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Responding to payer consolidation

September 02, 2015

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The recent mega-mergers in the payer industry are creating concern among healthcare providers across the country and leading them to ask how far this trend will go and how they can respond. The drivers of payer consolidation have been well-discussed and providers should recognize that the trend is not yet played out.

Moreover, its impact will be felt on a market-by-market basis, and strategic planning should consider whether providers are contributing to the trend or mitigating the downside risk of it. For now, providers should anticipate at least three consequences of this trend:

Fee-for-service (FFS) rate increases will be reduced. The most obvious impact is that payer consolidation aggregates buyer power, thereby lessening providers' negotiating leverage. This means that some providers will see fewer (and smaller) rate increases in an already very challenging reimbursement environment.

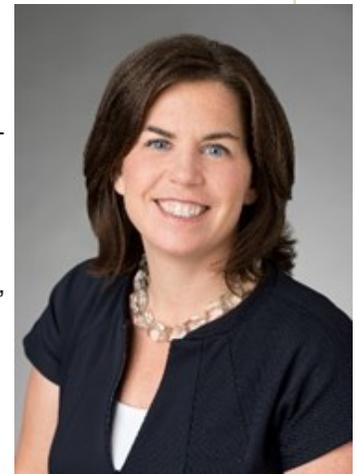
Corporate integrations will be consuming payers' attention. Partnering to create solutions with payers is going to be harder while payers are undergoing the gritty work of integrating operations among merged companies. Providers should expect that new collaborations, particularly those requiring customizations on infrastructure such as IT, may be delayed or deferred.

Related: [How physicians should negotiate with payers](#)

Encroachments on provider roles may accelerate. One of the drivers of payer consolidation is payers' desire to develop complementary capabilities, including population health and provider-like capabilities. For example, Humana has been building its portfolio of employed physician practices, while Aetna has long invested in care management. Together, these can form a more comprehensive portfolio of assets with higher performance potential if properly integrated. Pursuit of and investment in these capabilities may lead to reduced patient volumes for providers, higher barriers to providers thinking of expanding their own services, and customer confusion where both the payer and provider are pursuing those functions.

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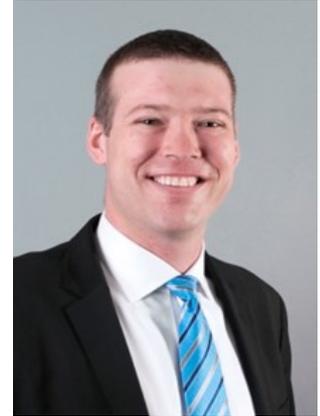
Responding to payer consolidation

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Providers should consider the following responses to the trend of payer consolidations:

Accelerate the move to population health – In a concentrated payer market, superior population health management makes it more difficult for payers to exclude you from the network, and can go a long way toward mitigating downside consequences of payer consolidation. Partnering with payers to accelerate the move to population health shifts the conversation from traditional FFS dynamics to creating a new operating model. Payers and providers that collaborate on the shift and successfully build out roles beyond each other's traditional functions will realize significant benefits from improved competitive differentiation and reduced need for consolidation.



Related: [Monopolizing medicine: Why hospital consolidation may increase healthcare costs](#)

Accelerating the move toward population health may also create a silver lining to payer consolidation in some markets. Where the lead payer in consolidating the market is a good partner and invests in capabilities that are complementary to providers' population health efforts, the consolidation will drive scale in those capabilities and enable more market lives to be shifted faster to the new model.

Consider strategic ventures into the payer space more carefully: Many providers are considering venturing into the payer space through acquisition of a health plan or at least a health plan license. While this makes strategic sense for some providers, leaders should consider that actions that further disrupt the payer marketplace and make it more difficult for payers to succeed may catalyze consolidation in the local market or force lower-performing plans to exit.

Align or merge with the right provider partners: Payer and provider trends are, for better or worse, mutually reinforcing. A natural provider response to payer consolidation is to follow in kind and merge with other providers. Provider mergers aim to create or capture more value through aggregation of supplier power, improvement in care outcomes via clinical integration, reduced overhead from scaling back office functions, and stronger revenue streams via tighter referral relationships. Providers considering a merger should: (1) search for partners with complementary capabilities that improve likelihood of long-term success; (2) invest in integration to achieve quality and cost savings and don't shy from responsibly disrupting existing structures to do so; and (3) recognize that this strategy does not always pay off, as regulators are growing increasingly willing to force providers to unwind mergers years later if they lead to higher rate increases.

