

# Chapter 14: The Structure of the Health Sector

**By:**  
Christopher Conover



# Chapter 14: The Structure of the Health Sector

**By:**

Christopher Conover

**Online:**

< <https://hub.mili.csom.umn.edu/content/col10014/1.1/> >

**Medical Industry Leadership Institute Open Education Hub**

This selection and arrangement of content as a collection is copyrighted by Christopher Conover. It is licensed under the Attribution 3.0 (<http://creativecommons.org/licenses/by/3.0/>).

Collection structure revised: September 25, 2013

PDF generated: November 5, 2013

For copyright and attribution information for the modules contained in this collection, see p. 15.

## Table of Contents

<b>1</b>	<b>14.1 Less than Half of US Health Workers Are Employed by Large Firms</b> .....	<b>1</b>
<b>2</b>	<b>14.2 Concentration in Health Insurance Industry</b> .....	<b>5</b>
<b>3</b>	<b>14.3 US Health Sector Is Highly Regulated</b> .....	<b>9</b>
<b>4</b>	<b>14.4 Unionization Rates in the Health Industry</b> .....	<b>11</b>
	<b>Index</b> .....	<b>14</b>
	<b>Attributions</b> .....	<b>15</b>



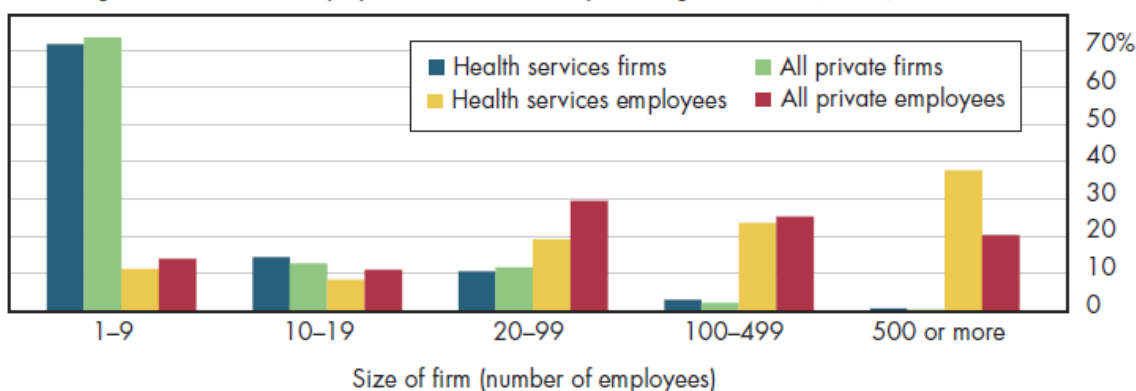
## Chapter 1

# 14.1 Less than Half of US Health Workers Are Employed by Large Firms<sup>1</sup>

More than 70 percent of health sector firms employ fewer than 10 employees (figure 14.1a). This is almost identical to the number for all U.S. private businesses. However, only approximately 10 percent of all health sector workers are employed by such firms, somewhat lower than for private business overall. In fact, relative to all private businesses, health sector workers are somewhat "underrepresented" in all firm-size categories up to 500 workers. In contrast, almost 40 percent of health care employees work in organizations that have 500 or more employees—almost double the national average. In both health care and private industry, such firms account for much less than 1 percent of all firms. This is almost invisible in figure 14.1a.

### 14.1a Compared with all private-sector workers, a much higher share of health services employees work for large firms

Percentage of total firms or employees within an industry working in firm size (2007)



Note: Health services employees include those in ambulatory health care services, hospitals, and nursing homes and other residential care facilities.

