

14.2 CONCENTRATION IN HEALTH INSURANCE INDUSTRY*

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Abstract

Seemingly high levels of concentration in the health insurance industry might not accurately depict its competitiveness. Concentration is increasing for both hospitals and health insurers.

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 (10×10^2). 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.

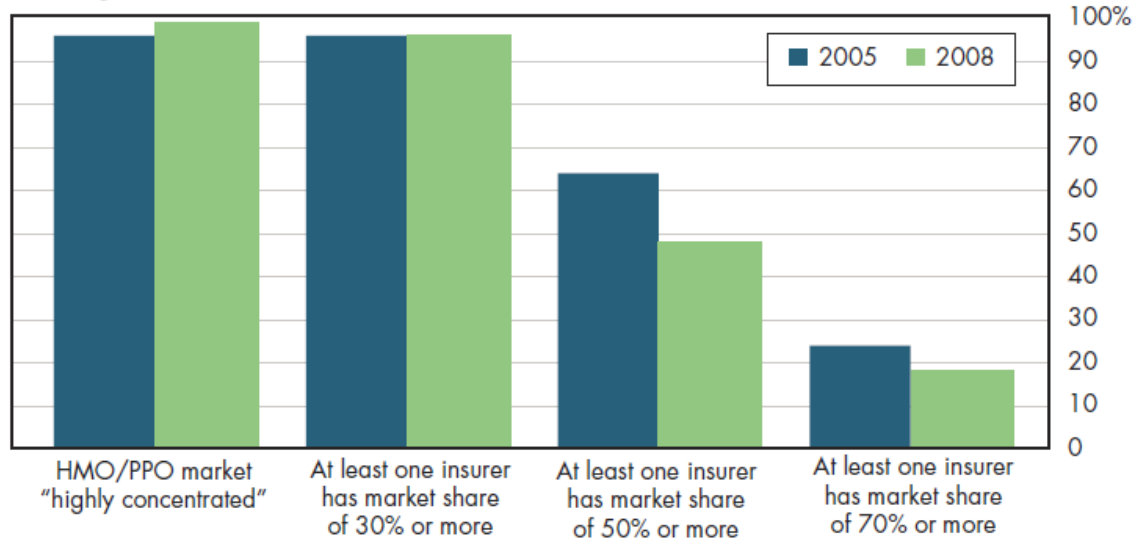
Using an HHI threshold of 1,800 that the FTC used prior to August 2010, in more than 90 percent of metropolitan statistical areas (MSAs), the market for insurers offering fully insured HMO or PPO plans is highly concentrated. A related measure shows that in more than 90 percent of MSAs, a single insurer 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.

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

Percentage of MSAs with concentration level

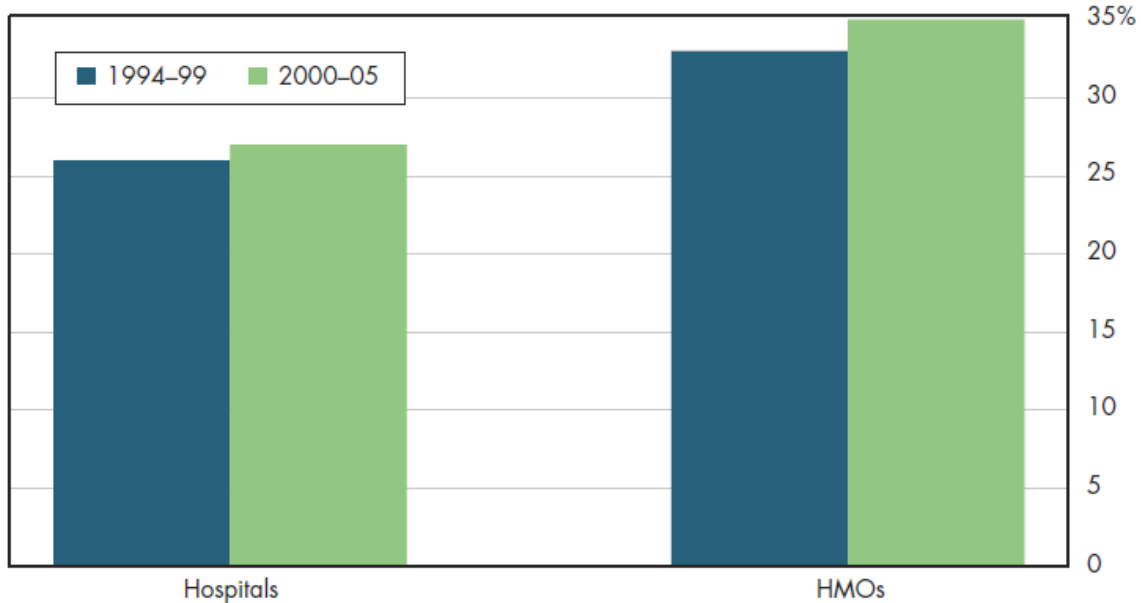


Note: At the time of this analysis, the threshold for "highly concentrated" was a Herfindahl-Hirschman Index score of 1,800 or higher. Since August 2010, the FTC has this threshold at a score of 2,500 or higher. The denominator for the percentages shown was 313 MSAs in 2005 and 359 in 2008.

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.

1 Downloads

Download PowerPoint versions of both figures.

- Figure 14.2a Image Slide (as it appears above)¹
- Figure 14.2a Editable Slide (can be formatted as desired)²
- Figure 14.2b Image Slide (as it appears above)³
- Figure 14.2b Editable Slide (can be formatted as desired)⁴

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.

¹<http://https://hub.mili.csom.umn.edu/content/m10089/latest/14.2aIMG.ppt>

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

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

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