Contact: Nicole Perelman (415) 385-2283

New Report Highlights Strategies to Mitigate Provider Market Power, the Leading Driver of Health Care Costs

Consolidation pushes payments 3% higher nationwide, but market-based and joint private-public sector approaches hold promise

A wave of hospital mergers and consolidation among both hospitals and larger health systems across the country is the major driver behind rising health care prices and, as a result, rising health care costs, says a new report out today. Issued by Catalyst for Payment Reform (CPR), the report finds consolidation is, for example, driving payments to hospitals an average of three percent higher nationwide. The report also offers strategies employers and other health care purchasers, health plans, policymakers, and regulators can pursue to mitigate rising costs dues to such consolidation.

“We feel the sting of provider market power and so do our enrollees,” says Dolores Mitchell, Executive Director of the Group Insurance Commission, Commonwealth of Massachusetts. “When prices go up, premiums go up, and we have to get creative to keep health benefits affordable.”

“Health care costs are going up, not only because we are using more care, but also because providers have had the market power to raise their prices,” explains report lead-author Robert Murray, former executive director of the Maryland Health Services Cost Review Commission, the nation’s only all-payer hospital rate-setting system. “Consolidation is the leading source of their market power.” Seventy-five percent of metropolitan areas are now considered highly consolidated markets; in some regions like the San Francisco Bay Area, mergers have driven prices almost 40 percent higher.

“Market-based and joint private-public sector strategies are critical,” explains co-author, Suzanne Delbanco, Executive Director of Catalyst for Payment Reform. “Large employers and others who purchase care have a vested interest in controlling costs, and can address rising prices by introducing more competition into the marketplace through innovative benefit design and payment reforms.”

The report details several approaches purchasers can take to address rising prices, including making consumers more aware of prices. A recently released CPR Statement on Price Transparency underscored purchasers’ commitment to pushing for greater price transparency for consumers. Purchasers can also foster competition among providers through tiered networks and direct contracting; large employers including Intel Corporation and Wal-mart Stores, Inc. have pursed these types of strategies.

“Working directly with providers who are much more open to value-based contracting focused on cost, quality and access is exciting new territory for Intel. We aspire to pay only for high-value care according to established metrics, not for volume as under the current fee for service paradigm,” explains Brian DeVore, Director of Policy and Ecosystem Strategy for Intel.

Employers and other purchasers can also partner with the public sector, pursuing strategies like all-payer claims databases. “Purchasers can spur policymakers to act,” explains Murray, “to assure they oversee health plans and their contractual arrangements with providers and review insurer payment arrangements with providers to identify and prohibit excessive levels of price discrimination.” When these approaches fail, regulators like the Federal Trade Commission and Department of Justice have the responsibility to step in to address anti-competitive behavior, explains Murray. “But history has shown that we cannot rely on regulators alone.”

Delbanco added, “Organizations like CPR can help to push for more careful monitoring of consolidation and draw attention to regional hotspots where prices are dramatically increasing.”

Those interested in learning more about health care provider consolidation and possible solutions are invited to attend CPR’s National Summit on Provider Market Power in Washington, DC on June 11, 2013, and can learn more by emailing summit@catalyzepaymentreform.org.

###

Catalyst for Payment Reform is an independent, non-profit corporation working on behalf of large employers and other health care purchasers to catalyze improvements to how we pay for health services and to promote better and higher value care in the U.S. Learn more at www.catalyzepaymentreform.org.