At one further level of detail, hospitals, the insurance industry, and pharmaceutical industry represent subsectors in which more than half of workers work in the largest firms. In hospitals, fewer than one in six workers works in facilities that have fewer than 500 employees (figure 14.1b). Not surprisingly, there are few hospitals with fewer than 100 workers. In the insurance industry—specific figures for health insurance are not available—more than half work in the largest firms, but another fourth work in medium-size firms of 100-499 employees. On the goods-producing side of health care, more than half of pharmaceutical manufacturing

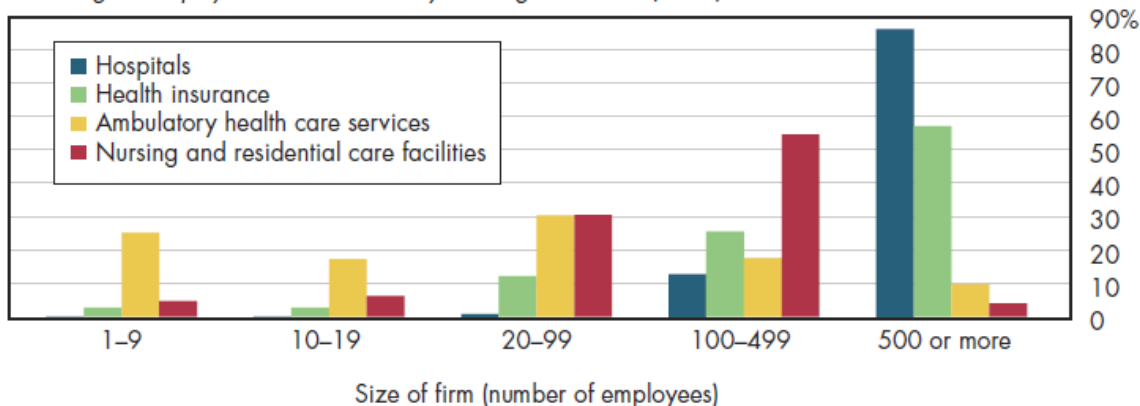
<sup>1</sup>This content is available online at <<https://hub.mili.csom.umn.edu/content/m10088/1.1/>>.

Available for free at Medical Industry Leadership Institute Open Education Hub  
<<https://hub.mili.csom.umn.edu/content/col10014/1.1/>>

employees but fewer than 30 percent of medical equipment manufacturing workers work in the largest firms (figure 14.1c).

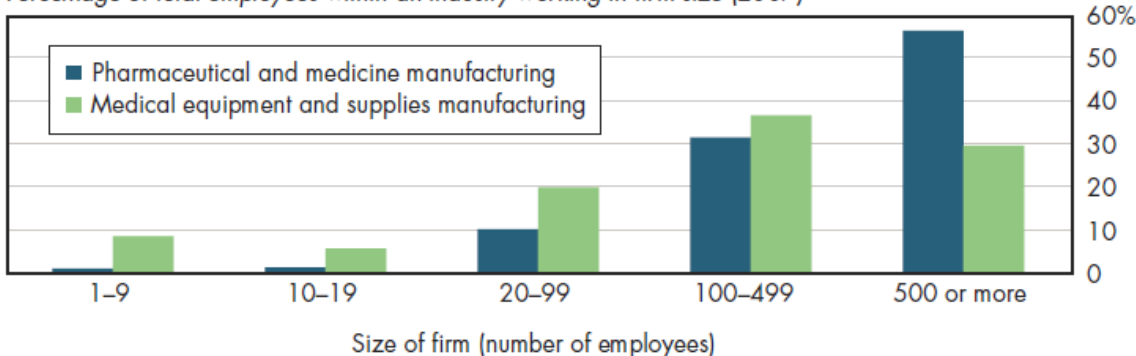
### 14.1b More than half of hospital and health insurance employees work for firms that have 500 or more employees

Percentage of employees within an industry working in firm size (2007)



### 14.1c In the goods-producing area of the health sector, most employees work in medium- or large-size firms

Percentage of total employees within an industry working in firm size (2007)



Note that there is no consensus about the dividing line between *large-* and *medium-size* firms. Some draw the line at 100 or 200 workers, but under virtually all definitions, a firm that has 500 or more workers is a large employer. Using the most expansive definition—a cut-off at 100 workers—99 percent of hospital workers, nine in 10 pharmaceutical industry workers, and approximately 75 percent of health insurance workers would be counted as employed by large firms. Over the past 30 years, the percentage of workers accounted for by health services has risen in all firm sizes; such growth has been fastest among the largest organizations.

