Healthcare Consolidation and Research

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CONFERENCE AT RUTGERS: NURSES GATHERING
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The Hospital of the Future

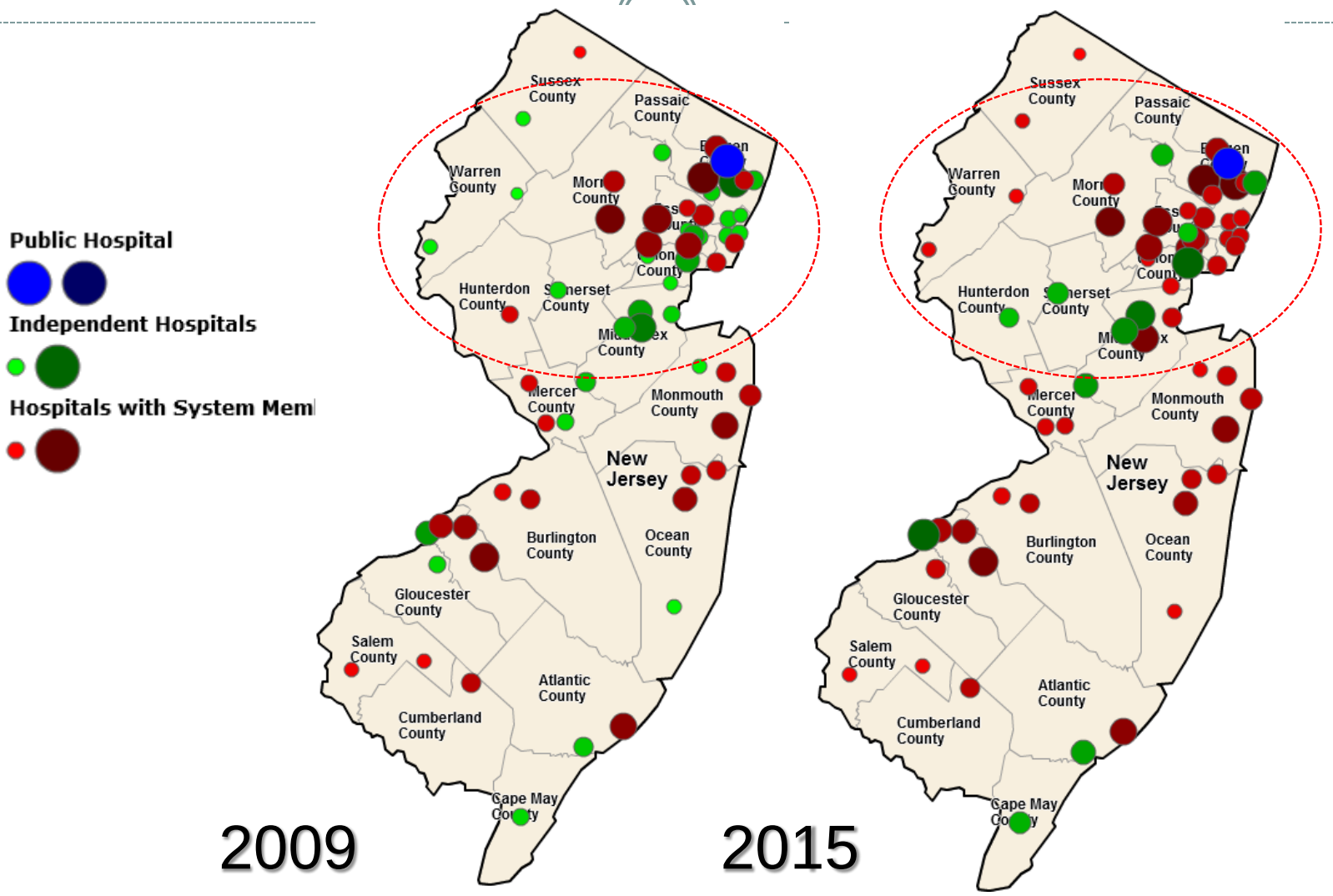
Bigger and dispersed

- **Market consolidation.** In a given service area, a larger percentage of providers are subordinate to the same corporate parent. These arrangements range from direct ownership to looser “affiliations.”

