Hospital Competition and Hospital Mergers: What the Best Evidence Tells Us

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The average premium for employer-sponsored family health coverage was $19,616 in 2018  
[Kaiser Family Foundation, 2018 – Employer Health Benefits Survey]

Hospitals account for 33% of health spending (the largest individual category)  
[2018 National Health Expenditure Survey]

The hospital sector accounts for 6% of gross domestic product  
[2018 National Health Expenditure Survey]

The hospital industry has undergone significant consolidation over the last 30 years
Hospital Mergers Per Year (Number of Transactions)

Source: Kaufman Hall Transactions Data

1 Note: For transactions other than acquisitions, such as mergers, joint operating agreements, and joint ventures, seller is defined as the entity with smaller net patient service revenue.
Notes: The graph displays the kernel density estimate of the distribution of Commuting Zone-HHIs across the country. Each Commuting Zone’s HHI is a hospital bed-weighted average of the HHIs of the hospitals in that Commuting Zone. A hospital’s market includes all hospitals within a 45 minute travel time of said hospital. Each hospital’s share of the market is based on how many beds its health network controls in the hospital’s market. The density function is estimated using kdensity command in Stata.

Source: Cooper 2019
Health Spending on the Commercially Insured Varies by a Factor of 3 Across the Nation

Inpatient and outpatient physician and facility prices, 2007–14

Source: Authors’ analysis of data from the Health Care Cost Institute. Notes: A hospital is included in the inpatient or outpatient sample for a year if the hospital had at least fifty inpatient or outpatient episodes, respectively, in that year. All inpatient and outpatient episodes are for patients ages 18–64. All prices are adjusted and weighted as explained in the notes to exhibit 1.

• Monopoly hospitals had a higher share of inpatient cases paid as a share of charges

• Monopoly hospitals had fewer cases linked to the Medicare fee schedule

There is Expansive Variation in Prices Within Hospitals

Impact of Mergers on Prices

- Inova Health System acquisition of Prince William Hospital – simulated price increase of 30.5% (Gowrisankaran, Nevo, and Town, AER, 2015).

- Sutter’s prices increased between 28% and 44% following its merger with Alta-Bates (Tenn, 2011).

Concluding Thoughts

• The hospital sector is the largest contributor to health spending in the US

• The industry has gone through substantial consolidation over the last twenty to thirty years

• In the cross-section, concentration is linked to higher prices and more favorable contractual terms

• Ex-post merger analysis shows that mergers can raise prices

• At a point where we need to consider either price regulation or substantial increases in antitrust enforcement budgets.