Focus resources appropriately: Enhanced market pressure raises the risk of spreading resources too thin. Know which lines of business and capabilities will lead to long-term success, which are reinforcing around the core business, and which are non-essential. Take this opportunity to elevate organizational discipline and strengthen areas most critical for success.

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AMA Releases Analyses on Potential Anthem-Cigna and Aetna-Humana Mergers

For immediate release:

Sept. 8, 2015

Nearly half of all states could see diminished competition in local health insurance markets

CHICAGO – The combined impact of proposed mergers among four of the nation's largest health insurance companies would exceed federal antitrust guidelines designed to preserve competition in as many as 97 metropolitan areas within 17 states, according to new special analyses of commercial health insurance markets issued by the American Medical Association (AMA).

For these locations, the mergers would enhance market power. According to the U.S. [Department of Justice](#), "a merger enhances market power if it is likely to encourage one or more firms to raise price, reduce output, diminish innovation, or otherwise harm customers as a result of diminished competitive constraints or incentives." The mergers would also raise significant competitive concerns in additional markets. All told, the two mergers would diminish competition in up to 154 metropolitan areas within 23 states.

"A lack of competition in health insurer markets is not in the best interests of patients or physicians," said AMA President Steven J. Stack, M.D. "If a health insurer merger is likely to erode competition, employers and patients may be charged higher than competitive premiums, and physicians may be pressured to accept unfair terms that undermine their role as patient advocates and their ability to provide high-quality care. Given these factors, AMA is urging federal and state regulators to carefully review the proposed mergers and use enforcement tools to preserve competition."

On an individual basis, the Anthem-Cigna merger would enhance market power in 85 metropolitan areas within 13 states, including California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio and Virginia.

The merger would also raise significant competitive concerns in additional markets. All told, the Anthem-Cigna merger would diminish competition in up to 111 metropolitan areas within all 14 states that Anthem currently operates: California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio, Virginia and Wisconsin.

A closer look at the Aetna-Humana merger shows that it would enhance market power in 15 metropolitan areas within 7 states, including Florida, Georgia, Illinois, Kentucky, Ohio, Texas and Utah. The merger would also raise significant competitive concerns in additional markets. All told, the Aetna-Humana merger would diminish competition in up to 58 metropolitan areas within 14 states, including Arizona, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Ohio, Tennessee, Texas, Utah, Wisconsin and West Virginia.

These findings are based on an in-depth analysis of data used to create the newly released 2015 edition of AMA's *Competition in Health Insurance: A Comprehensive Study of U.S. Markets*, which offers the largest and most complete picture of competition in health insurance markets for 388 metropolitan areas, as well as all 50 states and the District of Columbia. The study is based on 2013 data captured from commercial enrollment in fully and self-insured plans, and includes participation in consumer-driven health plans.

The prospect of reducing five national health insurance carriers to just three should be viewed in the context of the unprecedented lack of competition that already exists in most health insurance markets. According to the AMA's latest study:

- A significant absence of health insurer competition was found in seven out of 10 metropolitan areas studied. These markets are rated "highly concentrated," based on federal guidelines used to assess the degree of competition in a given market.

- In nearly two out of five metropolitan areas studied, a single health insurer had at least a 50 percent share of the commercial health insurance market.
- Fourteen states had a single health insurer with at least a 50 percent share of the commercial health insurance market.
- Forty-six states had two health insurers with at least a 50 percent share of the commercial health insurance market.
- The 10 states with the least competitive commercial health insurance markets were: 1. Alabama, 2. Hawaii, 3. Delaware, 4. Michigan, 5. Alaska, 6. South Carolina, 7. Louisiana, 8. Nebraska, 9. Illinois, and 10. North Dakota.
- The 10 states that experienced the biggest drop in competition levels between 2010 and 2013 were: 1. Louisiana, 2. Idaho, 3. New Jersey, 4. Missouri, 5. Montana, 6. Illinois, 7. Texas, 8. West Virginia, 9. Iowa, and 10. Ohio.

The new AMA study is intended to help researchers, lawmakers, policymakers and regulators identify markets where mergers and acquisitions among health insurers may harm patients, physicians and employers.

Competition in Health Insurance: A Comprehensive Study of U.S. Markets is free to AMA members. The study is also available to non-members. To order a copy, visit the online [AMA Store](#), or call (800) 621-8335 and mention item number OP427113.

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