

Health Care Consolidation

An Alliance for Health Reform Toolkit
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Fast Facts

- There were 1,063 mergers and acquisitions in the health care sector in 2012 – one of the busiest in the last decade, although the dollar value of those transactions was nearly the lowest in a decade, as smaller entities are the newer targets of acquisition.¹
- In 2012, there were 94 hospital mergers, up from 92 in 2011; 68 physician practice groups merged or were purchased, down from 108 in 2011.²
- Seventy-eight percent of hospitals are either exploring a possible merger or are in the midst of one in 2013. Over half of hospitals are also planning to purchase a physician practice in 2014, compared to 44 percent in 2012.^{3 4}
- After consolidation, prices hospitals charge for services have gone up in the range of 3 percent to 56 percent, according to studies looking at hospital mergers between 1990 and 2008.^{5 6 7 8}
- Hospital spending was projected to be \$892.4 billion in 2012 and was the largest category of health care costs.⁹

In the 1990s, there was a wave of health care mergers as federal, state and local governments grappled with ways to contain health care costs by cutting funds and making regulatory changes. Those health care marriages waned in the early part of the 2000s, and then accelerated again in the later part of the decade as the industry anticipated passage of the Patient Protection and Affordable Care Act (ACA) in 2010.

Enactment of the ACA has added financial pressure on hospitals, doctors and insurers in a variety of ways. Under the law, hospitals can expect to receive \$300 billion less in Medicare payments over the decade. Physicians will have to deal with new rules that will peg Medicare reimbursements to meeting quality standards as well as manage the influx of millions of new patients who will be covered by the law in 2014 and beyond.^{10 11} Insurers also face limits on administration costs under so-called medical loss ratio rules that require 80 to 85 percent of premium dollars to be spent on care.

Further, all health care providers have to adapt to a shift in payment models under the ACA that emphasizes coordination and management of patient care. “The fee-for-service system is going to be history shortly,” Richard Ravitch, a board member of New York City’s Mount Sinai Medical Center told the *New York Times* in July 2013.¹²

Health care providers have responded to ACA changes by joining forces to shore up finances, increase efficiency and gain leverage. But while the number of mergers and acquisitions increased 5.9 percent from 2011 to 2012, the dollar value of those transactions dropped 38 percent.¹³ The reason, say health care policy analysts, is that recent purchases have been less about megamergers and more about smaller entities as the newer targets of acquisition.

In 2012, there were 1,063 mergers and acquisitions in the health care sector, up from 1,004 in 2011 -- the second most transactions behind 2007, according to Irvin Levin Associates, a Norwalk, Conn. publisher of financial data on the health care industry.¹⁴ The health care sectors that experienced the largest growth in mergers from 2011 to 2012 were physician practices (transactions valued at \$4.4 billion in 2012) and companies providing behavioral care; home health & hospice; and managed care. Transactions for home health and hospice deals in 2012 were valued at \$5.7 billion.

In 2012, there were 94 hospital mergers, up from 92 in 2011 and 68 physician practice groups merged or were purchased, down from 108 in 2011.¹⁵

The drivers of consolidation for health systems have changed, says Cleveland Clinic President Delos “Toby” Cosgrove. Instead of seeking market dominance, he says, health systems are trying to find linkages in disparate markets to improve efficiencies. Health systems are increasingly acquiring struggling hospitals and health systems “to turn around their finances and reap the benefits of consolidation,” according to an October 16 article in HealthLeaders Media.¹⁶

Doctors, for their part, have been increasingly interested in becoming salaried employees of hospitals because it provides payment security at a time of uncertain reimbursement rates, and a better work-life balance.¹⁷ Further, hospitals can help doctors offset the high cost of adopting an electronic health records system and eliminate the headache of having to find younger doctors to maintain business.¹⁸ The number of independent doctors has declined to 39 percent in 2013 from 57 percent in 2000.

