The Source Roundup: June 2022 Edition

This month's Roundup highlights articles and reports discussing the need for improved, adequate monitoring of healthcare consolidation, including 1) vertical integration and joint contracting between physicians and hospital and 2) pharmaceutical mergers. We also examine articles studying healthcare cost affordability, specifically 3) the significant disparities in prices paid to hospitals by private plans and Medicare and 4) California's improvements in healthcare affordability and access. Finally, we look at some proposed cost containment strategies such as 5) key areas to improve competition to reduce costs and 6) price caps on out-of-network hospital services.

Healthcare Transactions and Consolidation

Research has consistently shown that healthcare consolidation leads to increased healthcare costs. In a new *Health Affairs* article, Price Effects Of Vertical Integration And Joint Contracting Between Physicians And Hospitals In Massachusetts, Vilsa Curto, Anna D. Sinaiko, and Meredith B. Rosenthal focus on the economic consequences of vertical integration and joint contracting between physicians and hospitals. Looking at Massachusetts, they found that from 2013-2017, there was a sharp increase in vertical integration and joint contracting between hospital systems with primary care physicians and specialists. Consistent with prior research concerning consolidation, Curto et al. found these transactions led to price increases, with the largest increases found in large healthcare systems. Specifically, they found that the consolidation led to price increases of 2.1 to 12.0 percent for primary care physicians and 0.7 to 6.0 percent for specialists. The authors emphasized that their findings support a need for policymakers to adopt increased state oversight of healthcare consolidation, especially of vertical consolidation involving large healthcare systems.

The pharmaceutical industry has also seen an increase in consolidation. In Challenges with Defining Pharmaceutical Markets and Potential Remedies to Screen for Industry Consolidation, Robin Feldman, Brent D. Fulton, Jamie R. Godwin, and Richard M. Scheffler address the unique challenges and inadequacies of current pharmaceutical merger review and how pharmaceutical consolidation stifles scientific innovation and ultimately harms consumers. Specifically, Feldman et al. explain a couple of unique factors—restricted consumer choice and volume bargaining—within the pharmaceutical market and industry that impede adequate merger review. To address the uniqueness of the pharmaceutical market and the need for adequate evaluation of pharmaceutical merger review, the authors propose alternative ways to define pharmaceutical markets and highlight adjustments to the Herfindahl-Hirschman Index (HHI) to more adequately screen for concerning pharmaceutical activity.

Consolidation, whether it be vertical consolidation of physicians and hospitals or consolidation within the pharmaceutical industry, can have impacts on consumer choices and prices. As seen in both articles, these consequences call for the need for policymakers to address consolidation by adopting better, more adequate review processes that capture all types of transactions.

Healthcare Prices and Affordability

Though many Americans' health insurance are employer-sponsored, employers do not have useable information about healthcare prices. A recent report from the RAND Corporation, Prices Paid to Hospitals by Private Health Plans, hopes to combat that lack of transparency by providing employers with quantitative data of prices paid by privately insured patients, compared with Medicare prices for the same health services. In the report, Christopher M. Whaley et al. found that in 2020, across all hospital inpatient and outpatient services in the United States, private insurers paid 224% of what Medicare would have paid for the same services at the same facilities. However, prices varied across states—Hawaii, Arkansas, and Washington had prices under 175% of Medicare, but Florida, West Virginia, and South Carolina had prices at or above 310% of Medicare. Notably, John Muir Health, a hospital in Walnut Creek, California, had the highest price increase, 456%, above Medicare. This report will allow employers to make better informed, appropriate insurance decisions on behalf of their employees. Moreover, making these prices transparent will help policymakers design appropriate plans to address rising healthcare costs.

Healthcare cost and affordability have been a long-standing issue for many Californians, particularly with the challenges of the COVID-19 pandemic. In a recent California Health Care Foundation report, State and Federal Relief Prevented Deep Backslide in Health Care Affordability in California, Colin Planalp summarizes data from the California Health Insurance Survey and describes how federal policies in response to the pandemic coupled with California's own health reforms developed prior to the pandemic likely resulted in positive outcomes. However, Planalp notes that while Californians experienced improvements in healthcare and insurance affordability following the onset of the COVID-19 crisis, these improvements may be temporary, as they were likely due to temporary federal programs, some of which have already expired. Additionally, while California's uninsured rate declined, cost remains the top reason for those who lack health insurance. The author asserts that policymakers in California and at the federal level can consider similar, but long-term initiatives to help protect people against unaffordable health care.

Cost Containment Strategies

To combat rising healthcare costs, state and federal policymakers are examining various cost containment strategies. A May 2022 AHIP white paper, Healthier People Through Healthier Markets: Solutions to Improve Health Care Affordability and Access for Every American, recommends improving competition in 10 key areas to ultimately improve healthcare cost, choice, and quality of care. The report suggests initiatives including value-based care and payment models, increased transparency to private equity firms' acquisitions and monopoly power, advance site-neutral payments, telehealth, and prescription drug biosimilars. For each area, AHIP makes key recommendations for the federal and state governments to consider to increase healthcare competition and choice and affordability for consumers.

Price caps, or price limits, are another cost containment tool. A recent Commonwealth Fund issue brief, Setting Caps on Out-of-Network Hospital Payments: A Low-Intensity Regulatory Intervention for Reducing Hospital Prices Overall, found evidence from the Medicare Advantage program and various state legislative initiatives that the use of price caps on out-of-network hospital services indirectly influences in-network negotiated rates. Hospitals have been able to demand large in-network rate increases by threatening to terminate their health plan contracts. By adopting a price cap on out-of-network services, health plans' contracting leverage power would increase in two ways. First, with prices being regulated, hospitals would be less motivated to remain out-of-network. Second, with an established out-of-network price cap, health plans need not negotiate over costs for an out-of-network service, leaving the health plan in a stronger position to negotiate for in-network prices that remain at or near the out-of-network price cap. In summary, the brief suggests that out-of-network caps are a regulatory tool that can control costs and lead to in-network cost reductions.

That concludes this month's Roundup. If you find articles or reports that you think should be included in the monthly Roundup, please send them our way.