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Statement before the Senate Committee on Health, Education, Labor and Pensions on "**Making Health Care Affordable: Solutions to Lower Costs and Empower Patients**"

Improving Health Care Affordability through Competition and Transparency

Benedic Ippolito, PhD
Senior Fellow

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The high cost of U.S. health care presents a consistent challenge for policymakers. Total spending now reaches nearly $5 trillion per year[1] with federal outlays accounting for $1.9 trillion, or 27% of the federal budget.[2] Spending on public programs, like Medicare and Medicaid, directly strain the federal budget and are a major contributor to the nation's long-run fiscal imbalance.[3] High costs in the commercial health care market—where roughly 153 million people obtain coverage[4]—increase premium costs for employees and employers. The total premium costs for an employer-sponsored insurance plan for a family now averages over $25,000.[5] That number is large relative to the median household income of roughly $80,000[6] and contributes to lower wage growth and employment.[7]

There are, thus, broad potential benefits to moderating the growth of health care spending. Successful efforts to do so can improve the country's long-run fiscal outlook, increase wage growth for workers, lower out-of-pocket costs, increase available funds for other policy goals, and much more. However, this does not argue in favor of indiscriminate cuts to health spending. A large portion of health care spending goes towards services or products that deliver significant value. Reducing spending in those areas is likely to lower welfare. Instead, policy should be designed to target settings where the link between spending and value is most tenuous.

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[1] Centers for Medicare & Medicaid Services, "Historical," *National Health Expenditure Data*, accessed July 28, 2025, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical.

[2] Kaiser Family Foundation. (2025, February). *What Does the Federal Government Spend on Health Care?* Issue brief. Retrieved July 28, 2025, from https://www.kff.org/medicaid/issue-brief/what-does-the-federal-government-spend-on-health-care/

[3] Committee for a Responsible Federal Budget. (2025, January 28). *More than 4/5 of spending growth will come from Social Security, health, & interest* [Blog post]. Retrieved July 28, 2025, from https://www.crfb.org/blogs/more-45-spending-growth-will-come-social-security-health-interest

[4] Kaiser Family Foundation, "Total Population," KFF, accessed July 28, 2025, https://www.kff.org/other/state-indicator/total-population/?dataView=1¤tTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D.

[5] Kaiser Family Foundation. *2024 Employer Health Benefits Survey*. KFF; October 9, 2024. Accessed July 28, 2025. https://www.kff.org/health-costs/report/2024-employer-health-benefits-survey/.

[6] US Census Bureau. *Income and Poverty in the United States: 2023*. Current Population Reports. P60-282. Published September 10, 2024. Accessed July 28, 2025. https://www.census.gov/library/publications/2024/demo/p60-282.html.

[7] E.g., see Finkelstein, A. et al. (2020). The Health Wedge and Labor Market Inequality. *NBER Working Paper*. March 2023; Arnold D. & Whaley C. (2020). Who Pays for Health Care Costs? *RAND Working Paper*. July 2020.

One setting where this is likely to be true is when markets suffer from imperfections like a lack of information or choice—either due to natural features of those markets or because of poorly designed policies. Regardless of cause, there is little reason to believe that spending reflects the preferences of consumers if they lack information to make choices or have few options to pick from. Policies that increase competition and transparency improve market functioning and directly address high prices or spending that deliver limited value to consumers.

There are many areas where Congress can work towards these goals. I will highlight several that have been considered in recent years, but the follow is not an exhaustive list of all such options.

Improving antitrust oversight of health care markets

Well-functioning health care markets rely on competition between firms to encourage higher quality and lower costs. These dynamics are weakened in cases where firms face few competitors. An extensive body of research has shown that greater concentration tends to result in higher prices and is not consistently linked to improvements in quality or access to care.[8] Congress has several mechanisms through which it can lessen consolidation and improve competition in health care markets.

