Provider Consolidation: The Rhetoric of Efficiency vs. The Reality of Higher Costs

When hospitals consolidate, either merging with other hospitals or buying up physician practices, health care costs go up. Provider consolidation gives hospitals greater negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care. While the rhetoric surrounding provider consolidation is about greater efficiency, the reality is higher prices for consumers.

Evidence demonstrates that increasing provider consolidation results in higher prices for consumers

- In a study published in the Journal of Law & Economics, Professor Leemore Dafny of Northwestern University said, "Using data on mergers in the hospital industry...I find that hospitals increase price by roughly 40 percent following the merger of nearby rivals... Only one prior study has explored the effect of hospital mergers on quality, and this study finds evidence of slight reductions in quality."

- According to a new report prepared by PricewaterhouseCoopers (PwC), "Hospital merger and acquisition activity has increased nearly 50% since 2009, reaching its highest point in the last 10 years—even surpassing the number of deals seen at the height of the 1990's merger craze. The activity shows no sign of abating in 2014," the study says. "With consolidation, higher prices often follow."

- A recent issue brief from the Robert Wood Johnson Foundation found that "increases in hospital market concentration lead to increases in the price of hospital care," and that "when hospitals merge in already concentrated markets, the price increase can be dramatic, often exceeding 20 percent."

- An article by James Robinson, a professor of health economics at UC Berkeley, in the American Journal of Managed Care stated that "hospitals in concentrated markets were able to charge higher prices to commercial insurers than otherwise-similar hospitals in competitive markets."

- Paul Ginsburg and Robert Berenson, in an article in the February 2010 edition of Health Affairs, stated that "providers' growing market power to negotiate higher payment rates from private insurers is the 'elephant in the room' that is rarely mentioned."

- An analysis of provider consolidation by Cory Capps and David Dranove, Market Concentration of Hospitals, found that "in 2009, hospital ownership was 'highly concentrated' in over 80% of the 335" areas studied.

- A report issued in 2004 by the Federal Trade Commission and Department of Justice said, “Most studies of the relationship between competition and hospital prices have found that high hospital concentration is associated with increased prices, regardless of whether the hospitals are for-profit or nonprofit."

- An article written by Bob Kocher and Ezekiel Emanuel in the Journal of the American Medical Association said, "Creating competitive hospital markets benefits patients and is essential to reduce the rate of health care cost growth. Moving from an era of market power enabling hospitals to be price setters to a market in which patient demand drives hospital prices and quality improvement has the potential to transform the US health delivery system."
Recent news articles note that provider consolidation results in higher prices for consumers

- A New York Times article said, “Hospitals across the nation are being swept up in the biggest wave of mergers since the 1990s, a development that is creating giant hospital systems that could one day dominate American health care and drive up costs... Booz & Company, a consulting firm, predicts that 1,000 of the nation’s roughly 5,000 hospitals could seek out mergers in the next five to seven years.” And according to a health care consultancy “…the number of deals doubled to 105 in 2012 from 50 in 2009.”

- Another New York Times article said that while consolidation “could be a boon for the hospitals, hospital mergers often lead to higher prices for consumers, many studies have shown. Larger hospital systems can have more clout to negotiate higher prices from insurance companies, resulting in higher insurance premiums...”
  
  o “The strong evidence is that these kind of mergers raise prices anywhere from 20, 30, 40 percent up to 50 percent, if a merger strongly enhances a hospital system’s negotiating power,” said Professor Martin S. Gaynor, Carnegie Mellon University.

- An article in TIME Magazine said consolidation allows providers to “demand higher reimbursements from private insurers, ultimately raising costs for consumers. Consolidation like this is happening all over the country... This consolidation reduces competition in markets and gives hospitals more leverage to raise prices.”

- A Wall Street Journal article said that “hospital systems with strong market heft can often negotiate higher rates for physician services than independent doctors get. The differential varies widely, anywhere from 5% or less to between 30% and 40%.”

- Dr. Zach Cooper, a health economist, wrote in a column for the Altarum Institute that one explanation “for the rise in hospital prices is the huge consolidation that has occurred in the U.S. hospital industry over the last 15 years... Indeed, while it’s difficult to estimate, the notable research in this area has found that hospital consolidation can dramatically raise prices, inducing increases of between 10 to 40 percent.”

- An article in the Tampa Bay Times said, “Prices tend to go up not only when hospitals buy physician practices, but also when competing doctors team up to form large practices, such as in cancer care, anesthesiology and emergency medicine.”

- For patients in North Carolina, the mark-up on cancer treatments has proved “financially devastating.” The Charlotte Observer “found hospitals are routinely marking up prices on cancer drugs by two to 10 times over cost. Some markups are far higher. It’s happening as hospitals increasingly buy the practices of independent oncologists, then charge more – sometimes much more – for the same chemotherapy in the same office.”

- An article in the Cleveland Plain Dealer said hospital systems in Northeast Ohio are “doing away with the age-old doctor’s office visit,” which “has left some patients saying they’re unable to afford routine care.” The article found “there are usually two separate charges — one for the doctor often charged at a higher hospital rate and another for the space used to treat a patient, known as a ‘facility fee.’ This dual bill for a single treatment can result in charges that are two, three, or four times more costly for patients — all for basically the same care.”