## 1.1 Downloads

Download PowerPoint versions of all figures.

- Figure 14.1a Image Slide (as it appears above)<sup>2</sup>
- Figure 14.1a Editable Slide (can be formatted as desired)<sup>3</sup>

<sup>2</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1aIMG.ppt>

<sup>3</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1aDATA.ppt>



- Figure 14.1b Image Slide (as it appears above)<sup>4</sup>
- Figure 14.1b Editable Slide (can be formatted as desired)<sup>5</sup>
- Figure 14.1c Image Slide (as it appears above)<sup>6</sup>
- Figure 14.1c Editable Slide (can be formatted as desired)<sup>7</sup>

## 1.2 References

- A. Author's calculations.
- B. Department of Commerce. Bureau of the Census.

---

<sup>4</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1bIMG.ppt>

<sup>5</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1bDATA.ppt>

<sup>6</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1cIMG.ppt>

<sup>7</sup><https://hub.mili.csom.umn.edu/content/m10088/latest/14.1cDATA.ppt>

*CHAPTER 1. 14.1 LESS THAN HALF OF US HEALTH WORKERS ARE  
EMPLOYED BY LARGE FIRMS*

## Chapter 2

# 14.2 Concentration in Health Insurance Industry<sup>1</sup>

By conventional measures, the health insurance industry is highly concentrated. Some experts worry that lack of competition might result in higher premiums for health coverage than would otherwise prevail in a more competitive market. Economists measure concentration using what is called a Herfindahl-Hirschman Index (HHI). The calculation involves squaring the market shares of each competitor in a market and adding the results. For a monopolist having a market share of 100 percent, the HHI would be 10,000 ( $100^2 = 10,000$ ). Ten competitors each with equal market shares would produce an HHI of 1,000 ( $10 \times 10^2$ ). For purposes of antitrust regulation, the Federal Trade Commission (FTC) currently views areas with an HHI of 2,500 and more as *highly concentrated*. Transactions that increase the HHI by more than 100 points in highly concentrated markets presumptively raise antitrust concerns.

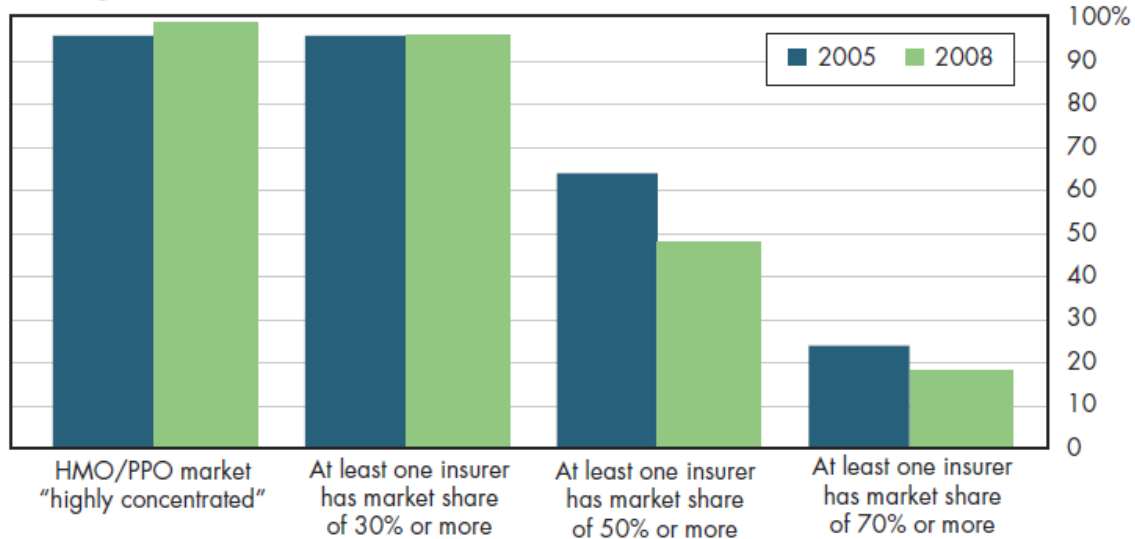
Using an HHI threshold of 1,800 that the FTC used prior to August 2010, in more than 90 percent of metropolitan statistical areas (MSAs), the market for insurers offering fully insured HMO or PPO plans is highly concentrated. A related measure shows that in more than 90 percent of MSAs, a single insurer for these products accounts for 30 percent of the market (figure 14.2a). In more than 60 percent of markets, the dominant insurer has more than half of all market shares, and in 25 percent of MSAs, this share exceeds 70 percent.

