Majority of commercial health insurance markets are highly concentrated

The 2018 Update to Competition in Health Insurance: A Comprehensive Study of U.S. Markets (PDF) presents 2017 data on the degree of competition in health insurance markets. It identifies areas where consolidation among health insurers may cause competitive harm to patients and physicians. It also addresses the following questions:

- Are health insurance markets competitive, or do health insurers exercise market power?
- Are proposed mergers between insurers likely to maintain, enhance or create such power?

The impetus for the study is a heightened interest in health insurer mergers and a need to identify markets where these mergers would cause competitive harm.

"The AMA continues to urge that competition, not consolidation, is the right prescription for health insurance markets," said AMA President Barbara L. McAneny, MD. "The slide toward insurance monopolies has created a market imbalance that disadvantages patients and favors powerful health insurers. The prospect of future mergers involving health insurance companies should raise serious antitrust concerns. There is already too little competition among insurers, to the detriment of patients. Networks are already too narrow, and premiums are already too high."

The report’s data are based on commercial enrollment in HMO, PPO, POS and public exchange plans, including participation in consumer-driven health plans.
To measure market concentration, the researchers used the Herfindahl-Hirschman Index (HHI), a measure used by the Justice Department and Federal Trade Commission as an indicator of market competition. Smaller numbers indicate greater competition. An HHI of 10,000 indicates a monopoly.

The study finds that in 91 percent of MSAs, at least one insurer had a commercial market share of 30 percent or greater. In 46 percent of MSAs, a single insurer’s market share was at least 50 percent.

Other findings include:

- In 2016 and 2017, Anthem topped the list of insurers with the highest market share in more MSA-level markets than any other insurer.
- Seventy-three percent (276) of commercial markets are highly concentrated (HHI>2,500).
- The average HHI in commercial markets was 3464, and the median HHI was 3199.
- The 10 states with the largest decrease in competition levels (PDF) between 2016 and 2017 include North Dakota, Alaska and Louisiana.
- The 10 states with the least competitive commercial health insurance markets (PDF) include Alabama, Hawaii and Louisiana.

In general, although there were increases in the statistics reported in this 2018 Update from those in last year’s (2017) Update, those increases were largely due to changes in MSA definitions. In particular, there are a number of “new” MSAs in the 2018 Update that were formerly micropolitan statistical areas, which tend to be less populous and have higher market concentration.

While mergers and acquisitions can have beneficial and harmful effects on consumers, only the latter has been observed. It appears that consolidation has resulted in the possession and exercise of health insurer monopoly power—the ability to raise and maintain premiums above competitive levels—instead of the passing of any benefits obtained through to consumers.

The AMA led a 17-state medical society coalition and marshaled nationally recognized economic and legal experts to block the proposed Anthem-Cigna megamerger that fell apart in 2017. Had the deal gone through, it is estimated that physicians would have lost around $500 million annually in reduced payments.

More recently, the AMA has worked to block the proposed CVS-Aetna merger. While the AMA welcomed the Justice Department’s requirement that Aetna divest itself of its Medicare Part D drug plan business, the Association was disappointed that deal would be allowed to go forward.

The AMA will continue to monitor competition in health insurance markets to assess the competitive effects of proposed mergers among health insurers.


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