The consolidation trend is expected to continue. Seventy-eight percent of hospitals are either exploring a possible merger or are in the midst of one in 2013. Only 13 percent of hospitals have a strategy to maintain complete independence, according to a Dixon Hughes Goodman Hospital M&A report.¹⁹ Over half of hospitals are also planning to purchase a physician practice in 2014, compared to 44 percent in 2012, according to a Jackson Healthcare March 2013 report.²⁰

But some studies have found that both hospital mergers and doctors becoming employed by hospitals result in price increases.

A June 2012 Robert Wood Johnson Foundation and Urban Institute report found that the magnitude of price increases when hospitals consolidate can exceed more than 20 percent.²¹ A March 2013 Catalyst for Payment Reform report found that 75 percent of U.S. metropolitan areas have had enough hospital mergers to be deemed “highly consolidated,” and that payments for the privately insured are 3 percent higher than in markets that have more hospital competition.²²

Nor are there clear data showing that hospital and physician mergers are improving quality of care. In fact, for some procedures, like cardiac care, there is some evidence that patients fared better with more hospital competition.²³

Hospitals say there is still plenty of competition and that most mergers have improved health care quality and provided benefit to the community. Most transactions, they said, involved one institution buying another that was struggling financially, or needed more capital or specialized expertise, according to an April 2013 report commissioned by the American Hospital Association.²⁴

Some concentration is evident on the insurer side of the bargaining table as well. A 2011 Kaiser Family Foundation study found that in 30 states, one health insurer has a market share of 50 percent or more in the individual market.²⁵ Doctors also blame increased costs on insurance companies. There is a lack of health insurer competition in 70 percent of the nation’s metropolitan areas, according to a November 2012 American Medical Association (AMA) report. Physicians say the result has been higher premiums and less generous benefits to consumers.²⁶

Insurers say the AMA data are flawed because they don’t include self-insured companies.²⁷ Insurance company mergers mean more subscribers and thus bargaining power with hospitals, lowering costs by as much as 12 percent in some markets, found a September 2011 report published in the journal *Health Affairs*.²⁸

Whichever sector is the cause, price increases for hospital and physician services are among the key driving forces behind the rise in health care costs.²⁹ Hospital spending was projected to be \$892.4 billion in 2012 and is the largest category of health care costs.³⁰

Given the federal government’s interest in rising costs, antitrust officials have been following the consolidation trend closely, and the Federal Trade Commission has blocked several health care mergers.³¹ In February 2013, the Supreme Court confirmed the agency’s authority to challenge the merger of two hospitals in Georgia. In March 2013, the FTC filed a lawsuit to block an Idaho hospital chain’s purchase of the largest multi-specialty independent physicians’ practice. In 2012, the agency also stopped the purchase of a surgical center by a hospital in Pennsylvania, and in 2011, it challenged a hospital merger in Ohio.

Others argue that the government isn’t doing enough antitrust oversight to curb price increases.³²

RESOURCES

Hospital Pricing

How Has Hospital Consolidation Affected the Price and Quality of Hospital Care?

Vogt, W and Town, R (Feb. 1, 2006) *The Robert Wood Johnson Foundation*

http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2006/rwjf12056/subassets/rwjf12056_1

This comprehensive look at hospital mergers between 1990 and 2003 concluded that hospitals near to one another geographically that subsequently merged, were able to raise prices by as much as 40 percent.

Synthesis Project Update: The Impact of Hospital Consolidation

Gaynor, M and Town, R (June 9, 2012) *The Robert Wood Johnson Foundation*

http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2012/rwjf73261

This update six years after its first report on hospital pricing confirmed the foundation's earlier conclusion that increases in hospital market concentration lead to increases in the price of hospital care. This report said the average price increase can be "dramatic" and often exceeds 20 percent. The update also considered quality of care and found some reason for concern that mergers could be hurting quality of care.