---

<sup>1</sup>This content is available online at <<https://hub.mili.csom.umn.edu/content/m10089/1.1/>>.

### 14.2a By conventional measures, many metropolitan areas appear to have high levels of insurance company concentration

Percentage of MSAs with concentration level

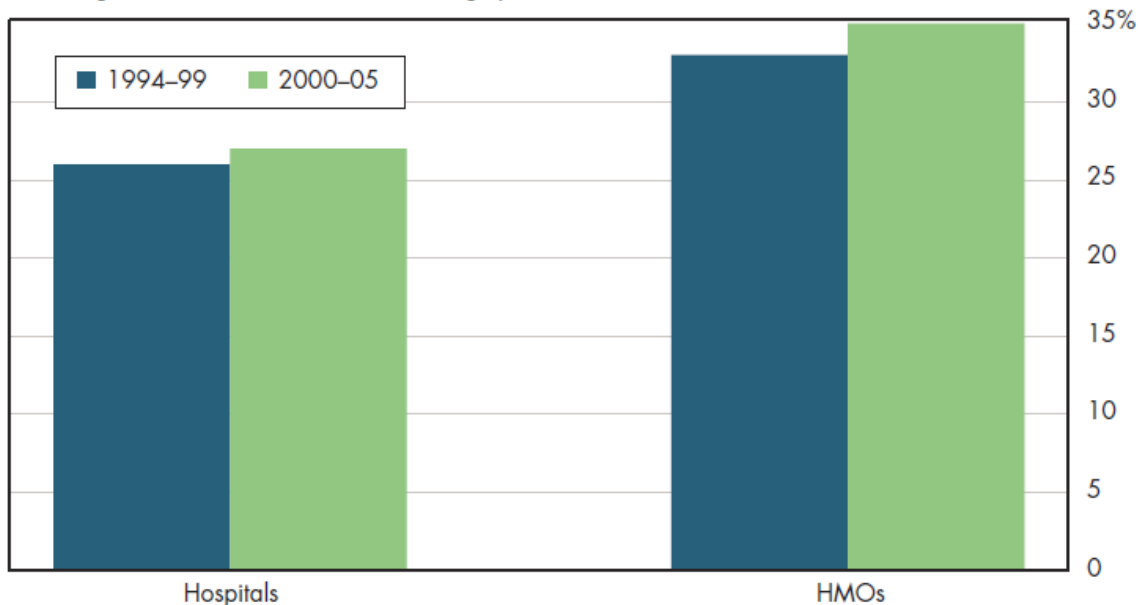


Note: At the time of this analysis, the threshold for "highly concentrated" was a Herfindahl-Hirschman Index score of 1,800 or higher. Since August 2010, the FTC has this threshold at a score of 2,500 or higher. The denominator for the percentages shown was 313 MSAs in 2005 and 359 in 2008.