- **Clinical decentralization.** Many services typically performed in the hospital setting are migrating to the outpatient setting located off-site.

What Is a Blue H?

New Jersey: Percent of acute-care hospital beds in **systems** rose to nearly **80%** in **2015** from **55%** in **2009**



Horizontal & Vertical Consolidation

1. **Horizontal.** Hospitals and hospital chains acquiring other hospitals; physicians practices acquiring other practices; etc.

2. **Vertical.** Hospitals acquiring (a) physicians practices and (b) offering insurance products.

- **Tension in the ACA between clinical integration and cost containment.** The ACA incents consolidation through risk-sharing contracts and other programs that emphasize care coordination. However, consolidation is associated with higher spending and is at odds with affordability.

Why consolidation may spell trouble for labor

1. **Contracts void**. The transfer of ownership/control may invalidate collective bargaining agreements depending on contract language.
2. **Density.** Potentially dilutes membership density
3. **And who are you?** Disrupts established relationships with management
4. **David v. Goliath.** More resources at management's disposal to push back

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/health-care-providers-insurers-supersize-1442850400

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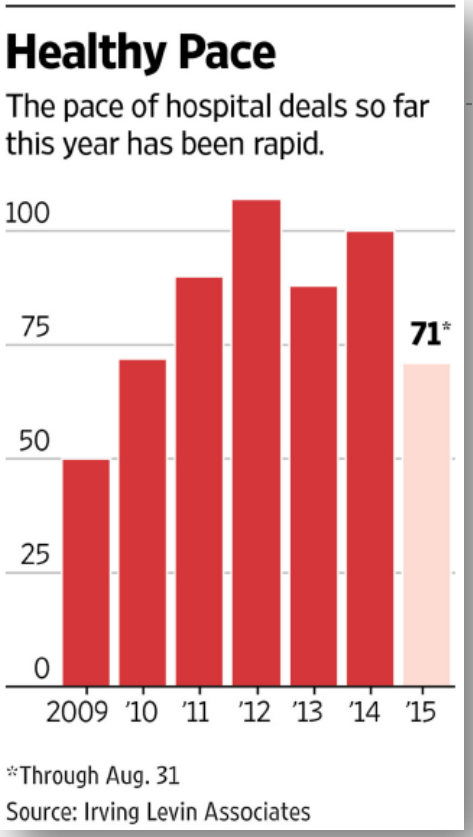
Health-Care Providers, Insurers Supersize

Dozens of mergers among hospitals, medical practices are side effect of health-care law



Hospitals: Bulking Up for Purchasing and Negotiating Power

Moody's (July 2015)

We expect that both for-profit and not-for-profit hospitals will actively look to increase revenue growth by pursuing targets that have faster growth potential than the inpatient acute care business, such as ambulatory surgery and other outpatient services, including imaging and urgent care. They will also

What hospital administrators say

COMMENTARY

Hospital Mergers Can Lower Costs and Improve Medical Care

Stand-alone hospitals have too few patients to thrive in the new era of population health management.

However the populations is defined, in the near future a hospital's health-care delivery network will be paid a certain amount to care for a given population, and no more. In this model there is an incentive to keep patients healthy and out of the hospital to hold costs down. However, if expenses for proper care of its designated population climb above the level the hospital has been paid, the cost is borne by the hospital.

