



Health Plan Consolidation

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Consolidation in U.S. Health Insurance Markets

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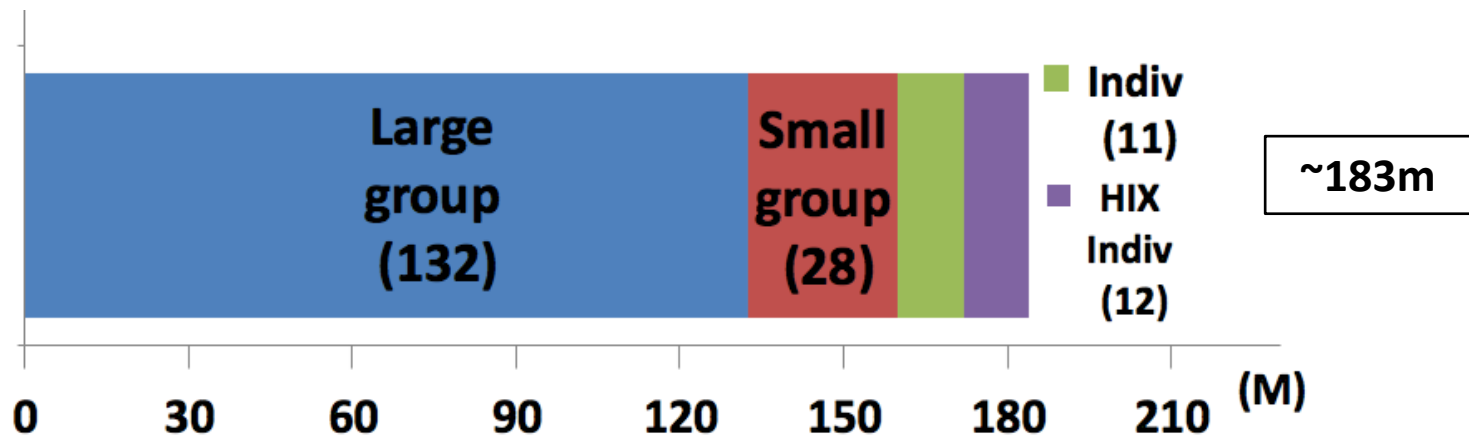
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Private Health Insurance – Key Facts