One option is to give antitrust agencies—the Department of Justice and Federal Trade Commission—more information about potentially anticompetitive transactions and enhance their ability to impede it. Antitrust agencies are currently notified of potential mergers or acquisitions if the value of the transaction exceeds a

[8] This section draws heavily upon the following white paper, which also includes a survey of research on the effects of consolidation. Ippolito, B. (2025, February). Policy options to address consolidation in healthcare provider markets. In *Ensuring access, affordability, and quality in the age of healthcare consolidation: Lessons learned and insights for the future* (Background paper). Health, Medicine & Society Program, Aspen Institute; American Enterprise Institute. Retrieved July 28, 2025, from https://www.aei.org/wp-content/uploads/2025/02/HMS-HCC-AV-Report-Final-1.pdf

certain limit, currently set at $126.4 million (adjusted annually).[9] However, most hospital mergers[10] and nearly all transactions involving physicians[11] fall below this threshold. Congress could lower this reporting threshold and increase transparency into potentially concerning transactions. Some health care markets are systematically consolidated through a series of small transactions which, by themselves, are unlikely to trigger competitive concerns. However, the combined effect could result in heavily concentrated markets. Congress could require more insight into these transactions by requiring premerger notification once the accumulated value of transactions by a single parent company in a market exceeds a given level, even if the marginal acquisition alone does not.[12] Some have also argued that Congress should consider lowering the bar antitrust agencies must meet when challenging such transactions.[13]

Reducing consolidation incentives in public programs

Congress can also revisit policies in public programs which inadvertently encourage consolidation. For example, Medicare typically pays more for a service if it is delivered in a hospital outpatient department than if it is delivered in a physician's office or an ambulatory surgery center. This payment differential can make sense in many cases, like if a service is likely to trigger follow on care that only hospitals are equipped to provide. However, it is much less defensible in cases where services can safely be delivered in a physician's office. Maintaining this type of payment differential provides and incentive for hospitals to acquire stand-alone physicians' offices and bill for the same services at the higher rate.[14] This increases Medicare spending

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[9] Federal Trade Commission. FTC Announces 2025 Update of Size of Transaction Thresholds for Premerger Notification Filings. Press Release. Published January 10, 2025. Accessed July 28, 2025. https://www.ftc.gov/news-events/news/press-releases/2025/01/ftc-announces-2025-update-size-transaction-thresholds-premerger-notification-filings.

[10] Capps, C., Dranove, D., & Ody, C. (2017). Physician practice consolidation driven by small acquisitions, so antitrust agencies have few tools to intervene. Health Affairs, 36(9), 1556–1563. https://doi.org/10.1377/hlthaff.2017.0054

[11] Cooper Z, Craig SV, Epanomeritakis A, Grennan M, Martinez JR, Scott Morton F, Swanson AT. *Are Hospital Acquisitions of Physician Practices Anticompetitive?* National Bureau of Economic Research; July 2025. Working Paper 34039. Accessed July 28, 2025. https://www.nber.org/papers/w34039.

[12] Adler, L., & Ippolito, B. (2023, March 16). Procompetitive health care reform options for a divided Congress. Brookings. https://www.brookings.edu/articles/procompetitive-health-care-reform-options-for-a-divided-congress/

[13] Dafny, L. S. (2021). How health care consolidation is contributing to higher prices and spending, and reforms that could bolster antitrust enforcement and preserve and promote competition in health care markets. Harvard Business School. https://www.hbs.edu/faculty/Pages/item.aspx?num=60732

[14] See Brady Post et al., "Hospital physician Integration and Medicare's Site based Outpatient Payments," *Health Services Research* 56, no. 1 (February 2021): 7–15, https://doi.org/10.1111/1475-6773.13613.

for the government and beneficiaries while reducing competition between providers outside of Medicare.[15] Congress can increase competition in these markets by paying a consistent amount based on the Physician Fee Schedule regardless of where a service is delivered when appropriate. One option is to apply such a policy to any service delivered at off-campus hospital outpatient departments. Those services are less likely to use hospital-based resources given that they are delivered away from the facility. Alternatively, Congress could apply site-neutral payments for any service where clinical evidence suggests it can be safely administered outside of a hospital (e.g., if that service rarely results in use of hospital-based follow-on care).[16] If necessary, Congress could structure this type of policy to help certain hospitals transition to the new payment rules.[17]

The 340B discount drug program may also encourage consolidation in its current form. This program requires that drug makers given certain providers, like disproportionate share hospitals, large discounts on drugs they purchase (these providers are deemed "covered entities"). Covered entities are allowed to bill Medicare and private insurers at market prices and retain a large margin as profit. Doing so is intended to help hospitals cover the costs of treating low-income patients, however, it also generates problematic incentives. As I have previously written,[18]