Consolidation doesn't lower the cost to the hospital

Empirical Research

Is the System Really the Solution? Operating Costs in Hospital Systems

Medical Care Research and Review
2015, Vol. 72(3) 247–272

DOI: 10.1177/1077558715583789
mcr.sagepub.com
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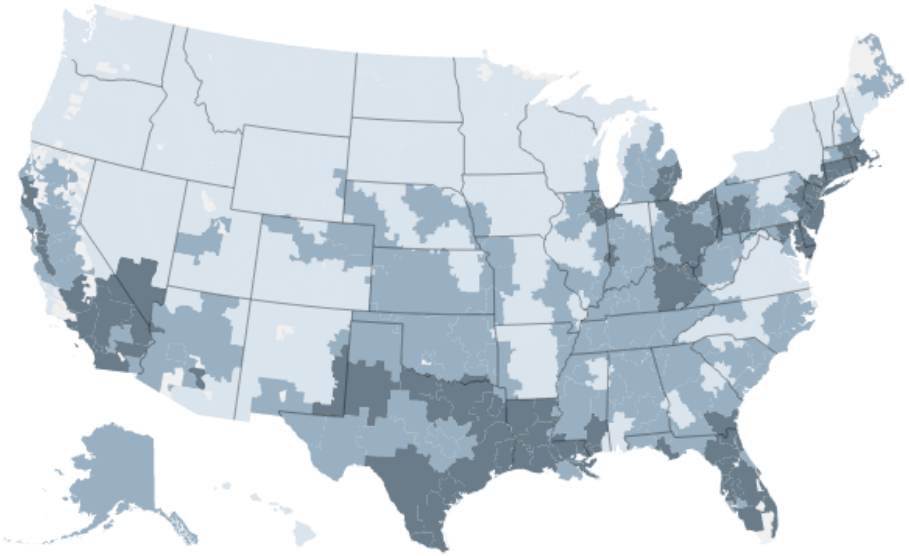
Conclusions

One major finding is that membership in hospital systems is not associated with lower operating costs. A second major finding is that the lack of system effects has been fairly stable over time. Despite changes in information technology and vertical inte-

The cost to the patient is higher

These maps look nothing alike. Their big differences are forcing health experts to rethink what they know about health costs in Washington and across the country.

Medicare spending per capita

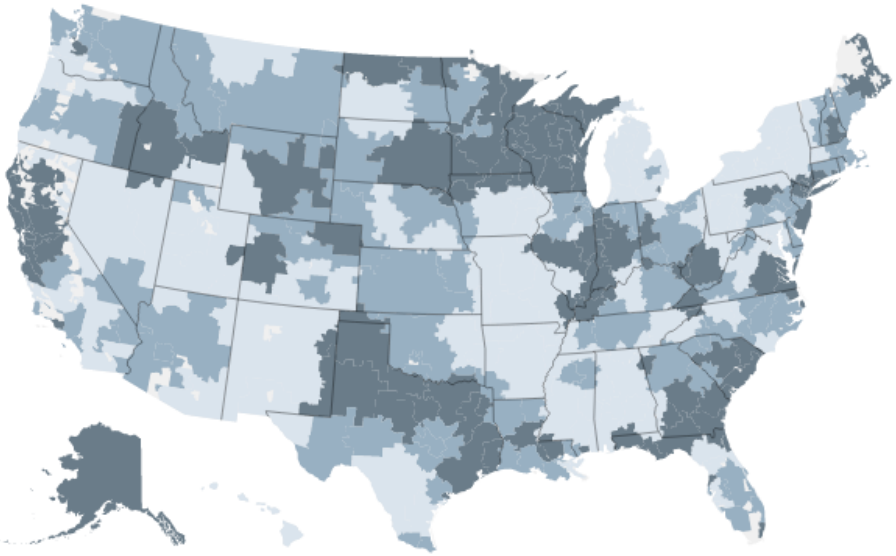


A lot of what we know about health care costs comes from Medicare data.

PER-CAPITA COST

Below avg. Average Above avg.

Private insurance spending per capita



But a new study suggests that places spending less on Medicare do not necessarily spend less on health care over all.

"The Experts Were Wrong About the Best Places for Better and Cheaper Health Care." *New York Times*, 12/15/15.

Vertical Integration: Access to Patients & Higher Prices

The Effect of Hospital/Physician Integration on Hospital Choice

Laurence C. Baker, M. Kate Bundorf, Daniel P. Kessler

NBER Working Paper No. 21497
Issued in August 2015
NBER Program(s): HC

In this paper, we estimate how hospital ownership of physicians' practices affects their patients' hospital choices. We match data on the hospital admissions of Medicare beneficiaries, including the identity of their admitting physician, with data on the identity of the owner of the admitting physician's practice. We find that a hospital's ownership of an admitting physician's practice dramatically increases the probability that the physician's patients will choose the owning hospital. We also find that patients are more likely to choose a high-cost, low-quality hospital when their admitting physician's practice is owned by that hospital.

