IN THE LITERATURE

Insurer Market Power Lowers Prices in Numerous Concentrated Provider Markets

SYNOPSIS

Health care providers and insurers have each increased their market power by consolidating in recent years. Researchers found that this consolidation has implications for negotiations between providers and insurers. Specifically, they found that in markets where both providers and insurers are highly concentrated, insurers have bargaining power to reduce prices for hospital admissions and visits to certain physician specialists. While insurers are able to bargain for reduced prices, there is little evidence that these savings will be passed on to consumers through lower premiums.

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THE ISSUE

Health care markets have increasingly consolidated amid mergers by both providers and insurers. There were 1,412 hospital mergers between 1998 and 2015; physicians also have consolidated into increasingly larger groups. Moreover, the four largest insurers now account for 83 percent of the total national market. While research has demonstrated the association between provider consolidation and increased costs of health care services, less is known about the role that consolidation has played in provider and insurer bargaining. Commonwealth Fund–supported researchers examined whether insurers had bargaining power to reduce the prices paid for hospital admissions and physician visits and call for private and public sector solutions to repair this malfunction in the health care market.

KEY FINDINGS

- **Insurer bargaining power was strongest in markets where both insurers and providers were highly concentrated.** In these markets, insurers were able to reduce hospital admissions prices by 5 percent, cardiologist visit prices by 4 percent, radiologist visit prices by 7 percent, and hematologist/oncologist visit prices by 19 percent. The researchers theorized that in these markets, providers are strong enough to charge monopoly rents and insurers are also strong enough to bargain down these noncompetitive prices.
- **The researchers found no evidence of insurer bargaining power on prices of visits to primary care physicians or orthopedists.** Prices among primary care physicians and orthopedists remained roughly the same, regardless of the level of insurer concentration. This is likely because neither primary care physicians nor orthopedists have significant market power, leaving little monopoly pricing for highly concentrated insurers to extract.

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THE BIG PICTURE

The researchers' findings confirm that increased provider market power is generally correlated with higher prices. However, the findings also demonstrate that insurers with strong market power can bargain down these prices in highly concentrated provider markets. While insurers are able to capture a share of the monopoly prices that highly concentrated providers receive, there is no market mechanism to ensure that insurers pass these reduced prices on to consumers through lower premiums. Significant premium increases, coupled with healthy profits in the health insurance industry, indicate that consumers are receiving little of the benefit from insurer bargaining power. Allowing consumers to share the gains of insurer bargaining power will likely require intervention by large private sector purchasers as well as regulation by state and federal policymakers.

Significant premium increases and the profits of the health insurance industry in recent years suggest that little if any of the benefits of insurer bargaining power are being passed along to consumers.

ABOUT THE STUDY

The researchers relied on the Herfindahl-Hirschman Index, a common measure of market competitiveness used by the U.S. Department of Justice, to divide health care providers and insurers into three levels of concentration (high, medium, and low) for each geographic market. They used these data to estimate how differences in relative market power of providers and insurers affects prices.

THE BOTTOM LINE

As consolidation in the health care industry accelerates, insurers will increasingly have bargaining power to reduce prices charged by providers in highly concentrated markets. However, these price reductions likely will not lead to lower insurance premiums for consumers without additional government intervention or a more active role of large purchasers of health care.

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This summary was prepared by Joel Dodge.