- **Important:** 2 in 3 non-elderly Americans

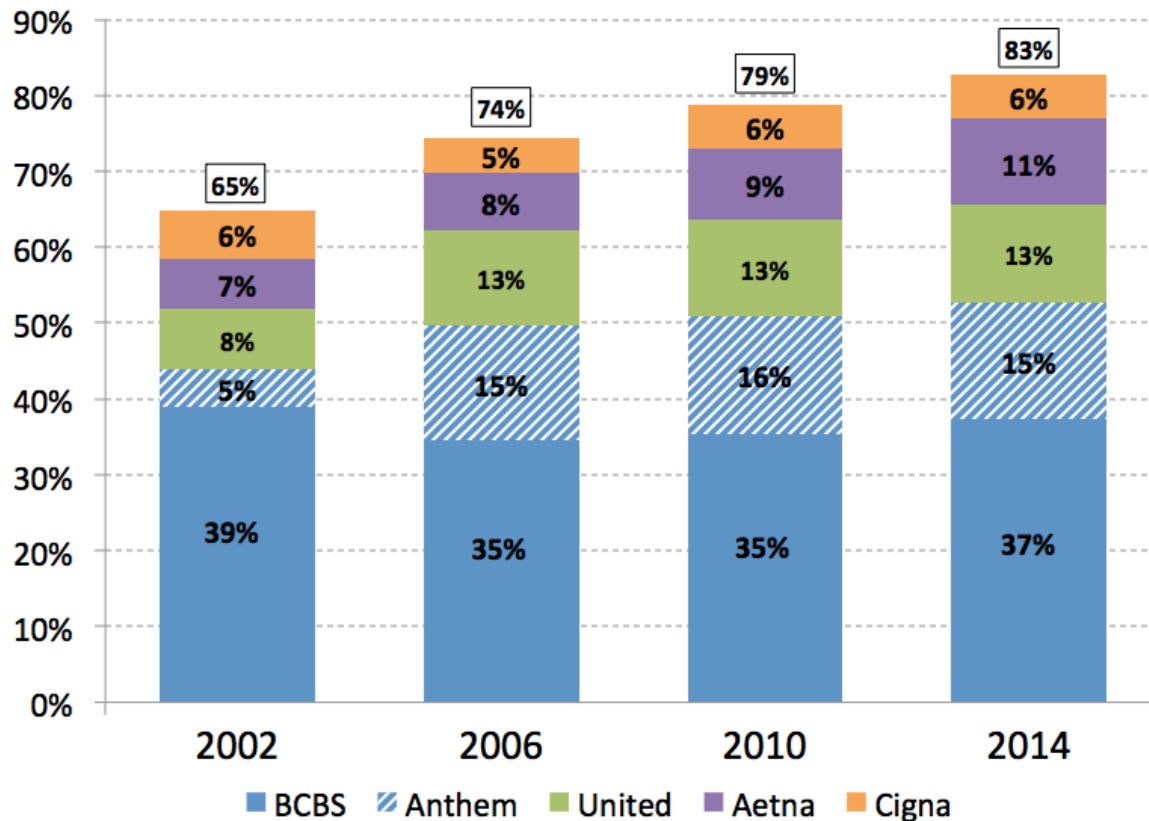


- **Expensive:** \$16,834 average premium for family of 4
- **Mandated:** (if not publicly insured): federal subsidies of ~\$37 billion in 2015

Notes and sources: Figure is approximate and reflects comprehensive medical insurance. Source is author's estimates using data from U.S. Census, Dept. of Health and Human Services, Kaiser Family Foundation, and Abraham et al. 2013