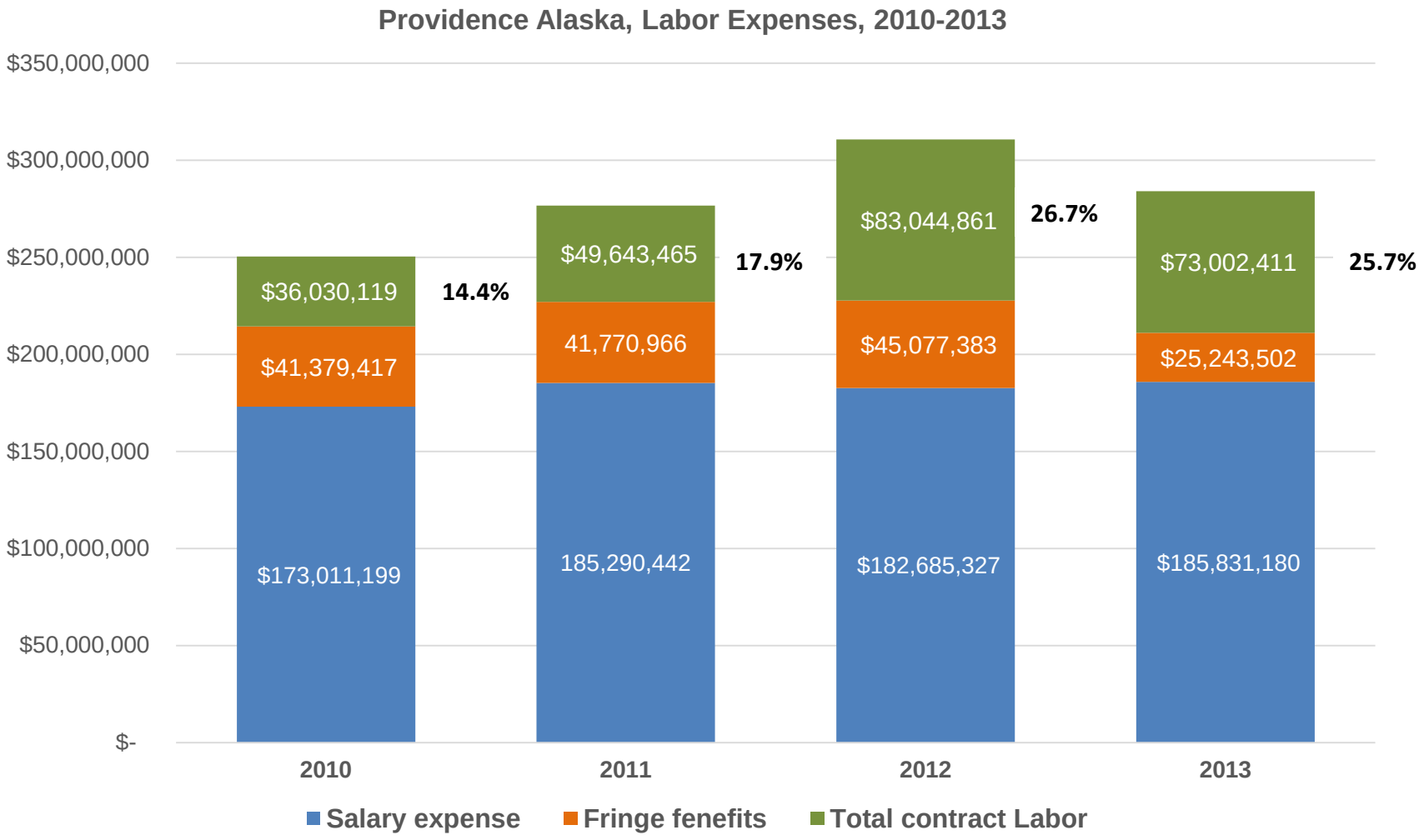
By Laurence C. Baker, M. Kate Bundorf, and Daniel P. Kessler

