Health Care Industry Consolidation

Responses to Questions from the Committee on Energy and Commerce Oversight and Investigations Subcommittee, U.S. House of Representatives

by

Martin Gaynor
E.J. Barone University Professor of Economics and Health Policy
Heinz College
Carnegie Mellon University

March 23, 2018

1 Introduction

Below are my responses to questions from Members of the Committee on Energy and Commerce Oversight and Investigations Subcommittee, following the February 14, 2018 hearing "Examining the Impact of Health Care Consolidation."

2 Question from the Honorable Earl "Buddy" Carter

1. **CMS data demonstrates a substantial migration of common procedures to higher-cost sites of service in hospital outpatient departments. For example, over the last several years (between 2010-2014), 6 percent of diagnostic colonoscopies have migrated into hospital outpatient departments that were previously performed in an ambulatory surgery center. (This costs both Medicare and its beneficiaries significantly more, as Medicare spends $937 on diagnostic colonoscopies performed in hospital outpatient departments compared to $488 in ambulatory surgery centers. In addition, knee arthroscopy is down 16% in ASC and up 13% in HOPD.**

   This migration out of cheaper site-of-service is driven largely by hospital acquisition of physician practices, which in turn drives referrals. According to the Physicians Advocacy Institute, physician employment by hospitals grew by 49% between 2012 and 2015. Whats more, for certain cardiology, orthopedic and gastroenterology services, hospital employment of physicians results in up to 27% higher costs for Medicare and 21% higher costs for patients.

   (a) **Do you agree that the consolidation in healthcare, its impact on physician referral practices and the migration of routine procedures to higher-**

cost settings are related?

The acquisition of physician practices by hospitals leads to more care being delivered in hospital settings (Capps et al., 2017; Koch et al., 2017; Dranove and Ody, 2016; Song et al., 2015) (although I am not aware of evidence specifically documenting a shift from ambulatory surgery centers to hospital outpatient departments as a result of such acquisitions).

There is direct evidence that hospital ownership of physician practices leads to more referrals to those (the owning) hospitals (Baker et al., 2016; Carlin et al., 2015), and that those hospitals are higher cost and lower quality (Baker et al., 2016). More generally, research has found that hospital ownership of physician practices is associated with higher spending and higher prices (Robinson and Miller, 2014; Baker et al., 2014; Neprash et al., 2015; Koch et al., 2017).

(b) **What can be done to ensure physicians offer Medicare beneficiaries and other patients access to the most efficient, high-quality and cost-effective care options?**

Medicare should analyze how their payments are structured to see if the payments create unintended incentives that make treating patients in particular settings, locations, or facilities more financially rewarding than treating them in other settings, locations, or facilities. In particular, payments should be revised if necessary so that they do not favor any particular setting, facility, or location. Payments that reward more efficient, high quality, and cost effective care are desirable, but rewards should be based on the desired outcomes, as opposed to setting, facility, location, et'c.

(c) **Should ASC payment updates be tied to similar hospital outpatient facilities, so that independent physicians have a better chance to compete rather than becoming employed doctors?**

It's desirable to have payments for providing the same service for patients of the same complexity and severity be equal, regardless of the setting. If patients can be provided with safe and high quality care in a lower cost setting then Medicare payments for all providers should be set at the level of the lower cost setting. For example, if patients can be provided with safe and high quality care in an ambulatory surgery center (ASC), and if the same treatment is cheaper in an ASC than in a hospital outpatient department, then Medicare payments should be set at the ASC level regardless of whether the treatment is provided in an ambulatory surgery center or a hospital outpatient department. The Medicare Payment Advisory Commission (Medpac) has outlined criteria under which hospital outpatient department payment rates could be aligned with ambulatory surgery center payment rates (Medicare Payment Advisory Commission, 2017).

3 Question from Representative Yvette Clarke

1. **The current average price for a pair of eyeglasses is now around $400 per pair. Even as the price of eyeglasses is rising year-over-year, the eyewear industry is considering further consolidation. As it stands now, the market for eyeglass frames in the U.S. is largely dominated by one company, Luxottica, which owns and manufactures many of the top eyewear and sunglass brands. Notwithstanding its market dominance, Luxottica has proposed a merger with Essilor, a French company that controls around 70% of the market share for lenses and the equipment to produce them. Together, a combined Luxottica-Essilor company would control and dominate the entire supply chain in the eyewear market.**

   (a) **How do you think this merger will impact the price of eyeglasses?**

   I do not have the information I would need to assess the likely impact of this merger. As a consequence, I do not have a personal opinion on the likely impact of the merger. However, the Federal Trade Commission (FTC) has reviewed the merger. The commissioners unanimously voted to close the investigation into the merger, because in their opinion the evidence did not indicate that the merger would substantially lessen competition (Federal Trade Commission, 2018). While I do not know all the particulars, I have a great deal of confidence in the FTC's ability to gather and analyze evidence and assess potential harms to competition.

   (b) **Do you think this merger will make it more difficult for smaller frame manufacturers, rival lens producers, and independent optometrists to compete and negotiate for market-based prices?**

   The FTC specifically addressed whether independent eye care professionals' ability to compete would be harmed by the merger. They concluded their ability to compete would not be harmed by the merger (Federal Trade Commission, 2018).

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