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In The Literature

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

Differing Impacts of Market Concentration on Affordable Care Act Marketplace Premiums

Synopsis

A new study supported by The Commonwealth Fund looks at the relationship between health care consolidation and premium prices in two state-based marketplaces. In New York, premium rates grew faster in areas with greater insurer concentration (i.e., less competition). In California, areas with less insurer competition had slower premium growth, which may be related to the state marketplace's use of selective contracting with a limited number of plans and direct negotiations with plans on premium rates.

May 2, 2016

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Journal *Health Affairs*, May 2016

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The Issue

The effects of increasing market concentration among health plans, hospitals, and medical groups on consumers' health care costs are not yet clear. Noting that the Affordable Care Act's (ACA) state-based health insurance marketplaces provide "a natural laboratory for studying the effects of competition and market power," researchers compared the growth of health insurance premiums in two ACA marketplaces, taking into account market concentration. They compared premium increases from 2014 to 2015 in New York's State of Health, a marketplace that accepts all insurers, with those in California's Covered California, which chose a limited number of insurers based primarily on premium rates. Covered California is one of the few marketplaces that directly negotiates premiums with insurers.

Key Findings

- In New York, premium rates grew faster from 2014 to 2015 in areas with less insurer competition.
- In California, however, areas with less insurer competition had slower premium growth than areas with more insurer competition.
- This difference may be the result of Covered California's authority to selectively contract with plans and directly negotiate premium rates. The state's ability to exclude insurers may have given it the leverage necessary to force insurers in concentrated markets to pass savings on to consumers, the researchers posit.

Consolidation might enable insurers to reduce costs through economies of scale and serve as a counterweight to provider market power. However, there is likely a point at which further increasing an insurer's size leads to no meaningful efficiency gains and gives the insurer a level of market power that translates to higher-price, lower-quality products for consumers.

- In both California and New York, there was higher premium growth in markets with greater hospital concentration.
- Also in both states, there was a positive but not statistically significant association between medical group concentration and premium growth.

The Big Picture

Growing market consolidation in the health care industry raises questions about the impact on consumers, particularly on their health insurance premium costs. Consolidation could provide efficiencies and thus savings that may be passed on to consumers; on the other hand, reduced competition could lead to higher costs. This study suggests that selective contracting and direct premium negotiation with health plans may be effective policy tools with which to control health insurance premium costs. While New York has chosen not to exercise these tools in its marketplace, it does have prior authority to approve insurance rates (as do more than half of states). The findings suggest that this authority may have somewhat mitigated premium rate increases in New York.

About the Study

Researchers examined the growth in health insurance premiums from 2014 to 2015 in two state-based marketplaces, California's Covered California and New York's State of Health, using data provided by the marketplaces. They focused on silver-tier plans, in which 70 percent of medical expenses are covered. They used the Herfindahl–Hirschman Index to compare the market concentration of health plans, hospitals, and medical groups in each rating area and then used a multivariate regression model to relate these measures to premium growth.

The Bottom Line

With health care consolidation increasing, policymakers must monitor and alleviate health insurers' increased market power over consumers. California's policies—selective contracting and negotiating premiums with insurers—appear to have held down premium costs for consumers.

R. M. Scheffler, D. R. Arnold, B. D. Fulton et al., "Differing Impacts of Market Concentration on Affordable Care Act Marketplace Premiums," *Health Affairs*, May 2016 35(5):880–88.

This summary was prepared by Martha Hostetter.