Vertical Integration: Hospital Ownership Of Physician Practices Is Associated With Higher Prices And Spending

What consolidation looks like

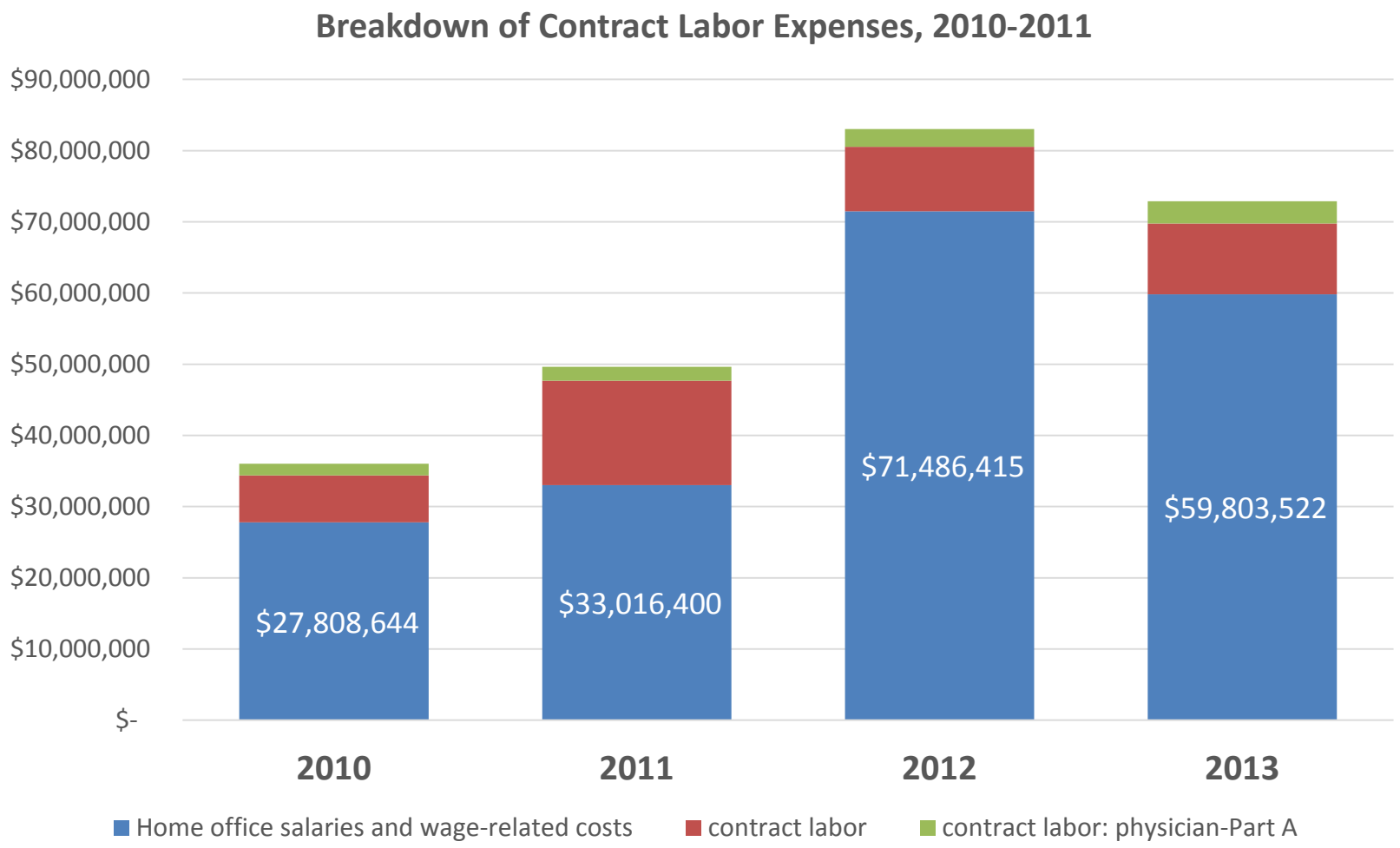