> "First, a 340B hospital has an incentive to acquire private physician practices since it can purchase drugs cheaper than the practice can, increasing consolidation in those fields. Second, these discounts could mean hospitals earn high margins on products that are more expensive for insurers, encouraging them to prescribe costlier medicines. One paper found that hospitals

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[15] E.g., Marah Noel Short and Vivian Ho, "Weighing the Effects of Vertical Integration Versus Market Concentration on Hospital Quality," *Medical Care Research and Review* 77, no. 6 (December 2020): 538–48, https://doi.org/10.1177/1077558719828938; Cory Capps, David Dranove, and Christopher Ody, "The Effect of Hospital Acquisitions of Physician Practices on Prices and Spending," *Journal of Health Economics* 59 (May 2018): 139–52, https://doi.org/10.1016/j.jhealeco.2018.04.001; Laurence C. Baker, M. Kate Bundorf, and Daniel P. Kessler, "Vertical Integration: Hospital Ownership Of Physician Practices Is Associated With Higher Prices And Spending," *Health Affairs* 33, no. 5 (May 2014): 756–63, https://doi.org/10.1377/hlthaff.2013.1279.

[16] MedPAC, "Medicare and the Health Care Delivery System," *Report to the Congress*, June 15, 2022.

[17] Benedic N. Ippolito, Loren Adler, Matthew Fiedler. Weighing Policy Options for Returning Savings from Site-Neutral Payment Reforms to Hospitals. American Enterprise Institute; May 26, 2023. Accessed July 28, 2025. https://www.aei.org/articles/weighing-policy-options-for-returning-savings-from-site-neutral-payment-reforms-to-hospitals/.

[18] Adler, L., & Ippolito, B. (2023, March 16). Procompetitive health care reform options for a divided Congress. Brookings. https://www.brookings.edu/articles/procompetitive-health-care-reform-options-for-a-divided-congress/

> have responded to these incentives by dispensing more drugs, acquiring more physicians in some drug-intensive specialties, and treating fewer patients on Medicaid. However, it did not find evidence that hospitals provided more or better care to low-income patients. On average, 340B hospitals also have higher Part B spending per beneficiary, which is consistent with (but not proof of) them altering their prescribing behavior due to the program."

Policymakers could alter the program so that discounts were based on the number of low-income patients treated rather than being a binary designation at the hospital level. Doing so may attenuate incentives to integrate with physicians. Congress could also require greater transparency from hospitals about the extent of the program, like how many patients receive covered drugs or how much hospitals earn from dispensing these drugs, to better understand the use of the program and whether it is achieving its stated goals.

Improving transparency in pharmaceutical markets

Pharmacy Benefit Managers (PBMs) work on behalf of insurers to manage drug benefits. In this role they negotiate prices with drug makers, contract with pharmacies, and develop formularies. However, certain features of this market have recently attracted attention from policymakers. Notably, the market for PBM services is relatively concentrated with three firms accounting for nearly 80% of the market.[19] There are related concerns that plan sponsors (i.e., employers) may not always have access to the information needed to evaluate contracts and compare firms. This could depress already modest competition in this market.

Congress could enact legislation that required PBMs to provide more information to employers about the use of prescription drugs, plan costs, aggregate amounts of rebates, and other information associated with the plan. Doing so could help employers when evaluating options. For example, better understanding the use of

[19] Adam J. Fein. The Top Pharmacy Benefit Managers of 2024: Market Share and Key Industry Developments. Drug Channels. Published March 31, 2025. Accessed July 28, 2025. https://www.drugchannels.net/2025/03/the-top-pharmacy-benefit-managers-of.html.

different types of drugs could help employers forecast their costs under alternative PBM contracts. CBO has indicated that it believes proposals along these lines would reduce health costs.[20]

Conclusion

Improving competition and transparency are central to fostering better functioning health care markets and lowering long run spending. This testimony includes several policies that would work in that direction and have been the subject of significant Congressional interest in recent years. While not meant to be exhaustive, they represent a set of feasible policy changes that would make tangible progress in the direction of better functioning markets.

[20] Congressional Budget Office. *S.1895, Lower Health Care Costs Act*. Cost Estimate. Published July 16, 2019. Accessed July 28, 2025. https://www.cbo.gov/system/files/2019-07/s1895_0.pdf.