Hospital Consolidation Outlook, Surviving in a Tough Economy

Myers, C. & Lineen, J. (November 2009) *Healthcare Financial Management Association*

<http://www.navigant.com/~media/WWW/site/downloads/healthcare/hfma%20nov%20article.aspx>

This health care association document outlines the economic and political reasons for hospital consolidation, the history of hospital mergers and identifies the most consolidated hospital markets.

The Growing Power of Some Providers to Win Steep Payment Increases From Insurers Suggests Policy Remedies May Be Needed

Berenson, R, Ginsburg, P, Christianson, J & Yee, T. (May 31, 2012) *Health Affairs*

<http://content.healthaffairs.org/content/31/5/973.abstract>

This paper examines how hospitals and doctors exert leverage to raise prices by examining results from a long-term study of twelve large metropolitan communities and conversations with hospital, physician and insurance leaders in those areas. It finds that hospitals exert control by buying "must-have" hospitals and doctors that employers need to include in their insurance plans to attract quality employees. That trend makes it harder for insurers to push back on health care providers that raise prices.

More Evidence of The Association Between Hospital Market Concentration and Higher Prices and Profits

Robinson, J (November 2011) *National Institute for Health Care Management*

<http://www.nihcm.org/component/content/article/121-publications-expert-voices/516-expert-voices-more-evidence-of-the-association-between-hospital-market-concentration-and-higher-prices-and-profits>

This author examined individual data from 61 hospitals and six high cost cardiac and orthopedic procedures and found that in concentrated hospital markets, the costs were considerably higher than in markets where there was more competition. For example, the average hospital charged \$32,411 for a coronary angioplasty in concentrated markets compared with the \$21,626 hospitals charged in competitive markets.

How Hospital Mergers and Acquisitions Benefit Communities

(June 3, 2013) American Hospital Association and the Center for Healthcare Economics and Policy, <http://www.aha.org/content/13/13mergebenefitcommty.pdf>

The AHA commissioned report says that much that has been written about hospital consolidation is misleading and that mergers in the past 6 years have been among the strategies used to respond to private sector and government incentives to improve quality and more efficient care. Further, the association notes that all the transactions underwent tough antitrust scrutiny.

Physician Consolidation

New Data On Physician Practice Arrangements: Private Practice Remains Strong Despite Shifts Toward Hospital Employment

Kane, C., Emmons, D. (September 2013) American Medical Association (AMA)

<http://www.ama-assn.org/resources/doc/health-policy/prp-physician-practice-arrangements.pdf>

While recent articles suggest a movement toward the employment of physicians by hospitals, this report introduces data finding that 60 percent of physicians still worked in practices that were wholly owned by physicians in 2012. The results are based on a survey of physicians by the AMA.

Trend Watch: Physician Practice Acquisitions, Tracking Which Physician Practices Hospitals Are Acquiring

(March 12, 2013) *Jackson Healthcare*

http://www.jacksonhealthcare.com/media/182032/practiceacquisitionreport_ebook0213.pdf

This is a survey of 118 hospital executives conducted in late 2012 by a large health care facility staffing company. The survey gives a snapshot of what hospitals are considering in 2013 in terms of physician practice acquisitions.

Rising Hospital Employment of Physicians: Better Quality, Higher Costs?

O'Malley, A, Bond, A & Berenson, R (August 2011) *Center for Studying Health System Change*
(<http://www.hschange.com/CONTENT/1230/>)

This paper examines hospital purchases of physician practices and their impact on pricing policies, and the reasons why doctors decide to sell their practices and become hospital employees.

What Drove The Recent Slowdown in Health Spending Growth and Can It Continue?

(May 2013) Robert Wood Johnson Foundation & the Urban Institute.

(<http://www.rwjf.org/content/dam/farm/reports/reports/2013/rwjf405861>)

This examination of factors in slowing the growth of health care spending speculates whether any of it is due to physician practice sales to hospitals, or if, rather than promote efficiency, the purchases may instead result in increased market power for hospitals.