MEDICARE COST REPORTS

Contract labor absorbs a larger share of total labor costs

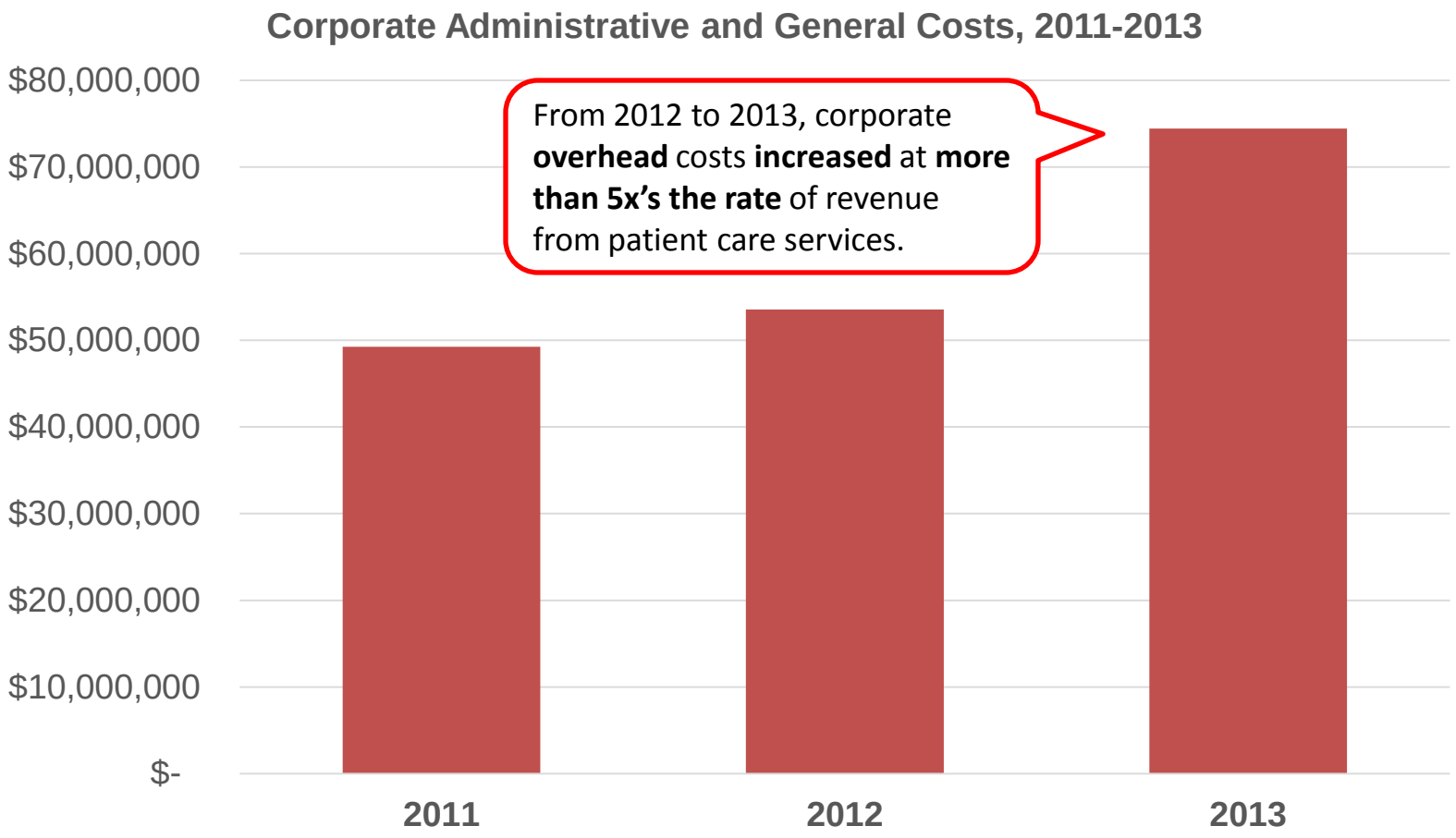


Source: Medicare Cost Reports, Worksheets S-3 (Part II) & A

