that the Federal Trade Commission should issue guidelines on which quality dimensions are the most important to consider when evaluating hospital mergers, and how quality can be balanced when considered along with a merger's impact on competition.

As always, feel free to [send us](#) any interesting articles that you think we may have missed. Thanks for reading, and see you in February!