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Health insurance mega-deals aren't winning over a key party: large employers

Federal and state insurance regulators are determining the fate of the pending health insurance mergers, and many large employers won't be disappointed if officials torpedo the deals. Several surveys of Fortune 500 companies and other big employers reveal nervousness that the reduced competition among health insurers will mean higher healthcare costs for them.

“Anytime you have a limited market and limited number of key players and they come together, that's not a great thing for a purchaser,” said Larry Boress, CEO of the Midwest Business Group on Health. His coalition surveyed employer members this past December, and 95% of respondents viewed the loss of competition as negative.

The tone is especially problematic for Anthem’s $53 billion acquisition of Cigna Corp., which recently has faced behind-the-scenes disputes. Both insurers deal a lot with large, self-insured employers—companies that decide to pay for the medical costs of their employees but outsource the provider networking, claims processing and care-management functions to insurers. Many of these contracts between self-insured employers and insurance companies are called administrative services only, or ASO.

Aetna’s $37 billion takeover of Humana has less to do with employer coverage and more to do with Medicare Advantage. Boress said employers are “quite concerned” the health plan mergers will lead to higher ASO contract fees and worse customer service. Oftentimes, employers will want their own benefits service center for their workers, but merged plans could easily close those sites to avoid duplication and cut costs.

Employers that participate in the Pacific Business Group on Health found problems with the rationale that health plans will pass along savings to consumers and employers, said Bill Kramer, the organization’s executive director of national health policy. He has had several discussions with top member executives. “I think larger employers are skeptical that will occur,” Kramer said. “We haven't seen any evidence that will be the case.”

Two investment banks, Leerink Partners and J.P. Morgan Securities, also surveyed several high-ranking health benefits executives at self-insured employers and asked them specifically about the Anthem-Cigna deal. J.P. Morgan analyst Gary Taylor summed up the overarching theme: “The survey findings were less positive than we expected.”

Thirty percent of J.P. Morgan employer respondents did not believe a combined Anthem-Cigna, Aetna, UnitedHealth Group and state Blue Cross and Blue Shield plans offered sufficient competition for the self-insured business. That 30% also believed Anthem and Cigna “would be able to raise ASO fees in an anti-competitive fashion.” J.P. Morgan surveyed 24 benefits executives at large, self-insured companies.

“Large employers' views on this question will be a very important source of information for the DOJ, and antitrust attorneys assure us that DOJ is contacting large corporate customers to ask this question,” Taylor wrote in a synopsis of the survey, referring to the U.S. Justice Department.

Both banks downgraded their admittedly arbitrary probabilities of the U.S. Justice Department approving the Anthem-Cigna deal following the employer reaction. Leerink believes the transaction has a less than 50%
chance of surviving, while J.P. Morgan is somewhat more optimistic at 60%. Anthem executives have reiterated confidence the deal will be approved this year.

However, employers are also sounding the alarms on other healthcare pressures, said Steve Wojcik, vice president of public policy at the National Business Group on Health. He believes the traditional structure of paying for every service, treatment or drug without any tie to quality is the main element that needs reform.

“The bigger problem is the delivery of services and the way we pay for it,” he said. Wojcik also noted employers in the National Business Group on Health believe “the rapid consolidation among health systems” is just as troublesome.

Anthem and Cigna are both members of the National Business Group on Health.

Anthem and Cigna are not members of the Midwest Business Group on Health, but Aetna and Humana are. None of the merging health insurers is part of the Pacific Business Group on Health.

Experts testifying to Congress last year used the “sumo wrestler theory” to illustrate why allowing large insurers to grow in size to compete with expanding local and national health systems won't necessarily lead to better prices and lower premiums for employers and consumers.

“Experience suggests that a showdown between the sumo wrestlers may well result in a handshake rather than an honest wrestling match,” St. Louis University law professor Thomas Greaney testified to the House last year.

Indeed, each business coalition expressed concern that employers are caught in the middle of healthcare's wide-ranging merger and acquisition frenzy.

“The concern about consolidation is that you want to make sure the value and quality of healthcare doesn't erode,” Kramer said. “This will be a challenge.”