…and home office-related wages have driven the growth

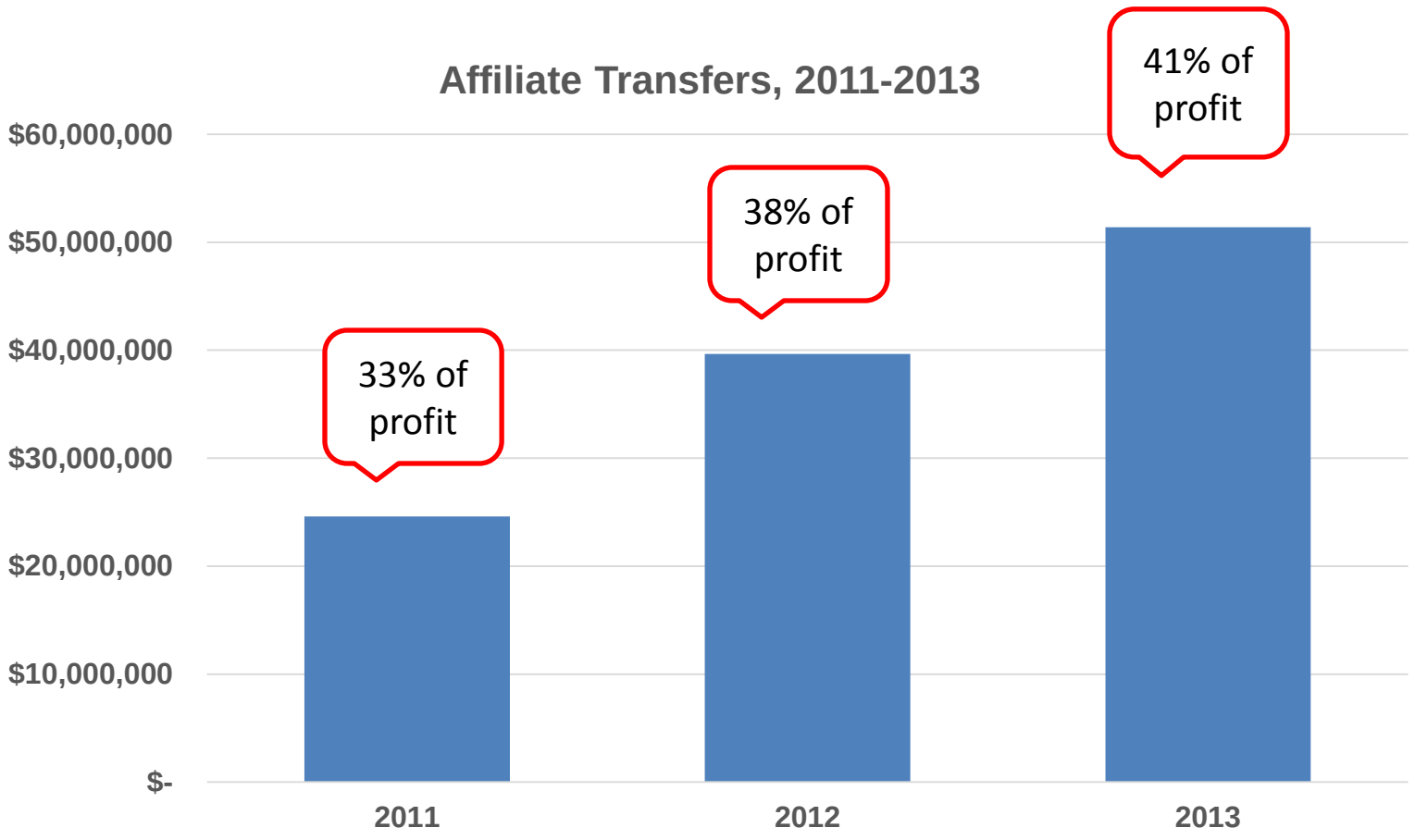


Corporate overhead has grown at a much faster pace than revenue from patient services



