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# Seeking Lower Prices Where Providers Are Consolidated: An Examination of Market and Policy Strategies

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**Authors:** Paul B. Ginsburg and L. Gregory Pawlson

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**Contact:** Paul B. Ginsburg, Ph.D., Norman Topping Chair in Medicine and Public Policy, University of Southern California, paul.ginsburg@usc.edu, or Mary Mahon, Assistant Vice President, Public Information, The Commonwealth Fund, mm@cmwf.org

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## Synopsis

Consolidation between and among hospitals and physicians can lead to improvements in efficiency and quality of care, but it also tends to raise prices for health care services. Health care purchasers and payers can counteract providers' pricing power through various strategies, including limiting provider networks, providing tiered benefits and other point-of-service incentives to patients, and supporting the formation of physician organizations. In some cases, government regulation—like antitrust enforcement—may be necessary.

## Provider Consolidation: Background

A number of trends have increasingly led hospitals and physicians to merge and affiliate with one another. Among these are the advent of accountable care organizations (ACOs) and federal requirements for providers to report data on quality and meet "meaningful use" criteria for information technology, both challenges for physicians in small practices and for independent hospitals. Between the periods 2007–09 and 2010–12, hospital mergers increased by 25 percent. While clinical integration has the potential to improve care quality and increase efficiency, it can also expand providers' market power and thus their ability to command higher prices. As part of their Commonwealth Fund–supported study, researchers outlined eight strategies to promote greater competition on price and quality.

**"Policymakers will need to pursue more vigorously either market approaches bolstered by regulation or direct regulation of prices—or some combination of the two—to counteract provider pricing power."**

## Eight Strategies for Curbing Prices

- *Provider price and quality information.* Many private insurers are developing information systems that can produce real-time estimates of patients' out-of-pocket costs. Armed with these data, patients could become more price-conscious when choosing providers. Without information on quality, however, consumers might equate higher price with higher quality.

- *Limited provider networks.* Insurance products that offer a limited network of providers—like many of the plans being sold through the Affordable Care Act's marketplaces—can exclude high-price providers and offer lower premiums.
- *Point-of-service incentives.* Similar to tiered formularies for prescription drugs, in which each tier features different cost-sharing, hospitals could be assigned to tiers for different service lines, like cardiac procedures or orthopedics. Another strategy is reference pricing, where a reasonable price is set for a given service or procedure, factoring in criteria such as quality. A patient who chooses a provider charging above the reference price for the service is financially responsible for the amount above that price.
- *Data to assess provider quality and efficiency.* Having access to Medicare claims data, along with private-payer claims, would allow for more meaningful assessments of providers' performance on quality and cost. The Centers for Medicare and Medicaid Services has announced it will soon provide this information to the public.
- *Supporting the development of physician organizations.* Physician organizations that assume risk and contract directly with payers provide potential competition for hospital-led ACOs. Insurers are supporting independent networks of primary care physicians by rewarding practices that participate in medical home initiatives with higher payment rates.
- *Limiting increases in provider consolidation.* The Federal Trade Commission can limit some consolidation through antitrust enforcement actions that prohibit certain mergers and price fixing.
- *Limiting charges for using out-of-network providers.* State governments have acted to limit physician and hospital charges in situations where consumers are not likely to be able to choose their providers. For example, West Virginia prohibits additional charges to HMO enrollees for emergency care.
- *Direct regulation of payment rates.* While this policy was in place in a number of Northeastern states in the 1970s, rate-setting is in force today only for hospitals in Maryland and West Virginia. With evidence showing it can slow aggregate spending, though, rate-setting could resurface in states more inclined toward regulation and where provider market concentration is highest.

## The Bottom Line

Consolidation in the health care industry is a double-edged sword: it can improve quality and efficiency, but it also can give providers excessive market power and the ability to command high prices. Fortunately, payers and policymakers have a number of strategies to curb providers' pricing power.

## Citation

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