



SUPPORT SB977 (Monning): As amended July 27, 2020

California's leading consumer, labor and business organizations have joined together to support legislation that would lower health care prices for Californians.

California Labor Federation, Health Access, and Pacific Business Group on Health support SB977 (Monning) as amended July 27, 2020, which would extend the authority of the Attorney General over mergers and affiliations in health care and prevent anticompetitive behavior that have led to higher prices for consumers, employers and trust funds.

SB977 allows mergers and other transactions if the transaction benefits the public interest of lower prices, greater competition or further clinical integration. The bill gives the Attorney General authority to ensure that consolidation in the health care industry benefits consumers and purchasers.

The COVID-19 pandemic has exposed another consequence of unchecked consolidation. The economic toll resulting from the pandemic will likely fuel consolidation trends as physician practices and independent hospitals face massive losses or bankruptcy and become targets for acquisition by large health systems.

Empirical studies conclusively demonstrate that dominant providers are using their market power to engage in unfair contracting practices and negotiate higher-than-competitive prices in the state.^{1,2,3} Furthermore, academic research has shown that higher prices do not translate into higher quality health care.^{4 5}

More recent studies have shown that hospitals are highly consolidated in Northern California, and hospital prices are 20-30% higher than in Southern California where there is more market competition. The price differential is adjusted for underlying cost differences, such as labor and cost of living, pointing to consolidation as the culprit.⁶ A

¹ P. Ginsburg, Wide Variation in Hospital and Physician Payment Rates Evidence of Provider Market Power, HSC Research Brief No. 16, (Washington: Center for Studying Health System Change, November 2010).

² Robinson JC, Miller K. Total expenditures per patient in hospital-owned and physician-owned physician organizations in California. *JAMA*. 2014 Oct 22-29;312(16):1663-9.

³ Melnick GA, Fonkych K. Hospital Prices Increase in California, Especially Among Hospitals in the Largest Multi-hospital Systems. *Inquiry*. 2016 Jun 9;53.

⁴ Hussey PS, Wertheimer S, Mehrotra A. The Association Between Health Care Quality and Cost A Systematic Review. *Annals of internal medicine*. 2013;158(1):27-34.

⁵ Beaulieu, Nancy Ph.D. Dafny, Leemore et al. "Changes in Quality of Care after Hospital Mergers and Acquisitions" *New England Journal of Medicine*. January 2, 2020.

⁶ "Consolidation in California's Health Care Market 2010-2016: Impact on Prices and ACA Premiums." Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health, UC Berkeley. March 26, 2018.

2019 study looked at both hospital and physician consolidation and found that the percentage of physicians in hospital-owned practices had increased dramatically – 75% for primary care and 108% for specialists. As with hospitals, the study found that increased consolidation drove up prices both in inpatient and outpatient settings.⁷

The bottom line is that high prices for health care services, driven by industry consolidation and anti-competitive practices, have increased premiums for individuals, employers, and workers. We need legislation that will make health care markets work the way they are supposed to, resulting in lower prices and more affordable health care for Californians.

Please join the California Labor Federation, Health Access California and the Pacific Business Group on Health in Supporting SB977 (Monning).

⁷Scheffler, Richard. Arnold, Daniel. Fulton, Brent. “The Sky’s the Limit Health Care Prices and Market Consolidation in California.” California Health Care Foundation. October 3, 2019.