Source: Medicare Cost Reports, Worksheet A-8-1

PAMC transfers a growing share of profits to "affiliates" each year



Source: Medicare Cost Reports, Worksheet G-1; profit defined as net income

CBAs: Successorship Language

- Critical to have strong language to protect against the transfer of ownership & control

"Application of Agreement to Successors – Obligation to Notify. *This agreement shall be binding upon both parties, their successors and assigns. The Employer shall give notice of the existence of this Agreement to purchaser or transferee. In the event of a sale or transfer of the business of the Employer, the purchaser or transferee shall be bound by this Agreement."*

It matters what you call “it”

- Many forms of consolidation fall outside the categories “merger” and “acquisition”

“Type of Transaction Immaterial.

In the application of these rules, it is immaterial whether the transaction is called a merger, purchase, acquisition, sale, etc. It is also immaterial whether the transaction involves merely the purchase of stock of one corporation continuing in existence, and it is immaterial whether operations of the companies are physically merged or not.”

Language: Clinical Decentralization

"Relocation of Existing Facility. *In the event the Employer moves an existing facility to any location within* ***X*** *miles of the existing facility the terms and conditions of this contract shall continue to apply with respect to the new facility. In addition, all employees working under the terms of the Agreement at the old facility shall be afforded the opportunity to work at the new facility under the same terms and conditions and without any loss of seniority or other contractual rights or benefits. Provided however, the Union will be required to show a majority representation in accordance with the controlling law. In addition, the parties agree to enter into effects bargaining in accordance with controlling law regarding the impact on employees of the movement of an existing facility."*

Know your state's Certificate of Need (CON) law

- Most implemented in the 1970s to contain healthcare spending
- CON laws originally based on the Field-0f-Dreams principle: "if you build it, they will come"
- Conservative critics of CON laws argue they've become subject to regulatory capture
- Newer CON laws updated to reflect the principle of "if you own it, they will have nowhere else to go"
- States like Connecticut and Massachusetts are great examples of effective laws to control consolidation

Features of CT CON law

1. **Change in control.** Not only limited to “mergers” or “acquisitions”
2. **Cost and market impact review (CMIR).** Department of Public Health (DPH) granted the right to determine whether a sale will result in higher costs for consumers.
3. **Teeth.** DPH authorized to deny any hospital sale unless “the affected community will be assured of continued access to high quality and affordable health care after accounting for any proposed change impacting hospital staffing.
4. **Conditions on sale.** DPH authorized to place any conditions on the sale, including to maintain staffing levels for specified period of time.

CON laws can and have worked

Cost Impact: Over time, for the three major commercial payers studied, these transactions are anticipated to increase total medical spending by $23 million to $26 million each year as a result of increases in Harbor/SSPHO physician prices and increased utilization of Partners and SSH facilities. The resulting system is anticipated to have increased ability to leverage higher prices and other favorable contract terms in negotiations with commercial payers. The cost impact of this increased leverage is not included in the above projection, and will be substantial if payers are unable to prevent the exercise of the parties' leverage in future contract negotiations. Overall, based on the evidence the parties provided, increases in spending are anticipated to far exceed potential cost savings from expanding Partners' existing PHM initiatives into the South Shore region.

-Health Policy Commission (2014)

Partners ends bid to acquire South Shore Hospital

Unit was central to contentious plan to expand; two others remain in play

ZACK WITTMAN FOR THE GLOBE/FILE

South Shore Hospital.

By Robert Weisman | GLOBE STAFF FEBRUARY 17, 2015

On the day Coakley announced the settlement clearing the way for Partners to add three hospitals, the most powerful arguments against expansion had come from an agency that few took seriously when it was created in 2012.

The proposal to acquire South Shore Hospital drew opposition from rival hospitals and community organizations that argued Partners would wield too much influence in the marketplace and would drive up costs.