Spring 2013

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Recommended Citation
Chorniy, Anna; Miller, Daniel P.; and Tang, Tilan, "The Impact of Horizontal Mergers on Plan Premiums and Drug Formularies in Medicare Part D" (2013). Graduate Research and Discovery Symposium (GRADS). 35.
https://tigerprints.clemson.edu/grads_symposium/35

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IMPART OF HORIZONTAL Mergers ON PLAN PREMIUMS & DRUG FORMULARIES IN MEDICARE PART D

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BACKGROUND: MEDICAID PART D
Medicare Part D is a program that expands existing health insurance coverage for the elderly and people with disabilities by allowing them to purchase prescription drug coverage. It was authorized under the 2003 “Medicare Prescription Drug, Improvement, and Modernization” Act and enacted in 2006.

As of January 1st, 2006 22.5mln of 43mln eligible individuals signed up. Enrollment is voluntary. According to the Centers for Medicare and Medicaid Services in December 2011 we identified a total of 11 completed horizontal mergers. Consolidated 关于 the merger completion date. We exclude all the deals where one or both companies belong to a non-Medicare Part D insurance (such as life insurance or dental insurance) and have a direct business relationship with the merged entity.

We ran several differences-in-differences specifications to estimate the treatment effect of M&A deals on health plan characteristics. The first set of specifications includes an average of 1,500 stand-alone, Part D plans from competing private insurers.

We report four main sets of results on the effects of mergers:
1. The number of top-100 drugs covered
2. The percent of covered drugs (cost efficiency), noisy
3. The percent of covered drugs (cost efficiency), noisy
4. The percent of covered drugs (cost efficiency), noisy

We find that plans affected by a merger experience higher premiums as a result of increased monopsony or bargaining power over drug suppliers. However, for merging insurers that restructure their plan offerings, price falls to offset the market power effect. The results on drug formulary measures show that merging insurers have access to larger sets of drugs through a formulary bargaining advantage.

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EMPirical model
We collected data on M&A activity from the Securities Data Company together with the National Health Plan research database on drugs covered by the merged entities.

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We restrict attention to horizontal mergers and acquisitions of business lines (such as pharmacy management) and vertical mergers with phar- macies.

RESULTS
We report four main sets of results on the effects of mergers:
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SELECTED REFERENCES

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