

## Eight Myths About Hospital Mergers and Acquisitions

Hospitals and health systems are transforming the way they deliver care in response to patients' and communities' changing needs and preferences. At the same time, they face many headwinds such as low government payment rates, increasing prescription drug costs and shifting demographics.

Mergers and acquisitions are an effective tool to help hospitals and health systems confront challenges and opportunities. But there are many misconceptions about consolidation. Here are the top eight myths:

### **Myth 1: Market concentration leads to higher costs for patients.**

**Fact: Rather than driving costs up, mergers are actually shown to decrease revenue.**

Studies show that mergers decrease costs and enable health systems to focus on improving quality and expand the scope of services available in a community. A recent analysis found that due to increased scale, acquisitions decrease costs and are associated with a statistically significant 2.3% reduction in annual operating expenses.<sup>1</sup>

Some researchers lean heavily on a few flawed studies to attempt to draw an unequivocal relationship between hospital consolidation and prices. The AHA has expressed concerns about drawing nationwide conclusions with significant policy implications from these studies, each of which are flawed in significant ways.<sup>2</sup> None of these studies have reached a causal conclusion about the relationship between hospital consolidation and prices. Moreover, these studies have major data gaps and flaws. For example:

- “The Price Ain’t Right?” report is based on old and incomplete data, none of which include the payer with the biggest share in most markets, Blue Cross Blue Shield plans, and with highly uneven geographic representation.<sup>3</sup> The authors rely on old claims data (2008 – 2011) from the Health Care Cost Institute, which is comprised of employer-sponsored data for just three large payers, representing only 13.5% of covered lives.
- Similarly, authors of the “Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely” report drew nationwide conclusions from a sample representing just 2% of all covered lives and 1% of all hospital expenditures.<sup>4</sup>

### **Myth 2: Hospital consolidation leads to large variation between public and private payment rates.**

**Fact: The differences in payment rates are partly due to how those rates are set: privately negotiated rates with commercial payers versus those imposed by state and federal governments through law and regulation.**

Bridging the gaps created by government underpayments from Medicare and Medicaid is only one of the benefits that hospitals provide to their communities. Medicare and Medicaid account for more than 60% of all care provided by hospitals and health systems. However, both Medicare and Medicaid pay less than the cost of providing care for their beneficiaries. Combined underpayments were \$76.6 billion in 2018, including a shortfall of \$56.9 billion for Medicare and \$19.7 billion for Medicaid.<sup>5</sup>

### Myth 3: Hospital and health system consolidation reduces patient access to care.

#### **Fact: Mergers can help keep hospitals open to serve patients and the communities that rely on them.**

This is particularly critical in rural communities facing low patient volume, heavy reliance on Medicare and Medicaid, increased regulatory burden and shifts from inpatient to outpatient care.

More than 100 rural hospitals have closed since 2010. Affiliating with a health system provides some rural hospitals with access to needed capital and can prevent hospital closures.

Rural hospitals are trying innovative approaches to address these issues, such as telemedicine programs and relationships that connect pregnant women with specialists that may be farther away.<sup>6</sup>

### Myth 4: Hospital consolidation is making patients sicker.

#### **Fact: When hospitals become a part of a health system, the continuum of care is strengthened for patients and the community.**

This includes:

- Clinical process improvements.<sup>7,8</sup>
- Improved access to specialists through health system networks.
- Better care coordination for patients as they access different parts of the health system.

These improvements result in better care for patients. For example, studies have found that readmissions have decreased following hospital acquisitions.<sup>9,10</sup>

### Myth 5: Hospitals and health systems are the only part of the health sector that is consolidating.

#### **Fact: The health care sector has transformed dramatically over the last 10 years, and hospitals and health systems have had no choice but to respond.**

Commercial health insurance markets are increasingly concentrated health insurance markets. The American Medical Association found that 75% of metropolitan commercial markets studied were highly concentrated, up from 71% in 2014.<sup>11</sup> Insurers' vertical consolidation also has intensified in recent years. As a result of the 2018 CVS/Aetna merger, the three largest pharmacy benefit managers have also come completely under insurance company ownership.<sup>12</sup>

This is all conveniently ignored – or quickly brushed aside – by researchers hyper-focused on hospitals. Of note, many of these researchers' studies rely on data that comes directly – and voluntarily – from these same insurers.

### Myth 6: Federal Trade Commission oversight of hospital mergers is inadequate.

#### **Fact: States and the federal government have the opportunity and authority to review proposed mergers.**

State Attorneys General have been very active in reviewing proposed mergers in recent years. Some states have established separate commissions to oversee that health care markets function efficiently.<sup>13</sup>

Moreover, there is evidence to suggest that the FTC's economic model does not account for how patients and their doctors select hospitals, among other flaws, and may result in over-enforcement rather than under-enforcement. This has undoubtedly discouraged some hospitals from attempting mergers that may draw FTC scrutiny.<sup>14</sup> Many critics also focus only on FTC challenges, overlooking the other tools the FTC has to investigate mergers.<sup>15</sup>

### **Myth 7: Hospitals are consolidating with physician practices faster than anyone.**

#### **Fact: Physician preferences are driving change in employment structure, not hospitals.**

For example, 91% of final-year medical residents reported that they prefer to be an employee of a hospital, medical group, or other facility than to be in an independent private practice, according to a 2019 survey.<sup>16</sup>

Moreover, hospitals and health systems are responding to broader trends in the physician market. Private equity firms, who are not constrained by the Stark law's limits on acquiring physician practices, have been acquiring physician groups and specialists at an increasing rate.<sup>17</sup> And with its acquisition of the DaVita Medical group, UnitedHealth Group has become one of the largest physician employers in the country.<sup>18</sup>

### **Myth 8: Hospital mergers have resulted in the highest profitability in decades.**

#### **Fact: Numerous studies and reports show that hospital and health system operating margins have remained stable in recent years.<sup>19</sup>**

More than one-fourth of hospitals have negative total margins, and a third have negative operating margins.<sup>20</sup> Moreover, the Congressional Budget Office has projected that by 2025, between 40% and 50% of hospitals could have negative margins.<sup>21</sup>

On the other hand, insurers and pharmaceutical manufacturers are raking in record profits. The top five insurers reported over \$50 billion in income between 2018 and 2019.<sup>22</sup> In the first quarter of 2019 alone, 12 of the most profitable pharmaceutical companies reported over \$29 billion in profits.<sup>23</sup>

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