Academic Articles & Reports Roundup: May 2017

Summer is finally here! In this Roundup of articles from the past month, we cover four articles published in May. The topics this month include 1) the effect of market concentration on hospital prices|2) links between cost and quality|3) pharmaceutical market competition|and 4) all-payer rate setting. We hope you enjoy your monthly reading list!

The Effect of Market Concentration on Hospital Prices

Seidu Dauda recently published the article *Hospital and Health Insurance Markets Concentration and Inpatient Hospital Transaction Prices in the U.S. Health Care Market* (Health Services Research).This research links data about hospital and insurance market concentration to data on actual transaction prices for inpatient hospital services for privately insured patients from 2005 – 2008 to determine the bilateral effect of consolidation in these markets on negotiated prices. Based on this data, Dauda estimated that between 2003 and 2008, hospital market concentration increased prices by approximately 2.6 percent, which meant an additional $4.9 billion in additional expenses paid by private insurers. Increased insurance market concentration during that period, however, decreased prices by 10.8 percent, equating to $20.7 billion in savings for insurers. Dauda also reports that her study indicates that the relevant geographic market for hospitals could be as small as an area within a 10-minute drive time from a given area. This is smaller than the geographic market definition used by most courts and scholars.

Links Between Cost &amp|Quality

In *High-Price And Low-Price Physician Practices Do Not Differ Significantly On Care Quality Or Efficiency* (Health Affairs) Eric T. Roberts, Ateev Mehrotra, and Michael McWilliams explored the relationship between the prices charged by outpatient physician practices and the practice's efficiency and quality of care. Due to increased physician practice consolidation, some physician practices are able to use their market power to charge higher prices for care. Some physicians argue that charging high prices allows practices to cover costs associated with providing higher quality care. The research in this article shows otherwise. The authors used quality data from the 2013 Medicare Consumer Assessment of Healthcare Providers and Systems survey and 2011-2012 Medicare claims data for survey respondents. In comparisons of quality ratings of high and low-cost practices, patients reported no meaningful difference in three of four quality domains, including overall quality of care ratings, timely access to care, and interactions with primary physicians. High-cost practices scored higher in assessments of whether patients were likely to see a doctor within fifteen minutes of a scheduled appointment. High-cost practices also receive higher ratings in four of the six areas surveyed about care management and coordination. The authors also found that high-priced practices tend to be much larger than low-priced practices. This research detracts from providers' claims that a meaningful correlation exists between the prices charged by physician practices and the quality of care provided.

Pharmaceutical Market Competition

Fiona Scott Morton and Lysle T. Boller published their working paper, *Enabling Competition in Pharmaceutical Markets* (Brookings Institution), which provides a comprehensive discussion of three aspects of the pharmaceutical market that inhibit competition. The paper first focuses on biologics and biosimilars. The FDA's slow progress on biosimilar approval

has prevented biosimilars from entering the market to compete with expensive biologic products. In addition, pharmaceutical companies have employed the delay tactics used to prevent traditional genetics from entering the market –pay-for-delay, REMs protections, and abuse of orphan drug classifications – to also prevent biosimilar entry. Next, the paper looks at the pharmaceutical distribution market. The concentrated power of pharmacy benefit managers and their use of rebates contributes to the lack of market competition. In addition, pharmaceutical manufactures use financial incentives such as coupon, financial assistance, negotiated lower co-payments, and other gifts and benefits to steer patients and providers away from lower-priced drugs. Finally, Morton and Boller's paper explores dramatic price increases on old products when the products are acquired by small pharmaceutical manufacturers. The authors suggest policies to address each challenge they identify, including legislative, regulatory, and antitrust enforcement remedies.

All-Payer Rate Setting

In *All-Payer Rate Setting: A Framework for a More Efficient Health Care System* (Policy Perspectives), Eric Flanagan argues that all-payer rate-setting – setting a uniform price paid by all payers at a hospital – could help solve several major challenges facing the United States healthcare system. Flanagan's research suggests that market power, rather than quality or input costs, account for the large degree of price variation seen in the United States healthcare system. The first problem he focuses on solving through rate-setting is the large difference in rates hospitals charge payers, also known as price discrimination. Because rate setting requires providers to charge uniform prices for identical services, it eliminates the price discrimination problem. He then highlights the problems posed by providers using strong market power to leverage high prices from private payers. All-payer

rate setting could fix this problem because providers cannot leverage power in negotiations when prices are set by the government or through negotiations with an association of payers. Finally, Flanagan addresses cost shifting, which occurs when providers recuperate lost profits incurred by low payments from large government payers or non-payment rom the uninsured, by shifting costs to private insurers. When prices are uniform, no cost-shift problems occur. Flanagan concludes that all-payer rate setting could be a politically feasible solution to our high health care cost problems by continuing our system of private insurance plans while addressing the underlying causes that drive up healthcare costs.

That’s all for the month of May! As always, if you find articles or reports that you think should be included in the next monthly Roundup, please send them our way. Enjoy your last round of spring reading!