THIRD WAY

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Hospital Consolidation Suppresses Workers' Wages

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Gone are the days of small, regional hospitals. Today, two-thirds of hospitals are part of a larger health care delivery system, and 80% of hospital markets are highly consolidated. This consolidation drives up prices and does nothing to improve care. And there's another pernicious effect of hospital consolidation that's less talked about: it suppresses workers' wages inside and outside the health care industry.

As hospitals consolidate and prices spike, health insurance premiums rise for employers. That leaves less money for workers' wages. Consolidated hospital markets also threaten the wages of the 22 million who work in the health care profession. Below, we explore both trends and what policymakers should do about it.

Consolidation drives up premiums for all workers.

As hospital mergers and acquisitions consolidate health care provider markets, the lack of competition allows hospitals to charge higher prices for the services they provide. In addition to consolidation between hospitals that drive up market share, hospitals also acquire physician practices to deliver outpatient services, which allows them to inflate medical bills through add-on facility fees.

For the 156 million Americans with employer-based coverage, hospitals charge 8.3% more in very highly consolidated markets, which cover half the country. The result: **American families lose $481 every year to high hospital prices if they live in an area with little hospital competition.** [1]

In addition to suppressed wages as consolidation drives up premiums, employees see higher costs through out-of-pocket expenses like higher deductibles. All in all, workers bear the brunt of increasing consolidation in health care. For workers who do not receive coverage through their employer and instead are covered under the Affordable Care Act, consolidation has the same effect on those premiums. Higher hospital prices mean higher premiums for those with individual plans.

Consolidation suppresses wages for health care workers.

On top of the effect hospital consolidation has for workers' wages at-large, those working in the health care industry experience their own challenges.

Health care is one of the largest sources of employment in the country, accounting for 12% of the workforce. A consolidated health care market leaves those workers with fewer employers to choose from in their geographic area. This lack of competition allows for greater control of wages by the hospital system.

Research shows that wage growth slows down following mergers. More specifically, wage growth for nurses and pharmacy workers was 1.7% below the average national wage growth following hospital mergers. A more concentrated hospital market leaves less competition in the labor market for health care professionals and hurts collective bargaining for unions within the industry.

It's time for policymakers to halt hospital consolidation.

President Biden has taken steps to target consolidation. Notably, he directed the Federal Trade Commission (FTC) to promote health care competition and has halted four hospital mergers. There is more work to be done by Congress, however.

First, Congress should address the incentives to consolidate present in systems across the country. They can start by aligning Medicare payments for outpatient hospital services with lower cost settings, which would decrease prices for those services and disincentivize future hospital acquisitions of independent physician practices. Second, they can prevent future hospital consolidation by providing the FTC with increased authority and resources.

As consolidation continues to harm wage growth, tackling high hospital prices would lead to higher pay for workers, with the added benefit of reducing their own premiums and out-of-pocket costs, and strengthening labor markets for health care workers. For employers, lowering the cost of employee health benefits would allow for greater investments into growing their business, leading to more jobs and growing the US economy.

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ENDNOTES

1. The $481 loss comes from the fact that higher hospital prices drive up the premiums that employers and employees pay for coverage. The average cost of family coverage was $22,463 in 2022 according to the Kaiser Family Foundation, $6,106 paid by the worker and $16,357 by the employer. The portion of the premium that goes to hospital costs is 37% or $8,311 according to the Centers for Medicare and Medicaid Services. Families lose $690 of the hospital portion of the premium because of 8.3% higher prices in very high consolidated markets. But their net loss would be less because they would have to pay taxes on the portion of the health benefit health insurance premiums that shifted to wages and take-home pay. Taxes would reduce the loss by 30% of $690, which leaves $481, after accounting for 15.3% in payroll taxes and 15% federal income tax rate for a typical family.