

# What the Anthem-Cigna Mega-Merger Could Mean for California

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Source: California Healthline

By sheer number of covered lives, Kaiser Permanente has been California's largest health insurer for decades.

But if Anthem gets its way — no longer.

The Indianapolis-based insurer is currently the second-largest health insurer in the Golden State, and one of the three largest health insurers in the nation. Its planned mega-merger with Cigna is one of several deals poised to shake up the industry: The combined company would become the largest U.S. health insurer, with 53 million members. And more than 8 million of them would be Californians.

(In contrast, Kaiser currently covers about 7.8 million members, Chad Terhune [points out](#) in the Los Angeles Times.)

Dislodging Kaiser atop the California market would have symbolic resonance. The Oakland-based company is one of the state's most prominent employers and has been a national leader in the managed care movement.

But there are also practical ramifications of Anthem getting bigger. Namely, it makes the California market more concentrated — and that could lead to higher premiums for state residents, some advocates warn.

## How Insurer Mergers Can Affect Premiums

Economists generally believe in the following rule: More competition leads to lower prices. It's true in retail, in manufacturing ... and in health care, too.

Conversely, not enough competition — especially in the insurance market, where health costs can be opaque — could allow payers to hike their rates and pass the costs along to health care providers and patients.

“If past is prolog, insurance consolidation is unlikely to lead to lower premiums,” Northwestern University economist Leemore Dafny **told Reuters** earlier this year. “In fact, the contrary is true.”

Dafny would know: She’s one of the nation’s leading experts on the effects of insurer mergers. In **one study**, Dafny and colleagues concluded that insurer consolidation has led some Americans to “pay a premium on their premiums.” They found that premiums in the average market were about seven percentage points higher by 2007 due to increases in local concentration between 1998 and 2006.

Defenders of health insurers say that it’s too simple to just scrutinize the insurance industry, arguing that providers also bear a share of responsibility for rising health costs.

“It is easy to decry the evils of large insurance companies,” Peter Lee and Victor Fuchs **wrote last month** in the Wall Street Journal. (Lee’s the executive director of Covered California, and Fuchs is a noted health economist.)

“But they are in a unique position to raise the quality and lower the costs of American health care” by piloting new models like accountable care organizations, Lee and Fuchs argue.

### **How Competitive is California?**

When thinking about the effects of insurer mergers, it’s important not to generalize about the effects, experts told California Healthline. One reason why is that in the U.S., insurance markets are regulated state by state, and some are clearly more competitive than others.

Is California’s market competitive? It depends whom you ask — and what you’re looking at.

“California’s health insurance market is highly competitive,” said the

California Association of Health Plans, in a statement to California Healthline. "Health insurance in California is heavily regulated, with requirements that all plans offer robust benefit packages and that the vast majority of premiums go to direct medical care."

But the state's insurance commissioner is more skeptical.

"California's health insurance market already suffers from consolidation," Dave Jones said earlier this summer, "with the four largest health insurers in the individual market controlling more than 85 percent of the market."

Who's right?

The numbers say ... maybe both.

A metric called the Herfindahl-Hirschman Index measures market concentration, and in 2012, the HHI score suggested the California's individual insurance market was "highly concentrated."

However, the introduction of Covered California appears to have improved competition, Kaiser Family Foundation analysts [wrote last year](#), partly by bringing more insurers into the market. (And Covered California will get even bigger this coming fall, after [adding UnitedHealthcare and Oscar](#) to the exchange.)

Overall, California's HHI score suggests that while the state is coping with moderate consolidation, it is not one of the least competitive commercial insurance markets in the nation.

At the same time, the Anthem-Cigna merger would reduce options in the commercial insurance market. An American Medical Association report released this week suggests that California would see a nearly 14% drop in its HHI score if the Anthem-Cigna merger proceeds.

And that could lead to a noticeable, but not dramatic, reduction in competition. "Employers stand to lose another alternative, but it won't be a devastating blow in California," Paula Wade, an analyst at Decision

Resources Group, told the Los Angeles Times.

### What Comes Next

There's no guarantee that regulators will sign off on these deals, and officials like Jones have already raised caution flags.

Within the health care community, it's a politically fraught issue. Nationally, the American Hospital Association has been heavily lobbying Congress, and this week, the American Medical Association joined them. And for predictable reason; providers could stand to lose. (Moody's recently warned that the wave of health insurer mergers "is a credit negative for non-profit hospitals because the consolidation is shrinking the insurance pool and intensifies control on a growing source of hospital revenue.")

And for state residents, the jury's still out on whether Anthem's plan will be a good deal for them, too.

"The question for Californians is whether these mergers will in fact lead to an ability of the merged entities to exercise greater market power; the answer depends on the local landscape," Dafny tells California Healthline. "And if they can, will efficiencies be large enough — and are they likely enough to be passed through — to offset potential harmful effects on premiums or quality or innovation?"

### Around the Nation

Here's a look at other stories making the news on the road to reform.

Having Doubts. Some stakeholders **are concerned** over the costs of demonstration projects that aim to coordinate care of individuals who are dually eligible for Medicare and Medicaid, even as more states express interest in continuing the projects.

Making it Official. CMS has **made permanent** a program aimed at alleviating an anticipated backlog of Medicaid applications as a result of states expanding the program under the ACA.

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