ALTARUM
HEALTHCARE VALUE HUB

Glossary: Healthcare Consolidation

Competition in healthcare, while increasingly rare, helps keep prices in check, encourages the delivery of high-quality products and services, and promotes consumer choice. Consolidation - among both providers and insurers - threatens competition and increases costs with minimal evidence of quality improvement.

This glossary contains important terms that you might encounter in examining healthcare consolidation, reviewing proposed mergers and/or challenging mergers with anticompetitive effects.

Term	Acronym	Definition
Affiliation Agreements		An alternative form of integration that does not involve transfer of assets or full control. Examples include operating agreements, management-service agreements and other options.
Anticompetitive Practices		Business practices that lead to higher prices, reduced quality or levels of service, or less innovation.
Any Willing Provider Laws		Laws that require insurers to contract with all interested providers, thereby reducing the bargaining power of insurers.
Antitrust Laws		Laws that require scrutiny of anticompetitive mergers and practices. These laws include the Sherman Antitrust Act, the Clayton Act, and the Federal Trade Commission Act.
Arbitration		A process that uses an arbitrator to determine payment from an insurer to a provider in cases where they are unable to reach an agreement on their own.
Attorney General	AG	The government official that enforces antitrust laws at the state or federal level.
Certificate of Public Advantage	COPA	A legal mechanism that allows states to approve mergers that reduce or eliminate competition in return for commitments from the hospital to make public benefit investments and control healthcare cost growth.
Clayton Act		Allows the FTC and DOJ to challenge anticompetitive mergers and acquisitions, as well as anticompetitive practices. Also gives private parties the right to sue for harm they suffer.
Consolidation		A term that refers to reduction in the number of competing entities due to their combination with each other, through mergers and acquisitions, or through joint venture arrangements.
Competition		Competition offers choice and gives competing businesses incentive to win over customers, which helps keep prices in check, and promotes product and service quality. In many markets, healthcare and health insurance are notoriously lacking in competition.

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Concentration		The number of competitors within a market. The fewer competitors in a market, the higher the concentration level. Frequently measured by the Herfindahl-Hirschman Index (HHI).
Department of Justice	DOJ	One of two federal antitrust enforcement agencies. DOJ is tasked with reviewing proposed health insurance plan consolidations.
Divestiture		A potential remedy to cure or alleviate the anticompetitive effects of a merger. Divestiture requires spinoff of operations, policyholders, patients, or other business assets to preserve competition.
Efficiencies		A common argument made in support of a proposed consolidation. Examples in healthcare include streamlined administrative functions, clinical integration, advanced technology acquisition, economies of scale, and synergies resulting from bringing talents together. To be relevant, efficiencies must result in genuine benefits to consumers, such as lower prices, higher quality care, or better health outcomes—not just savings to the combined entity.
Federal Trade Commission	FTC	One of two federal antitrust enforcement agencies. FTC is tasked with reviewing proposed health provider consolidations.
Form A		When required by state law, a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer filed with their state insurance commissioner(s) to assist regulators in anticipating the market impact of the proposed merger or acquisition and preparing for a public hearing on the matter.
Form E		When required by state law, a pre-acquisition notification that domestic insurance carriers file with their state insurance commissioner(s) to assist regulators in anticipating the market impact of the proposed merger or acquisition.
Herfindahl-Hirschman Index	HHI	A measure used by the DOJ and FTC to measure market concentration. It is calculated by summing the square of the market share of each entity competing in that market. (For example, a market with 100 entities competing, each having an equal market share of 1%, would have an HHI of 100; a market with one entity having a monopoly share of 100 percent would have an HHI of 10,000.) A market with an HHI under 1500 is considered non-concentrated (competitive); with a score between 1500 and 2500, moderately concentrated (less competitive); with a score above 2,500, highly concentrated (not competitive).

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Horizontal Consolidation		Two or more entities providing similar services merge, e.g., two hospitals.
Insurance Commissioner		State official that regulates insurance industry activity. These agencies work in tandem with the DOJ, FTC and the state attorney general regarding antitrust concerns, as there is often a parallel "pubic interest" review available under state law.
Market		A market has both a geographic dimension and a product or service dimension. For example, the geographic dimension for a hospital market might be a Hospital Referral Region (HRR). For a health insurance market, the product or service dimension in any geographic market area might be individual, small group, large group, or Administrative Services Only (ASO).
Market Power		The ability of a firm to defy competitive market forces within a market and raise prices profitably without worrying about being undercut by competitors.
McCarren-Ferguson Act		A 1945 federal law that allows state insurance law to preempt federal law and exempts the business of insurance from the federal antitrust laws where there is state regulation. This limits the ability of federal antitrust enforcers to challenge the anticompetitive insurer practices.
Sherman Antitrust Act		A federal law prohibiting anticompetitive conduct--any "contact, combination, or conspiracy in restraint of trade."
Vertical Consolidation		When two or more entities providing different services merge or combine operations into a single entity or operation providing complementary services —e.g., a hospital and a physician practice.
Price Caps		Caps limit the amount of money healthcare providers, insurers or others can charge for a particular product or service. Can be used as a strategy to control prices in highly consolidated markets.