MILLIMAN BRIEF

Implications of Competition on Health Insurance Market Dynamics and Employer Choice in Wyoming

August 2021

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Commissioned by Cigna, Inc.

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Table of Contents

Introduction

Cigna commissioned Milliman to prepare a summary of the economic and competitive dynamics that may impact Wyoming's health insurance market. We explored these dynamics with an emphasis on employer opportunities to improve quality and access for their employees and the potential implications for insurers as they compete for employer business.

Wyoming's market is characterized as highly concentrated based on its Herfindahl-Hirschman Index. In highly concentrated markets, employers' decisions to move portions of the state's working population from one health carrier to another can impact costs, access, and quality of healthcare for the market. While studies of competition among insurers have found that most U.S. markets are highly concentrated and that costs to insured members increase with consolidation, evidence for the association between access and quality in highly concentrated markets is lacking.

Nevertheless, insurers with smaller market share may be better positioned to introduce improvements to efficiency and quality of care according to market disruption theories. In the event of further market consolidation, insurer motivation to innovate may be diminished, putting more pressure on regulators to improve quality and access, especially in a market like Wyoming's where there are opportunities for improvement such as lack of access to emergent critical care services.

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Background

Wyoming has several geographic and economic characteristics that make its health insurance market and competitive landscape unique. The state is the ninth largest by land area in the country but is the least populous and has the smallest employment base, with only 578,759 residents across 97,100 square miles. This leads to a large proportion, roughly 69% of the population, residing in rural areas.[1] Wyoming's economy is primarily resource based, with mineral extraction, tourism, and agriculture serving as the predominant economic industries. Nearly one-quarter (2.6% and 21%, respectively) of payroll employment in the state is with federal, and state and local government.

Wyoming residents have been shown to seek healthcare across state lines due to a number of factors, including limited availability of certain services in some areas, high hospital prices, and geographic proximity.[2] A recent report by Wyoming's Department of Health similarly found hospitals in Wyoming have higher costs compared to their peers nationally and suggested that an opportunity for improvement in care quality included better access to time-sensitive care.[3] The state lacks a level I trauma center, and not all hospitals in Wyoming have the ability to treat emergent conditions like stroke, heart attack, trauma, and childbirth.[3,4] Few hospitals in Wyoming can provide services for childbirth when the delivery has significant complications. While some stagnation in the number of physicians per 1,000 residents practicing in Wyoming has been noted, this does not appear to be due to low payment rates.[3]

CURRENT WYOMING HEALTH INSURANCE MARKET LANDSCAPE

Large employers in Wyoming have four carrier options from which to choose employee health insurance coverage arrangements, with one local carrier insuring or providing administrative services for 91% of the commercially insured population.[5] Wyoming's large group health insurance market Herfindahl-Hirschman Index (HHI), an objective measure of the concentration of a state's health insurance market for which a score of 10,000 indicates the highest level of concentration, is greater than 9,500.[5,6,*] Few markets in the US have low concentration based on this measurement: according to the American Medical Association's (AMA) "Competition in Health Insurance: A Comprehensive Study of U.S. Markets" (19th edition), 74% of U.S. commercial health insurance markets are highly concentrated with a mean metropolitan statistical area (MSA)-level HHI of nearly 3,500.[7] Not only is Wyoming considered highly concentrated based on this measure, but it scores far above this average MSA-level mean. Concentration in Wyoming's health insurance market combined with its unique geographic and employment characteristics can create challenges for employer groups looking to maintain a healthy, financially stable workforce.

The Role of Employers in the Health Insurance Market

HEALTHCARE DECISIONS

Healthcare markets function in notably different ways from other product or service industries, particularly pertaining to consumer decision-making about care (the product or service). Consumers participate in the healthcare market with little information regarding the actual cost of the product or service (for example, an office visit with a physician, a surgical procedure, or a prescription medication).[8] Further, the cost of the product or services and who is paying that cost is only partially visible to the consumer. Insurance carriers set costs for coverage based on groups of people, but within those groups, individual costs can vary greatly due to different health statuses or preferences for providers.[9] Regulators of state health insurance markets typically focus on ensuring the financial viability of insurers to pay claims but may also leverage legislation to improve access to affordable, high quality service options and ensure consumers are able to make informed decisions.

