The Source Roundup: October 2019 Edition

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The autumnal season is upon us! This month, we pull no tricks, and treat you to a review of articles and reports about 1) the impact of healthcare market concentration, 2) the potential use for price transparency, and 3) government efforts to influence pharmaceutical pricing.

Conflicting Views on How Market Concentration Impacts Healthcare Prices

Two recent reports point to an increase in healthcare market concentration and discuss the effects on price and competition. The American Medical Association (AMA) just published the 2019 edition of the annual study of market concentration in the health insurance industry, *Competition in Health Insurance: A Comprehensive Study of US Markets*. According to the study, between 2014 and 2018, the share of highly concentrated markets in the commercial health insurance industry has increased from an estimated 71 to 75 percent. Correspondingly, roughly 73 million Americans living in highly concentrated markets face limited choices of health insurers. The study found increases in concentration in metropolitan statistical areas (MSAs) markets that were already highly concentrated in 2014, as well as markets that were not. Per the AMA, consolidation results in reduced commercial health plan competition, which usually leads to higher premiums for patients and lower payment for physician services. The study was designed to help regulators, policymakers, and researchers identify markets where future consolidation may precipitate competitive harm to patients.

A report commissioned by the American Hospital Association (AHA), on the other hand, contends that healthcare consolidation creates higher quality care in a more cost-effective manner. The report, *Views from Hospital Leaders and Econometric Analysis – An Update*, demonstrates that mergers of health systems and hospitals reduce health care costs and improve the quality of care. In stark contrast to previous studies, the report associates hospital mergers and acquisitions with decreased annual expenses and revenue, and suggests that savings that result from mergers are passed on to patients and their health care plans. The report also showed statistically significant improvements in outcome measure of quality at acquired hospitals, such as the 3-day readmission rates composite index.

Contrary to the AHA findings, the Health Care Cost Institute's report, *Hospital Concentration Index*, suggests competitive harm from consolidation may manifest as higher health care costs to patients. The report finds that hospital consolidation increases their leverage to negotiate higher prices from health plans, which in turn drives up insurance premiums for patients. As of 2016, almost 75 percent of 112 metropolitan areas across 43 states had "highly concentrated" hospital markets. In concert with previous studies, this report identifies a positive correlation between price increases and greater hospital market concentration.

Regardless of the impact of mergers and acquisitions on cost and quality of care, which may be debated, it is clear the debate has done little to slow the rate of consolidation in the health care industry.

Price Transparency Reveals the Value of Health Care Services

While the effects of market concentration are disputed, a recent study published in Health Affairs finds that health care price transparency can cut costs and improve value for patients. In *Marketwide Price Transparency Suggests Significant Opportunities For Value-Based Purchasing*, Anna D. Sinaiko, Pragya Kakani, and Meredith B. Rosenthal analyze health care costs savings strategies implemented in Massachusetts. The authors found that directing patients toward lower-price providers or setting price ceilings could potentially save the state 9 to 12.8 percent in healthcare costs. In comparing patient steering and rate setting, the study suggests that price transparency and patient steering could prove more effective in cost savings for the state than setting price ceilings. However, price ceilings may serve as a better alternative when incomprehensive geographic distribution of services or lack of feasibility for certain services, such as ambulance services, makes steering difficult to implement.

Anna D. Sinaiko further discusses the mechanics of price transparency in the JAMA article, *What is the Value of Market-Wide Health Care Price Transparency?* Sinaiko describes the goals behind price transparency, the current state of the movement, and its potential impact beyond the health care industry. Ideally, patients should be able to consider the price and quality when deciding when and where to receive health care services. Resultingly, this informed decision-making would increase competition in the health care system, and thus, incentivize providers to lower prices or show value of services. Another possible effect of price transparency is to empower secondary groups, such as policymakers and journalists, to pressure prices downward and foster increased competition with the information. Sinaiko points out that the widespread influence of market-wide price transparency is unknown, so it will be crucial to watch purchasers, policymakers, journalists, and other superusers to fully assess the impact of such transparency.

Exerting Government Influence on Pharmaceutical Pricing

As prescription drug prices continue to be a hot topic, The Source recently published a legal brief for the National Academy for State Health Policy that makes policy recommendations for states. In *Navigating Legal Challenges to State Efforts to Control Drug Prices: Pharmacy Benefit Manager Regulation, Anti-Price-Gouging Laws, and Price Transparency*, The Source's Katie Gudiksen, Sammy Chang, and Jaime King suggest ways state legislators, who are working to control drug prices, can respond to legal challenges to these efforts. The brief focuses on bills most often introduced in states – pharmacy benefit management (PBM) oversight, pricing transparency, and anti-price-gouging proposals. According to the brief, laws that require PBMs to be licensed or registered with the state, or require pharmacy audits, have historically avoided lawsuits. For other laws that may trigger legal challenges, the authors suggest specific improvements to the legislative language in order to avoid legal challenges.

Another type of state attempt to mitigate high drug costs is value-based payment. According to a new report by Nicholas Fiore et al. from the Duke-Margolis Center for Health Policy, *Novel State Payment Models for Prescription Drugs: Early Implementation Successes and Challenges*, this is uncharted territory for state programs. As officials navigate how to best negotiate with drug manufacturers, they often find it difficult to make direct comparisons to models that have proven successful elsewhere, due to the variance in data capabilities and regulatory environments of states. To offer insight into other programs' successes and challenges, the report examines case studies from multiple states, including both outcomes-based and population-based models. Fiore et al. posits several short- and long-term strategies policymakers can implement to assist states in their attempts to utilize value-based purchasing to address drug pricing.

Turning the focus to the Medicare Part D program, an article by Stacie B. Dusetzina, et al. details three redesigns to Medicare Part D intended to slow the increase in drug pricing. Published in the New England Journal of Medicine, *Proposals to Redesign Medicare Part D – Easing Rising Drug Prices* suggests various methods for shifting spending from one stakeholder to another without directly addressing drug prices. The article evaluates the effectiveness of each proposal, and ultimately calls for Congress to expeditiously redesign the program.

That concludes this month's Roundup. If you find articles or reports that you be-leaf we should include in the monthly Roundup, please send them our way. Happy reading!