However, other studies have found much less concentration (figure 14.2b). Moreover, all the foregoing calculations focus on the fully insured market, ignoring self-funded health plans. Most large employers self-fund their health benefits: They absorb the risk and hire a health insurer or third-party administrator to pay claims. Approximately 60 percent of employer coverage is through such plans. Having market power does not mean it can be exercised. The modest profitability levels for health insurers described previously are not consistent with insurers having a widespread ability to demand supra-competitive prices. Although these measures do not paint a completely accurate picture of competitiveness in the health insurance industry, they do suggest that concentration might be increasing.

## 14.2b It appears that concentration is rising in both the hospital industry and HMO industry

Percentage of MSAs with concentrated or highly concentrated markets



Note: At the time of this analysis, the threshold for “highly concentrated” was a Herfindahl-Hirschman Index score of 1,800 or higher; “concentrated” is defined as an HHI of 1,000–1,800. Since August 2010, the FTC has the first threshold at a score of 2,500 or higher and the second at 1,500–2,500.

## 2.1 Downloads

Download PowerPoint versions of both figures.

- Figure 14.2a Image Slide (as it appears above)<sup>2</sup>
- Figure 14.2a Editable Slide (can be formatted as desired)<sup>3</sup>
- Figure 14.2b Image Slide (as it appears above)<sup>4</sup>
- Figure 14.2b Editable Slide (can be formatted as desired)<sup>5</sup>

## 2.2 References

- American Medical Association. Competition in Health Insurance, 2010 Update. Chicago. 2010. Managed Market Survey ©2008, HealthLeaders-InterStudy.
- Shen YC, VY Wu and G Melnick. Trends in Hospital Cost and Revenue, 1994-2005: How Are They Related to HMO Penetration, Concentration, and For-Profit Ownership? Health Services Research 2010; 45(1):42-61.

<sup>2</sup><https://hub.mili.csom.umn.edu/content/m10089/latest/14.2aIMG.ppt>

<sup>3</sup><https://hub.mili.csom.umn.edu/content/m10089/latest/14.2aDATA.ppt>

<sup>4</sup><https://hub.mili.csom.umn.edu/content/m10089/latest/14.2bIMG.ppt>

<sup>5</sup><https://hub.mili.csom.umn.edu/content/m10089/latest/14.2bDATA.ppt>



## Chapter 3

# 14.3 US Health Sector Is Highly Regulated<sup>1</sup>

For decades, experts have regarded the health sector as one of the most highly regulated areas of the U.S. economy. State governments license many health providers. In more than 65 percent of states, hospitals, and/or nursing homes must secure a certificate of need—that is, the state’s permission—before building or expanding a health facility or adding equipment to it. Health insurers cannot operate in a state without its approval and in some cases, review of its premium rates. FDA approval is required to bring drugs and medical devices to market. Finally, in many states, special rules or limits govern how the courts handle medical liability cases compared with how a bread-and-butter tort case would be adjudicated.