Access to, and quality of, services can be impacted by increased market concentration and felt more significantly in rural areas.[10] Per the AMA report, fewer insurer choices for employers were found to be associated with large (16.6%) premium increases.[7] In addition, lower provider reimbursements were observed with insurer merges in a separate study, an effect that increased at higher market concentrations.[11] Although hospitals and providers in Wyoming are currently reported to be financially healthy, reductions in provider payments could eventually result in financial stress for hospitals and difficulty in attracting physicians.[2,3]

[*] In light of increased consolidation in markets, including but not limited to health insurance markets, the Department of Justice evaluates concentration using the Herfindahl-Hirschman Index and categorizes markets with an index greater than 2,500 as highly concentrated.

Purchasing decisions can have a large impact on a carrier's footprint in a geographic area. Employers, especially large employers, influence how their employees participate in a region's economy through the provision of salary and benefits, including healthcare coverage, and may choose a carrier with larger market share for several reasons, such as cost and stability. The cost of certain benefit plan elements, like network availability, can impact an employer group's satisfaction with a benefit plan through a particular carrier.[12] Dominant competitors may have sufficient capital reserves to temporally undercut their competition, intentionally or not, with lower premiums in competitive bids. Large national insurance carriers with smaller market share may desire a presence, however small, to maintain a national network for employers in other states.

COMPETITION TO FUEL INNOVATION, TARGET ACCESS

High costs and disparate levels of access to services like critical care are typical hallmarks for an industry that is ripe for disruption. Clayton Christensen, a Harvard Business School professor and expert in innovative strategy explains that disruption of an industry, such as a state's health insurance market, comes from an approach to products and services that focuses on access and affordability.[13] In order to address industries with high costs and uneven levels of access, Christensen stipulates that solutions need to leverage technology, create expansive business models, and connect consumers with other members of the infrastructure through a meaningful, mutually beneficial network. Furthermore, when an insurer or multiple insurers, for example, in a market take on challenges associated with access and quality, their innovations can spread through provider networks and employer demands. The level of concentration in a market can contribute to how forcibly competition drives innovation. Addressing access, affordability, and quality may secure, and encourage growth of, market share over time; however, dominant competitors may not necessarily prioritize such innovation when market share is not a concern.

A recent trend among large national health carriers has been to integrate acquired and/or develop innovative improvements that have the potential to change the traditional delivery of healthcare by providing alternatives to hospital and physician office visits. These improvements, including telehealth, consultations within pharmacies, mobile applications, and connected medical devices hold promise in expanding the options available to patients. Such innovations align precisely with Christensen's core tenets for disruption and could be particularly useful in a market where patients are spread out geographically. However, innovative solutions may be challenging for a dominant insurer to implement with providers because it would involve large scale change or draw away potential revenue, thereby posing risks, including financial concerns to providers and outcomes for their patients. On the other hand, changes implemented by a carrier with a smaller market share through an employer may be less risky and can undergo rapid modification or be withdrawn if performance does not meet expectations. Additional investigation into the contribution by current insurers and impact of innovation in Wyoming's healthcare environment is needed.

Employers, including state and local governments, play a large role in connecting employees with health care innovations, and frequently drive those innovations in a marketplace. Coalitions such as The Leapfrog Group and the Health Transformation Alliance work with carriers and providers to promote changes the coalitions believe are in the best interest of their members' employees.[14,15] State governments, like those in Connecticut and Massachusetts, have implemented strong value-based incentives for their employee plans that may serve as a model or set a standard for larger, non-public systems throughout their states and others.

In Summary

The unique combination of a mostly rural setting and highly concentrated competitive insurance market can leave Wyoming's health insurance market susceptible to changes in large employer's selection of insurance carrier. While there may be little incentive for a dominant competitor(s) to implement truly innovative solutions, carriers with smaller market share and the means to implement innovation to increase access and quality of care have the potential to make a significant impact on the market and those who live and work in Wyoming. Further evaluation is needed to understand the specific dynamics of rural populations and variation in healthcare access and quality by insurance market concentration.

Caveats and Limitations

This Milliman, Inc. report has been prepared for the specific purpose of discussing implications of health insurer market dynamics in the highly concentrated market in Wyoming. This information, including all input, calculations, and output, may not be appropriate and should not be used for any other purpose. Milliman does not intend to endorse any product or organization. If this report is reproduced, it should be reproduced in its entirety, as pieces taken out of context can be misleading. Milliman does not intend to benefit or create a legal duty to any third-party recipient of this work. Our analysis was performed under a Consulting Services Agreement with Cigna. Furthermore, the terms of Milliman's Statement of Work with Cigna signed on April 30, 2021 apply to this report and its use.

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