National landscape shows steady consolidation over time

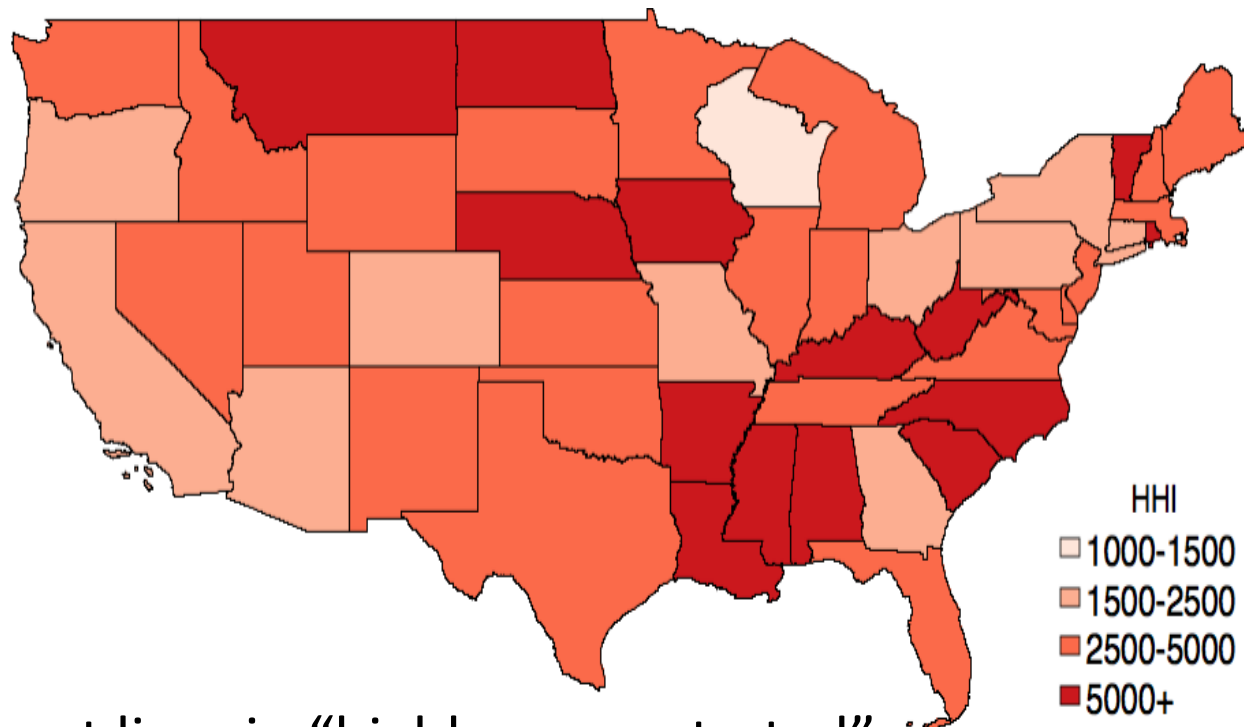
Top 4 insurers, commercial lives



Notes and sources: NAIC, CCIIO, and company annual reports. “BCBS” refers to affiliates not owned by Anthem. Shares are approximate and estimates may include non-comprehensive insurance. National market size estimated from CPS annual March surveys

State-level snapshot

Fully insured commercial lives



61% percent lives in “highly concentrated” state “markets”, i.e. $HHI > 2500$

Source: 2013 CCIIO MLR data. Excludes Self Insured Lives.

How did this happen?

- Patchwork of local, regional, and national **M&A**
 - Partly driven by HMO backlash
 - Regional insurers sought national footprints
- **Limited entry**
- Antitrust **enforcers** generally **did not object** to mergers
 - Divestitures occasionally required
- Few public concerns over insurance competitiveness
 - AMA the most reliable protester

So what? Maybe bigger is better?

- Three key effects to explore
 - Impact on costs (“merger efficiencies”)
 - No solid evidence on administrative costs
 - Some evidence provider prices fall
 - Impact on prices (or premiums)
 - They go up when the number of insurers declines
 - Commercial, large group insurance market (Dafny et al. 2012)
 - Small group insurance market (Guardado et al. 2013)
 - Individual exchange market (Dafny et al. 2014)
 - Medicare Advantage bids (Song et al. 2012)
 - Impact on quality and innovation
 - Preliminary analysis suggests no positive effect

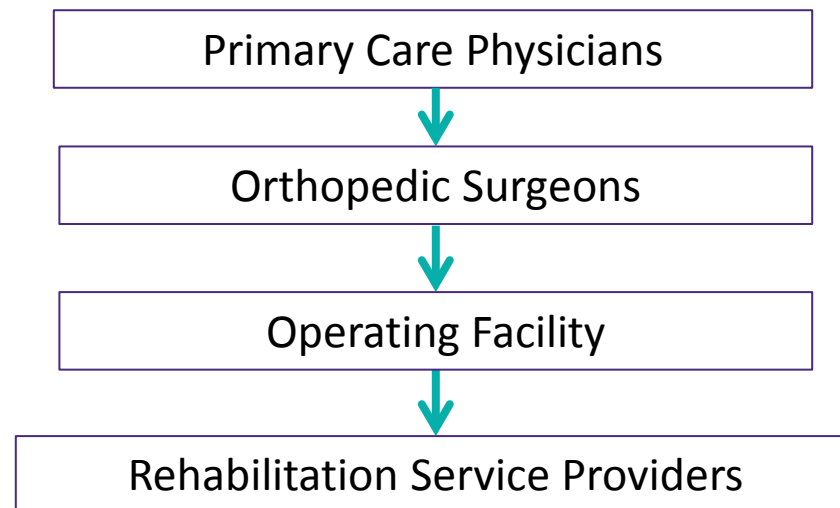
The public needs more data in this industry

- Granular data on insurance enrollment, plan design, premiums, and medical loss ratios
- Linked to quality measures
- Enables retrospective analyses
- *For pending mergers*
 - Details on proposed cost reductions/service improvements, and evidence they can be achieved only via merger

Definitions

- **Vertical chain of production** is source of integration labels

Vertical Chain of Production for Orthopedic Surgery



Definitions, *continued*

- **Horizontal:** combinations in the same product and geographic market and part of the value chain
 - **Vertical:** combinations up or down the value chain
 - **Lateral:** everything else
- } Non-horizontal

Hospital acquisition of physicians has vertical and horizontal components

