The Competition Conundrum
The Role of Competition in Improving the Affordability of Insurance

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ABOUT US

We believe that sound evidence and solid analysis leads to better health policy, and that better health policy leads to healthier Coloradans. That is our work as Colorado’s leading nonprofit and nonpartisan health policy research group. And we are passionate about it.
A Perennial Problem: the Affordability of Insurance
Insurance Premiums on the Rise

Everyone Wants More Competition…

“I think we could make progress ... by increasing more competition by insurance providers.”
Senator Michael Bennet

“Americans are demanding real health care reform that will increase competition.”
Senator Cory Gardner

... But Will More Competition Improve Affordability?
Key Takeaways

1. The market for health insurance is complicated.
2. Colorado counties with the fewest hospitals and insurance carriers have the highest premiums.
3. Increased competition alone might not bring down prices.
4. There are policies that could help encourage greater competition, but big challenges exist.
The Market for Health Insurance is Complicated.
Economics 101: Competition

(Not to scale)
Economics 101: Market Power

Seller

Buyer

Medicare
Economics 101: Health Care Markets

Prices for insurance premiums, benefit levels

Consumers
Families and Individuals
Employers

Prices for health services and products

Insurance Carriers

Hospitals

Physicians

Pharma

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Economics 101: How Does Competition Affect Health Care Markets?

- Competition among providers.
- Competition among insurance carriers.
Economics 101: Health Care Markets

Prices for insurance premiums, benefit levels

Prices for health services and products

Consumers
- Families and Individuals
- Employers

Insurance Carriers

Less carrier competition → Lower provider prices, But higher premiums?

Less hospital competition → Higher provider prices
Colorado Counties With the Fewest Hospitals and Insurance Carriers Have the Highest Premiums.
How Much Competition is There in Colorado’s Health Care Markets?
Hospitals

For each county, identify which hospitals are competing

Source: US CMS Medicare Cost Reports; ARCGIS.
Hospitals

Source: US CMS Medicare Cost Reports; ARCGIS.

For each county, identify which hospitals are competing

Calculate HHI (market shares; hospital systems)

County-level hospital competition

Level of Hospital Competition

Source: US CMS Medicare Cost Reports; ARCGIS.
Insurance Carriers: Competition in Metro Areas

More Competitive States

Less Competitive States

Source: AMA, Competition in Health Insurance, 2016 Update.
Insurance Carriers: the Individual Market

Individual Market Carriers by County (On-Exchange), 2017

Source: Colorado Division of Insurance, 2017 Individual Plan Counts by Area and County.
Competition and Premiums

Insurance premium data provided by Connect for Health Colorado.
Increased Competition Alone Might Not Bring Down Prices.

There Are Policies That Could Help Encourage Greater Competition, but Big Challenges Exist.
Is More Competition the Key?

• Correlations, not causation

• Alternative explanations
  • Differences in utilization
  • Sectors besides hospitals and insurance

“All happy families are alike; each unhappy family is unhappy in its own way.”
Challenges for Improving Competition

- Small populations
- Churn
- More risk for carriers
What Can Be Done to Encourage More Carriers to Enter the Individual Market?

• Re-insurance: insurance for insurers
• Reduce churn by tightening enrollment rules
• Quality, not quantity
• Additional policies...
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