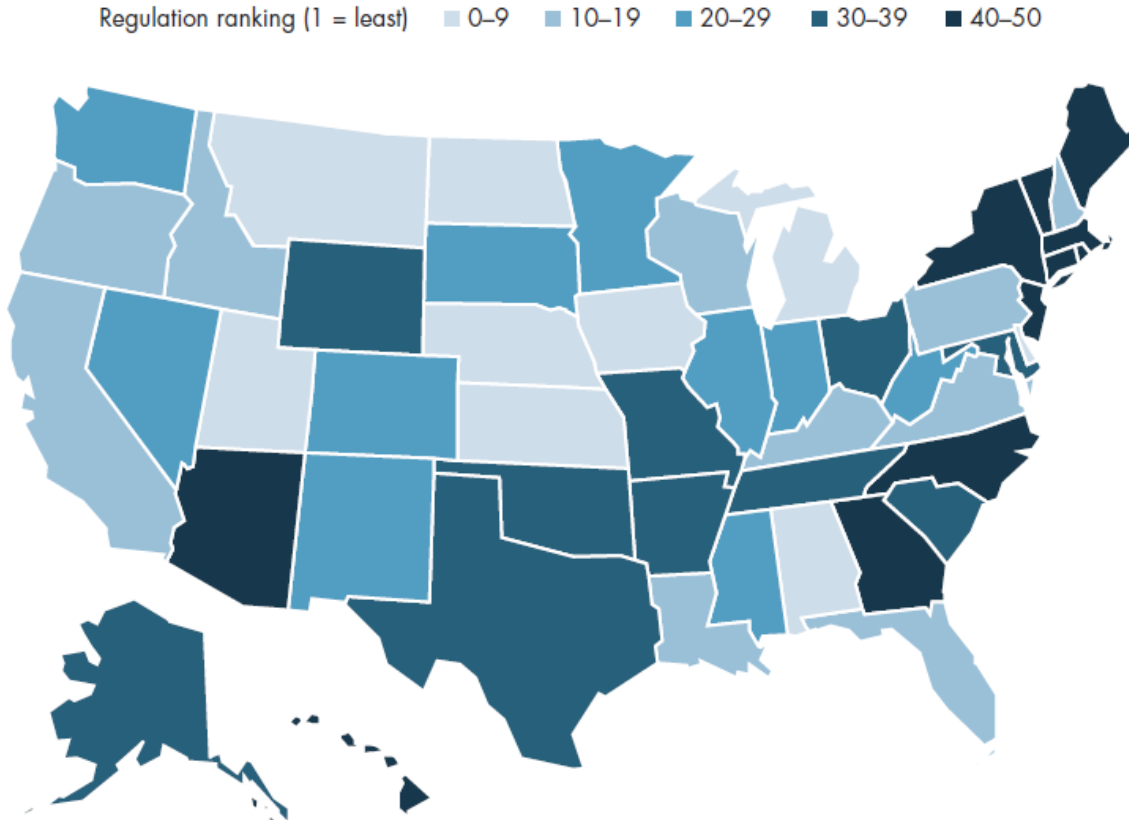
Even this incomplete description of regulation shows that states play an important role in regulation of health services. Consequently, differences across states in the scope and stringency of various health services regulations are quite large.

Figure 14.3 illustrates a flavor of this diversity. As with any index, this one cannot count every possible aspect of regulation. Moreover, even if it could, reasonable people might disagree on how to combine the various scores for potentially dozens of different areas of health services regulation. Should the score assigned to health facilities regulation receive the same weight as the score for regulation of health professionals? With this caveat, this particular ranking seems to show that states in the Rocky Mountain and Far West regions generally regulate health services less (or less stringently, depending on the particular area of regulation being examined) than do states in the Northeast or even Southeastern regions.

---

<sup>1</sup>This content is available online at <<https://hub.mili.csom.umn.edu/content/m10090/1.1/>>.

### 14.3 States that have the least amount of health services regulation in 2007 are predominantly located in the South and west of the Mississippi River



If fully implemented, the new health reform law will do two things. First, it will significantly increase the amount of health services regulation. Second, it will shift more regulation to the federal level. States still will play a role in implementing the details of how, for example, state health exchanges will work. However, they will do so under a new set of "rules of the road" established by the federal government.

## 3.1 Downloads

Download PowerPoint versions of figure.

- Figure 14.3 Image Slide (as it appears above)<sup>2</sup>
- Figure 14.3 Editable Slide (can be formatted as desired)<sup>3</sup>

## 3.2 References

- A. Graham J. Index of Health Ownership. 3rd Edition. Pacific Research Institute. 2009. [http://www.pacificresearch.org/docLib/20090720\\_IHOP\\_3\\_2009.pdf](http://www.pacificresearch.org/docLib/20090720_IHOP_3_2009.pdf) (accessed July 2010).

