



Glossary: Health Care Consolidation

Many hospitals, other healthcare providers, and health insurers are turning to consolidation. Some of these effects may be good for consumers; others may be quite harmful. This glossary contains some of the terms that consumer advocates might encounter as they seek to understand the process, review proposed mergers, and challenge anticompetitive or consumer unfriendly mergers and practices. More materials can be found at: www.HealthcareValueHub.org/consolidation.

Term	Acronym	Definition
Affiliation Agreements		An alternative form of integration that does not involve transfer of assets or full control. Examples include operating agreements, management-service agreements and other options.
Anticompetitive Practices		Business practices that reduce competition and are likely to lead to higher prices, reduced quality or levels of service, and less innovation.
Antitrust Laws		Laws that protect market competition by outlawing anticompetitive mergers and practices. These laws include the Sherman Antitrust Act, the Clayton Act, and the Federal Trade Commission Act.
Attorney General	AG	The state official that enforces state antitrust laws, as well as federal antitrust laws. These individuals can be contacted in tandem with the DOJ, FTC and the insurance commissioner regarding an antitrust concern.
Certificate of Public Advantage	COPA	Requires hospitals looking to consolidate to demonstrate benefits of the proposed merger outweighs the risks from reduction of competition to the state Department of Health.
Clayton Act		Allows the FTC and DOJ to bring legal challenge to anticompetitive mergers and acquisitions as well as anticompetitive practices. Also gives private parties the right to sue for harm they suffer.
Consolidation		A term that refers to reduction in the number of competing entities due to their combination with each other, through mergers and acquisitions, or through joint venture arrangements. In healthcare we most frequently discuss consolidation in terms of hospital consolidation, provider consolidation, and health plan consolidation.
Competition		Competition offers choice and gives competing businesses incentive to win over customers, which helps keep prices in check, and promotes consumer choice and product and service quality. In many areas, healthcare and health insurance are notoriously lacking in competition.

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Concentration		The number of competitors within a market. The fewer the number of competitors within a market, the higher the concentration level. Frequently measured by the Herfindahl-Hirschman Index (HHI).
Department of Justice	DOJ	One of two federal antitrust enforcement agencies. It is tasked with reviewing proposed health insurance plan consolidations.
Divestiture		A potential remedy to cure or alleviate the anticompetitive effects of a merger. Divestiture requires spinoff of operations, policyholders, patients, or other business assets to preserve competition.
Efficiencies		Supposed advantages of a proposed consolidation that result in a lowering of costs. A common argument made in support of a proposed consolidation. Examples include streamlined administrative functions, clinical integration, advanced technology acquisition, economies of scale, and synergies resulting from bringing talents together. To be relevant, efficiencies have to be proven, and also have to be proven to result in genuine benefits to consumers, such as lower prices, higher quality care, or better health outcomes—not just savings to the combined entity.
Federal Trade Commission	FTC	One of two federal antitrust enforcement agencies. It is tasked with reviewing proposed health provider consolidations.
Form A		When required by state law, a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer filed with their state insurance commissioner(s) to assist regulators in anticipating the market impact of the proposed merger or acquisition and preparing for a public hearing on the matter.
Form E		When required by state law, a pre-acquisition notification that domestic insurance carriers file with their state insurance commissioner(s) to assist regulators in anticipating the market impact of the proposed merger or acquisition.
Herfindahl-Hirschman Index	HHI	A measure used by the DOJ and FTC to measure market concentration. It is calculated by summing the square of the market share of each entity competing in that market. (For example, a market with 100 entities competing, each having an equal market share of 1%, would have an HHI of 100; a market with one entity having a monopoly share of 100 percent would have an HHI of 10,000.) A market with an HHI under 1500 is considered non-concentrated (competitive); with a score between 1500 and 2500, moderately concentrated (less competitive); with a score above 2,500, highly concentrated (not competitive).

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Horizontal Consolidation		Two or more entities providing similar services merge, e.g., two hospitals
National Quality Forum	NQF	A non-profit, membership-based organization that sets national priorities and goals for performance improvement and convenes experts to endorse national consensus standards. www.qualityforum.org
Insurance Commissioner		State official that regulates insurance industry activity. These individuals can be contacted in tandem with the DOJ, FTC and the state attorney general regarding an antitrust concern, as there is often a parallel “public interest” review available under state law.
Market		A market has both a geographic dimension and a product or service dimension. For example, the geographic dimension for a hospital market might be a Hospital Referral Region (HRR). For a health insurance market, the product or service dimension in any geographic market area might be individual, small group, large group, or Administrative Services Only (ASO).
Market Power		The ability of a firm to defy competitive market forces within a market and raise prices profitably without worrying about being undercut by competitors.
McCarran-Ferguson Act		A 1945 federal law that allows state insurance law to preempt federal law and exempts the business of insurance from the federal antitrust laws where there is state regulation. This limits the ability of federal antitrust enforcers to challenge the anticompetitive insurer practices.
Sherman Antitrust Act		A federal law prohibiting anticompetitive conduct--any “contract, combination, or conspiracy in restraint of trade.”
Vertical Consolidation		When two or more entities providing different services merge or combine operations into a single entity or operation providing complementary services —e.g., a hospital and a physician practice.