As consolidation among health insurance companies continues, competition shrinks leading to the potential for higher premiums and fewer choices for consumers and lower payments for health care services, according to a new AMA study of health insurance competition.

This is the 20th edition of the annual study, “Competition in Health Insurance: A Comprehensive Study of U.S. Markets,” (PDF) and it shows that 73% of health insurance markets in U.S. metropolitan statistical areas (MSAs) were highly concentrated in 2020 as calculated by the Herfindahl-Hirschman Indices (HHI). That is a measure of market concentration used by the Federal Trade Commission (FTC) and the Justice Department (DOJ) in their evaluation of mergers.

The study presents combined and separate data on four commercial insurance product lines: preferred provider organizations, health maintenance organization, point-of-service and public health exchanges.

Researchers calculated changes in MSA-level market concentration—as measured by the HHI—between 2014 and 2020. The study shows that concentration rose in 57% of MSA-level markets while HHI increased an average of 531 in those markets.

“For two decades, the AMA study has been helping researchers, lawmakers, policymakers, and federal and state regulators identify markets where consolidation involving health insurers may cause competitive harm to consumers and providers of care,” said AMA President Gerald E. Harmon, MD.

The FTC and DOJ consider a market with an HHI above 2,500 to be “highly concentrated.” The report shows that 73% (280) of MSA-level markets were highly concentrated and that the average HHI for all markets was 3,494.

In 91% (348) of the MSA-level markets, at least one insurer had a commercial market share of 30% or greater, and in 46% (178) of those markets, a single insurer’s share was at least 50%.
Opposition to mega-mergers

“High concentration levels in health insurance markets are largely the result of consolidation,” the study says. “Conceptually, mergers and acquisitions can have beneficial and harmful effects on consumers, however, only the latter has been observed.”

In recent years, the AMA led a 17-state medical society coalition and marshaled nationally recognized economic and legal experts to block two insurance company mega-mergers: Anthem and Cigna, and Aetna and Humana. If the Anthem-Cigna merger had gone through, it would have cost physicians an estimated $500 million annually in reduced payments. The AMA also fought to stop the $69 billion merger between health insurance behemoth Aetna Inc. and CVS Health Corp.

“As merger rumors involving health insurers swirl, the prospect of future consolidation in the health insurance industry should be more closely scrutinized given the low levels of competition in most health insurance markets,” said Dr. Harmon.

Exception to entrenchment emerges

Health insurance markets are generally local, and the main purpose of the study is to report market shares and concentration at the MSA and state levels. But, for the first time, the study also presents national-level market shares for the 10 largest health insurers in the U.S. for the combined product market and the exchanges.

As insurers become more entrenched in their markets, there is little movement in rankings.

The only product category with some volatility in insurers’ market shares and rankings over time are among plans sold on the individual health insurance exchanges where, for example, Anthem went from having the largest share in 2014 (14%) and 2015 (11%) to being the fifth largest with a 4% share in 2020.

An exception to the deeply rooted nature of market shares and rankings over time in the combined product market is that St. Louis-based Centene Corp. rose from being the 76th largest insurer in 2014 to the 10th largest in 2020. This was largely driven by acquisitions and entry into the exchanges, where it is the largest insurer nationally with an 18% market share. The next largest insurer in the exchanges is Blue Cross Blue Shield Florida, which has a 10% share.