<sup>2</sup><https://hub.mili.csom.umn.edu/content/m10090/latest/14.3IMG.ppt>

<sup>3</sup><https://hub.mili.csom.umn.edu/content/m10090/latest/14.3DATA.ppt>



## Chapter 4

# 14.4 Unionization Rates in the Health Industry<sup>1</sup>

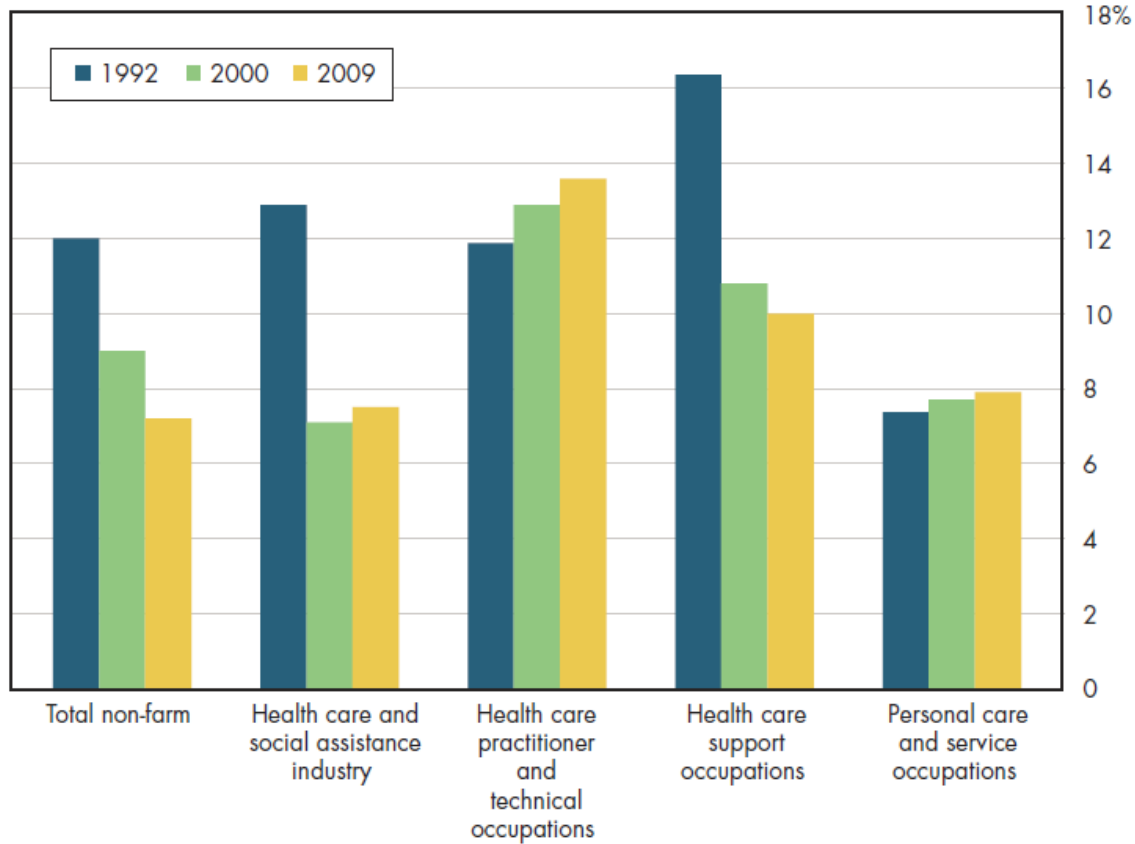
The percentage of health industry workers who are union members appears to be the same as the national rate of unionization among all workers. At the industry level, the available data combine health services workers with other social assistance workers. Because the latter group constitutes only 15 percent of the combined total, it is unlikely that the numbers shown in figure 14.4 would change much if unionization in the health industry were measured more precisely. That said, at least part of the apparent steep decline in unionization for this group between 1992 and 2000 might be a statistical artifact. During that time, a major change occurred in how industries are categorized; the groups being compared in these two years are not identical in composition. It seems likely that there was a decline in unionization but perhaps not to the extent shown. The apparent rise in unionization from 2000 to 2007 cannot be explained in a similar fashion. It likely is genuine (though small).

