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IMPACT OF HORIZONTAL MERGERS ON PLAN PREMIUMS & DRUG FORMULARIES IN MEDICARE PART D

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BACKGROUND: MEDICARE PART D

Medicare Part D is a program that expands existing health insurance coverage for the elderly through prescription drug coverage. It was authorized under the 2003 Medicare Prescription Drug, Improvement, and Modernization Act and enacted in 2006. As of January 1, 2006, 22.5 million of 43 million eligible beneficiaries were enrolled in Part D plans. Each year, an average of 16% of all insurance plans are directly affected by an M&A deal.

PLAN-LEVEL DATA

We obtained detailed longitudinal data on plans that include an average of 1,500 plans, and Part D plans (100%) per year. The data was grouped by all insurance plans in Medicare Part D introduced to the most recently available data in 2012 and covers all 50 geographic markets.

MERGER DEALS

We collected data on M&A activity from the Securities Data Company merger and acquisition module which contained detailed information on all deals involving public and private companies. We report four main sets of results on the effects of mergers on the monthly premium (plan price). Then, these specifications are re-estimated for the plan-quality characteristics.

RESULTS

1. $1.8 (9.9%) increase in premium (market power)
2. $1.4 (8.5%) decrease in premium (cost efficiency and bargaining power)
3. $2.1 (5.3%) decrease in premium if mergers take advantage of cost savings.

REFERENCES