OPENING STATEMENT FOR THE HONORABLE GREGG HARPER

CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

"Examining the Impact of Health Care Consolidation."

FEBURARY 14, 2018

The Subcommittee convenes this hearing entitled "Examining the Impact of Health Care Consolidation."

The price of health care in the United States has steadily risen for several decades. In 2016, U.S. health care spending was estimated to be around $3.3 trillion, and the gross domestic product related to health care spending was 17.9 percent, an increase from 17.7 percent just the year before. Data shows that the increasing costs of health care are ultimately passed along to American workers and families. This trend is concerning for all Americans and is an issue the Committee will continue to examine here today and in the future.

While there are numerous factors contributing to the rising costs of health care, reports and studies show consolidation is a contributing factor. Consolidation is not a new phenomenon. It has been occurring for decades among hospitals, doctors, the pharmaceutical industry, and insurance companies.

To date, most studies and data have focused on hospital and insurer consolidations. The effects of cross-market consolidations and other types of vertical consolidations are less clear.

Horizontal hospital consolidation--the consolidation of hospitals into a single larger system--has grown at a rapid pace the past decade. According to the Medicare Payment Advisory Commission (MedPAC), hospital markets are now highly consolidated. In 2012, MedPac found that a single hospital system accounted for a majority of Medicare discharges in 146 of 391 metropolitan areas. Similarly, a researcher found that in 2016, 90 percent of metropolitan areas were highly concentrated for hospitals.

Through vertical consolidation, hospitals have also acquired a significant number of physician practices over the past decade. A recent analysis shows that the number of physicians employed by hospitals increased by 49 percent between 2012 and 2015.

The Government Accountability Office found that between 2007 to 2014, the number of vertically consolidated physicians nearly doubled from about 96,000 to 182,000.

There also appears to be a significant amount of consolidation in the health insurance industry. The estimated nationwide market share of the largest four insurers increased from 74 percent in 2006 to 83 percent in 2014. Recently, the U.S. Department of Justice (DOJ) successfully blocked two mergers between major health insurance companies, noting that the mergers would violate antitrust laws and would lead to higher health care costs for consumers.

Given DOJ's success in challenging these mergers, some analysts have speculated that we'll start seeing more vertical integration in the health care space. Additionally, the Federal Trade Commission (FTC) has recently been successful challenging horizontal mergers of providers that supply similar services in geographic proximity.

However, the FTC and DOJ do not appear to regularly challenge vertical consolidations. Since 2000, the FTC and DOJ have challenged only 22 vertical mergers in total.

The move toward consolidation raises questions as to what it really means for patients. Hospitals and providers contend that consolidation makes facilities more efficient by eliminating duplicative services, reducing administrative burdens, and improving quality of care. Physicians are incentivized for many reasons to consolidate with hospitals, including more payment stability and less financial and regulatory burdens. Many experts point to Medicare paying more for the same services at hospitals than a physician's office as a leading factor in providers consolidating with hospitals.

While many benefits of consolidation are difficult to measure, the majority of studies and literature shows that horizontal hospital consolidation leads to higher prices.

For example, according to MedPac, horizontal consolidation of hospitals has contributed to the discrepancy between prices Medicare pays hospitals and what commercial insurers pay. In fact, a study found that in 2012, the average private price was 75 percent higher than Medicare prices after hospitals consolidate. Additionally, a 2018 study looking at hospital/physician consolidations found that from 2007 to 2013, almost 10 percent of physician practices reviewed were acquired by a hospital. After being acquired, the services offered by physicians increased an average of 14 percent.

In response to the growing number of consolidations in the health care industry, in October 2017, the Trump Administration issued an Executive Order to foster greater competition in the health care markets and directing the

Administration to promote competition in and limit excessive consolidation in the health care system. Health and Human Services was directed to collect public comments on these issues.

We look forward to learning what innovative solutions HHS discovers during this process.

Consolidation in the health care industry raises many important questions relating to competition and innovation.

- Why has consolidation increased during the past decade?
- Is consolidation good for patients?
- What changes could Congress or HHS make to encourage competition and innovation in health care?

I welcome and thank the witnesses, and look forward to their testimony.