---

<sup>1</sup>This content is available online at <<https://hub.mili.csom.umn.edu/content/m10091/1.1/>>.

### 14.4 Health industry unionization rates appear to be the same as those elsewhere, but among some health occupations, unionization is much greater

Percentage of workers in industry/occupation who are union members



Unionization data also are available at a more detailed level for health-related occupations. Shown are the numbers for the broad aggregates used by the BLS to describe health sector workers. Thus, among health care practitioner and technical occupations, the unionization rate is approximately double the rate for all health services. Moreover, this rate appears to be increasing over time. In contrast, unionization seems to be declining among health support occupations (again, with the caveat that the steep decline from 1992-2000 likely is exaggerated). "Personal care and service occupations" is another imprecise aggregate. It includes personal and home care aides, but these constitute only approximately one-sixth of the workers in this category. It also includes those who provide personal care services such as haircuts or manicures. Unionization within this group is similar to the economy-wide average and might possibly be increasing. Because identifiable health workers account for a much smaller group within this total, it is conceivable that these numbers would be different with numbers that are more detailed.

## 4.1 Downloads

Download PowerPoint versions of figure.

- Figure 14.4 Image Slide (as it appears above)<sup>2</sup>
- Figure 14.4 Editable Slide (can be formatted as desired)<sup>3</sup>

<sup>2</sup><https://hub.mili.csom.umn.edu/content/m10091/latest/14.4IMG.ppt>

<sup>3</sup><https://hub.mili.csom.umn.edu/content/m10091/latest/14.4DATA.ppt>

## 4.2 References

- A. Department of Commerce. Bureau of the Census.
- B. Department of Labor. Bureau of Labor Statistics.

## Index of Keywords and Terms

**Keywords** are listed by the section with that keyword (page numbers are in parentheses). Keywords do not necessarily appear in the text of the page. They are merely associated with that section. *Ex.* apples, § 1.1 (1) **Terms** are referenced by the page they appear on. *Ex.* apples, 1

**H** health spending, § 1(1), § 2(5), § 3(9), § 4(11)

## Attributions

Collection: *Chapter 14: The Structure of the Health Sector*

Edited by: Christopher Conover

URL: <https://hub.mili.csom.umn.edu/content/col10014/1.1/>

License: <http://creativecommons.org/licenses/by/3.0/>

Module: "14.1 Less than Half of US Health Workers Are Employed by Large Firms"

By: Christopher Conover

URL: <https://hub.mili.csom.umn.edu/content/m10088/1.1/>

Pages: 1-3

Copyright: Christopher Conover

License: <http://creativecommons.org/licenses/by/3.0/>

Module: "14.2 Concentration in Health Insurance Industry"

By: Christopher Conover

URL: <https://hub.mili.csom.umn.edu/content/m10089/1.1/>

Pages: 5-7

Copyright: Christopher Conover

License: <http://creativecommons.org/licenses/by/3.0/>

Module: "14.3 US Health Sector Is Highly Regulated"

By: Christopher Conover

URL: <https://hub.mili.csom.umn.edu/content/m10090/1.1/>

Pages: 9-10

Copyright: Christopher Conover

License: <http://creativecommons.org/licenses/by/3.0/>

Module: "14.4 Unionization Rates in the Health Industry"

By: Christopher Conover

URL: <https://hub.mili.csom.umn.edu/content/m10091/1.1/>

Pages: 11-13

Copyright: Christopher Conover

License: <http://creativecommons.org/licenses/by/3.0/>

## **About Medical Industry Leadership Institute Open Education Hub**

Rhaptos is a web-based collaborative publishing system for educational material.