

# Competition keeps health-care costs low, researchers find

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Medical practices in less competitive health-care markets charge more for services, according to a study conducted by researchers at the Stanford University School of Medicine and the National Bureau of Economic Research.

The study, based on U.S. health-care data from 2010, provides important new information about the effects of competition on prices for office visits paid by preferred provider organizations, known more commonly as PPOs. PPOs are the most common type of [health insurance plan](#) held by privately insured people in the United States.

The study will be published Oct. 22 in the *Journal of the American Medical Association*.

"The research comes out of trying to understand some dramatic changes that have occurred in the health-care system over a couple of decades," said the study's lead author, Laurence Baker, PhD, professor of health research and policy at Stanford.

One striking change is the shift from practices with one or two doctors toward larger, more complex organizations with many physicians. One important impact of this can be reductions in the amount of competition among physician practices. The study sought to understand how variation in the amount of competition within a region affects the amounts doctors are paid, an important consideration when developing health policy.

"This has always been an important issue, and now it's even more important as policy moves us more and more toward larger practices," said study co-author Kate Bundorf, PhD, associate professor of health and research policy.

## **The pluses and minuses**

There is a push through the private sector and through Medicare to encourage the formation of larger practices, which could improve the efficiency of the health-care system, said Bundorf. The potential benefits of such organizations are clear: Doctors working in a group can easily exchange information about a patient's medical history and have the staff to support a large volume of patients, for example. However, there is little evidence about how larger groups could affect health-care spending.

"It's an important question for the U.S. health-care system right now," said Baker. "If we move toward larger practices, how can we get the benefits but avoid the challenges higher prices would create?"

The study assessed the relationship between competition among medical providers and prices paid by PPOs for the most commonly billed services within 10 prominent physician specialties. The researchers developed innovative measurements to make the comparisons.

To establish what prices various [medical practices](#) were paid for services, the study used Truven Analytics MarketScan Commercial Claims and Encounters database, which contains the prices paid to physicians for more than 49 million privately insured people from all over the United States. The study obtained the number of claims and mean price paid for each service in 1,058 counties representing all 50 states.

One of the main challenges of the study was identifying which doctors were working within what physician practice. The researchers figured this out using data available from the Medicare program.

"One thing that's nice about Medicare is it's a very large insurer that operates in virtually every area of the country," said Bundorf. "Most physicians see at least some Medicare patients, so we can see lots of physicians and cover the entire country with that data set."

To measure competitiveness, researchers drew inspiration from the business world. Using the Medicare data, they adapted a standard economic competition measure to track physician practice competition for different U.S. regions. The Hirschman-Herfindahl Index uses the relative sizes of practices to measure market concentration. A higher HHI indicates a less competitive market, for example one dominated by one large practice, and a lower HHI indicates higher competition.

## **Less competition, higher prices**

Results showed that the top 10 percent of areas with the least competition had prices ranging from \$5.85 to \$11.67 higher for "intermediate" office visits than those of the 10 percent of markets with the highest levels of competition. Studying a measure that averaged prices across multiple types of office visits, in their most conservative model, being in the top 10 percent of areas with the least [competition](#) was associated with 3.5 to 5.4 percent higher mean price. The researchers point out that in 2011, privately insured individuals in the United States spent nearly \$250 billion on physician services. In that context, these small percentage increases could translate to tens of billions of dollars in extra spending.

"These larger organizations might have better processes in place to optimize care," said Bundorf. "But our research also points out, well,

wait a minute: We also have to think about the effect on prices and try to balance those two things when we think about how to form policy about these organizations."

Additionally, they found that between 2003 and 2010 prices increased more rapidly in areas that were less competitive. Even when there is no change in HHI, practices in less competitive areas could continue to drive up prices, the study said.

The findings shed light on the importance of developing policies that will promote a balance between spending and the quality of the care, Baker said.

"Sometimes it can be tempting to say our goals for the health-care system should be only about taking care of patients and doing it as well as possible—we don't want to worry about the economics," said Baker. "But the truth is we do have to worry about the [prices](#) because the bill does come even if you wish it wouldn't."

**More information:** [DOI: 10.1001/jama.2014.10921](https://doi.org/10.1001/jama.2014.10921)

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