An Analysis of the Effects of Health Insurer Monopsony Power on Primary Care Physician Practices

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Abstract

Consolidation within the market for health insurance has generated significant concern that insurers are using monopsony power in a manner that is harmful to social welfare. This paper uses physician level survey data to ascertain if the ability of insurers to exercise monopsony power affects physician markets. Specifically, we look at the market for primary care physician services, and evaluate previously made assertions that public pay beneficiaries (i.e., Medicare and Medicaid) are not adequate substitutes for private pay patients in response to great private insurer monopsony power. We find no evidence that insurer market concentration changes the volume of physician services, willingness to accept new Medicare beneficiaries, or perceived Medicare reimbursement inadequacy with increased insurer concentration. However, we find significant reductions in the percentage of practice revenues originating from private payers, increased levels of acceptance of new Medicaid recipients, and reduced perception of Medicaid payment inadequacy, in response to greater insurer market concentration. We also find that insurer concentration leads physicians to integrate into multi-physician practices and find weak evidence that physicians reduce financial risk by affiliating with hospitals and accepting salaried financial arrangements. These results have implications for the Patient Protection and Affordable Care Act (PPACA) as recent evidence suggests the legislation has and will lead to increased insurer consolidation.

Keywords Monopsony, Primary Care, Medicare, Medicaid

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