The Growing Power of Some Providers to Win Steep Payment Increases From Insurers Suggest Policy Remedies May Be Needed

Berenson R., Ginsburg, P., Christianson J. & Yee, T. (May 2012) *Health Affairs*

(<http://content.healthaffairs.org/content/31/5/973.abstract>)

This report looks at how hospital purchasing of “must-have” physician practices and hospitals has resulted in higher prices because insurers don't have enough leverage to push back against price increases.

Medical Cost Trends: Behind The Numbers 2014

(June 2013) PricewaterhouseCoopers Health Research Institute

(http://www.pwc.com/en_US/us/health-industries/behind-the-numbers/assets/medical-cost-trend-behind-the-numbers-2014.pdf)

This paper examines the variety of factors that impact medical costs, including purchases of physician practices and hospital mergers and acquisitions.

A Hospital War Reflects a Bind for Doctors in the U.S.

Creswell, J. & Abelson, R. (Nov. 30, 2012) *The New York Times*

(http://www.nytimes.com/2012/12/01/business/a-hospital-war-reflects-a-tightening-bind-for-doctors-nationwide.html?pagewanted=all&_r=0)

This report tells the story of an effort by several Idaho hospitals to buy physician practices and the reasons for doing so. It also explores why doctors are considering becoming hospital employees rather than remaining independent.

Health Insurer Consolidation

Consolidation Comes with Benefits (and Costs)

Betbeze, P. (October 16, 2013) HealthLeaders Media

<http://www.healthleadersmedia.com/content/MAG-297230/The-Benefits-and-Costs-of-Consolidation##>

In this article, Cleveland Clinic President Delos “Toby” Cosgrove maintains that the drivers of consolidation have changed. Instead of seeking market dominance, he says, health systems are trying to find linkages in disparate markets to improve efficiencies. The trend is also to acquire struggling hospitals and health systems “to turn around their finances and reap the benefits of consolidation,” according to the article.

The Increased Concentration of Health Plan Markets Can Benefit Consumers Through Lower Hospital Prices

Melnick, G., Shen, Y & Wu Yaling, V. (September 2011) *Health Affairs*

<http://content.healthaffairs.org/content/30/9/1728.abstract>

This look at the health insurance market finds that most plans operate in markets where there is lots of market competition. The study also found that in the markets where there is insurance plan concentration, hospital prices are about 12 percent lower, suggesting that health plan consolidation can lead to lower hospital prices.

Aetna, Coventry and the Arms Race in Health Care

Pearlstein, S. (Sept. 2, 2012) *The Washington Post* http://articles.washingtonpost.com/2012-09-01/business/35497264_1_coventry-health-care-small-group-market-health-insurance

Using the backdrop of the merger of two big health insurers, this reporter examines the impact of health care mergers by not only insurers, but also hospitals and doctors. He concludes that there is an “arms race” going on between companies to take advantage of the regulatory changes following implementation of the ACA and as a result, higher health care costs.

Antitrust Activity

The Price Effects of Hospital Mergers: A Case Study of the Sutter-Summit Transaction

Tenn, S (November 2008) <http://www.ftc.gov/be/workpapers/wp293.pdf>

This is a working paper produced by the FTC’s Bureau of Economics, which had been tasked by chairman Muris with taking a retrospective look at the impact completed mergers had on hospital prices. The conclusion: there was a large increase in prices and that the transaction may have been anticompetitive.

Hospital Consolidation, the Bad the Good and the Ugly

Ohlhausen, M (March 13, 2013) Speech to America's Health Insurance Plans 2013 National Policy Forum <http://www.ftc.gov/speeches/ohlhausen/130313hospitalconsolidationspeech.pdf>

In this speech, FTC Commissioner Maureen Ohlhausen outlines and defends the Obama administration's antitrust efforts with regard to health care industry consolidation.

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American Medical Association <http://www.ama-assn.org/>
Catalyst for Payment Reform www.catalyzepaymentreform.org/
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Endnotes

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