Consolidation of health plans may help lower hospital costs, study finds

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Increased consolidation among health plans nationally may benefit consumers by lowering hospital prices, at least in those regions where health plans are the most consolidated, according to a new RAND Corporation study.

Researchers found that hospital prices were about 12 percent lower in the metropolitan areas with the fewest health plans, lending support to the view that when health plans become bigger they can negotiation lower prices from health providers.

The study, published in the September edition of the journal *Health Affairs,* also found that regions where hospital ownership is more consolidated generally have higher hospital prices. But those prices can be driven lower when health plans also are consolidated.

"There may be a benefit for consumers when health insurance plans are more consolidated because it tends to drive down hospital costs," said Glenn A. Melnick, an economist at RAND and the Blue Cross of California Chair in Health Care Finance at the USC School of Policy, Planning and Development. "As long as there is enough competition to keep health plans honest, the consolidation has a good result on prices."

Hospitals operators and physicians have expressed concern in recent years that the ongoing consolidation among health plans across the United States may concentrate so much market power in the insurance plans that they will be able to depress prices paid to health care providers

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Providers have suggested that such action could lower the quality of health services and limit the access of some people to health care. The American Medical Association has proposed that physicians be allowed to bargain collectively with health plans without fear of antitrust prosecution in order to "level the playing field" in price negotiations.

Researchers examined information about health plans, hospitals and health costs in metropolitan areas across the United States in 2001 and 2004 to determine market concentration among both health plans and hospitals. They also created models to help study the impact that consolidation had on hospital costs. The study did not look at the fees charged by health plans.

The results suggest that contrary to conventional wisdom, very few hospitals operate in markets with only a few dominant health plans. The study found that 64 percent of hospitals operate in markets where health plans are not very consolidated and only 7 percent were in the most-concentrated health plan markets.

Researchers say the findings show that hospitals face less competition in their own markets than health plans face in theirs. More than 90 percent of all hospitals operate in markets where the hospital market concentration exceeds the health plan market concentration.

The study found that higher health plan market concentration reduces hospital prices, while higher hospital market concentration increased hospital prices. While the study found that higher health plan concentration is associated with lower hospitals prices on average, the relationship was most pronounced in only those metropolitan areas that had a few dominant health plans.

Researchers say the study has implications for national health policy, particularly as states begin to regulate health insurance premiums under provisions of the Affordable Care Act of 2010.

"Our findings suggest that if policymakers are interested in lowering costs, they should find a way to restore competition among hospitals, in addition to assuring competition among health plans," Melnick said. "There has been great consolidation among hospitals and physician practices, and that consolidation has allowed hospitals and doctors to raise prices."

Provided by RAND Corporation

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