

May 2013

## Health Care Consolidation

### Clinical Integration

Hospitals are at a critical juncture in history. They must adapt to a revolutionary reimbursement trend: a shift from volume to value. Under the Patient Protection and Affordable Care Act (PPACA) of 2010, payments will no longer be based on the volume and type of services provided, but on the "value" of services provided. Value will be measured through the federal government's "Triple Aim" of quality, improved population health, and cost-effective care. Value is to be achieved through "Clinical Integration."

Clinical Integration calls for physicians and hospitals to work together on a coordinated continuum of care for each patient. Coordination will be rewarded through new reimbursement models such as payment "bundles," global payments for an episode of care. For a Medicare patient who needs surgery, a single payment will cover certain care prior to hospitalization, the hospital stay itself, and post-acute care including home care and nursing home care. Providers who do not provide coordinated care will be penalized. (These penalties are part of the scheduled \$155 billion cut in hospital Medicare payments by 2019.)

The demand for Clinical Integration is driving consolidation among hospitals, physicians and other providers. The 1990s consolidation wave largely focused on hospital efforts to leverage market share and negotiate insurance rates. That effort did not last and many policymakers view it as a major failure.

A 2012 Moody's<sup>1</sup> report reminds us that consolidation needs to work this time. For hospitals, the new consolidation models will likely involve the purchase of smaller stand-alone hospitals by large systems, the hiring of and contracts with physician groups and partnerships with other providers.

### Patient-centered, Integrated Delivery Systems

The PPACA vision is coordinated, comprehensive health care that keeps patients as healthy as possible.

Coordinating health care delivery across the continuum of care – from physician offices to outpatient centers, hospital stays, rehabilitation, home care, nursing homes, etc. – means matching the needs of the patient with the appropriate services at the right time. Successful care coordination involves the use of the most appropriate and (sometimes) less costly care; an emphasis on disease prevention rather than disease treatment; ongoing provider training; and widespread health information technology (HIT) use by the provider and the patient.

"Integration is the extent to which patient care services are coordinated across people, functions, activities and sites over time so to maximize the value of services delivered to patients." *Remaking Healthcare in America*

## **Drivers of Health Care Consolidation**

The focus on Clinical Integration calls for consolidation among health care providers. Other drivers of consolidation include:

### ***Quality Improvement***

Our nation's sometimes fragmented health care delivery model can impede patient safety and lead to poorer outcomes. A 2002 Institute of Medicine's (IOM) publication, *Crossing the Quality Chasm*, spurred policymakers to consider changes to today's health care delivery system.

"An important goal of coordinating care across the continuum is minimizing fragmentation, a longstanding impediment to improving health outcomes and providing responsible care," said the IOM. "Fragmentation increases the 'handoffs' in patient care, which decreases efficiency and patient safety, resulting in wasted resources, gaps in accountability, information loss and more opportunities for error."

### ***Hospital Survival***

An accumulation of circumstances has placed many stand-alone hospitals in difficult financial circumstances. Small hospitals, in particular, may be forced to decide between closing or merging with other hospitals. Mergers can help struggling hospitals with capital dollars, more efficient overhead systems, and technology and infrastructure upgrades – and improve care coordination.

A recent Moody's report gives credence to not-for-profit financial struggles. Moody's downgraded a record \$20.0 billion in not-for-profit health care debt in 2012, an increase of 213% over last year's \$6.4 billion in downgraded debt. This represents the highest level of downgraded debt in one year since the metric was implemented 1995<sup>i</sup>.

### ***Physician Alignment***

Physician alignment is another part of consolidation. It can involve mergers between physician groups and/or purchases of physician practices by hospital systems. In addition to improving care coordination, hospital-employed physicians can be shielded from certain payment cuts, rising malpractice insurance costs, and expensive investments in information technology.

### ***Information Systems***

Clinical integration requires a significant financial investment in information system upgrades that link physicians, hospitals, outpatient facilities, home health providers, and nursing homes.

### ***Population Health***

Population health focuses on the health outcomes of groups of people. These groups can be geographic populations and communities, and more defined groups such as ethnic groups, disabled persons, low-income areas, employees, etc. The Triple Aim calls for hospitals to share the responsibility for "population health" in the communities they serve.

## **Does Consolidation Mean Higher Costs?**

Hospitals do not exist in a vacuum, but are part of a health care system that includes (mainly) for-profit intermediaries like health insurers. Hospital markets typically are much less concentrated than health insurance markets. Large insurers acquired many small health plans during the managed care era of the 1980s, and this has led to markets typically being dominated by just a few health plans<sup>iii</sup>.

Critics of consolidation maintain that hospitals can now raise their prices without improving the quality of services. But evidence that hospital consolidation leads to higher prices is mixed, and often depends on who commissioned the study.

The national health insurance trade group, America's Health Insurance Plans (AHIP), claims that inpatient hospital prices rose an average 8.2 percent each year between 2008 and 2010<sup>iv</sup>. On the other hand, the American Hospital Association notes that hospital price increases are at a historic low and are not the main driver of higher health insurance premiums. They further note that the growth in health insurance premiums from 2010 to 2011 was more than double that of underlying health costs including hospital services<sup>v</sup>.

“It is possible that some hospital charges will go up in the short term,” said Richard Morrison, Regional Vice President for Government and Public Affairs at Florida Hospital. “This is related to local contract negotiations with health insurers and the amount of charity care provided. But it is important to remember that hospital consolidations are designed to drive down the health care spending curve through higher quality and more efficient care.

“So far, many of the studies that say that hospital consolidation increases prices have not factored in the long-term reductions in reimbursement and the cost of care,” Morrison continued. “We need to look beyond transactional costs and consider the total cost of care over the long run.”

## Conclusion

Hospitals are challenged by the new reimbursement models that call for greater quality and efficiency. Clinical Integration and provider consolidation can lead to better and more efficient health outcomes. As the federal government, insurers and patients demand higher quality, affordability and patient satisfaction, the health care sector is reshaping the health care field, sometimes through mergers, alliances, partnerships or other innovative relationships. These efforts support the Triple Aim of higher quality, lower costs, and improved population health.

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<sup>i</sup> *New Forces Driving Rise in Not-for-Profit Hospital Consolidation*, Moody's Investor Service, March 2012.

<sup>ii</sup> *U.S. Not-For-Profit Healthcare Rating Activity in 2012 Sets Record for Downgraded Debt*, Moody's Investor Service, February 2013.

<sup>iii</sup> *The Future of Health Care Costs: Hospital-Insurance Balance of Power*, Frakt, A., Expert Voices, National Institute for Health Care Management Foundation, November 2010. See also: [http://nihcm.org/pdf/EV\\_Frakt\\_FINAL.pdf](http://nihcm.org/pdf/EV_Frakt_FINAL.pdf).

<sup>iv</sup> *Trends in Inpatient Hospital Prices, 2008 to 2010*, published Online: March 06, 2013.

<sup>v</sup> *Health Care Consolidation and Competition after PPACA*, Statement of the American Hospital Association before the Subcommittee on Intellectual Property, Competition and the Internet of the Committee on the Judiciary of the U.S. House of Representatives, May 18, 2012.