Does Greater HMO Competition in a Market Improve Health Plan Quality?

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“Yes and no,” says Lister Hill Center Scholar Shailender Swaminathan and his colleagues, “it depends on how competition is defined. If HMO competition is defined as competition between HMOs and other plan types, i.e., HMO penetration, the answer is yes. However, when HMO competition is defined as competition among HMO plans, the answer is no.”

Over the past thirty years health maintenance organizations (HMOs) have been promoted as effective vehicles for introducing competition within health care. Proponents of HMOs contend that competing plans produce more efficient market outcomes by negotiating lower prices and by improving quality. Ongoing reports of quality deficiencies and medical errors in health care delivery have renewed interest in HMO competition as a potential catalyst for improving quality.

The authors examined data from 1999 on 341 HMOs operating across the U.S. Quality was measured by a series of indices constructed from the Health Plan Employer Data and Information Set (HEDIS) and the Consumer Assessment of Health Plans Survey (CAHPS). HMO penetration was measured as the combined market shares of all HMOs in the local metropolitan area. HMO competition was measured using an index based upon each HMO’s relative share of the market.

Greater HMO penetration was consistently associated with higher HEDIS and CAHPS scores across most of the quality measures. Greater competition among HMOs yielded more mixed results across the measures, but the pattern of results clearly suggests that the plans provide lower quality. The size of the effects is what the authors call “moderate to small.”

“The reasons for these relationships are not all together clear. It may be that markets with a larger HMO presence and dominated by a few HMOs allow those plans to invest in quality,” says Swaminathan. “It may be that more competition drives out higher quality plans, or prevents plans from obtaining a return on investments in quality. The results suggest that we must be cautious about the role of competition in enhancing plan quality, and clearly we need to undertake more research in this area.”

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