



NC Hospital Mergers Accelerating, Raising Concerns

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More North Carolina hospitals are looking to merge into larger systems, a trend some in the hospital industry maintain is being driven by the Affordable Care Act. But for hospitals, the “urge to merge” has been around for two decades, and now state and federal regulators are giving hospital consolidation more scrutiny.

By Brenda Porter-Rockwell

Patients in Smithfield, Clayton and High Point will soon see the words “UNC Health Care” on signs advertising their local hospitals. Patients in Alamance will see changes too, as Alamance Regional Hospital gets folded into the Cone Health System.

Across North Carolina – and the country – small, community-based hospitals say they are building partnerships with larger health care systems as a way to help offset rising medical costs and to better navigate changes under the Affordable Care Act.



UNC Hospital emergency entrance.
Photo by Patrick Mustain.

But the Federal Trade Commission and the Department of Justice contend that some of these hospital consolidations violate antitrust laws, causing some proposed hospital mergers in North Carolina to come under increased scrutiny.

The F.T.C. has also asserted that in markets with less competition, these new larger entities increase costs for the patient, sometimes by as much as 40 percent. Whether that’s happening in North Carolina remains to be seen as more hospital systems consolidate.

While community hospitals see numerous benefits in merging with larger systems, Kevin Schulman, a health-management professor at Duke University’s Fuqua School of Business, said that in the aftermath of the federal health care legislation the FTC and the Department of Justice have raised concerns about physician practices moving under the direction of hospital systems and not acting as independent practitioners and hospitals.

The FTC believes it needs to step up enforcement because hospitals are hiding behind their nonprofit status to skirt antitrust laws. Also of concern are recent studies showing that when large health systems gain a greater market share, their power allows them to increase costs for patients.

North Carolina has seen a flurry of community-based hospitals build relationships with larger systems like state-owned UNC Health Care System. On April 1 UNC finalized a merger with High Point Regional Medical Center. Over the next five years, UNC expects to pour \$150 million into capital improvements to the beleaguered hospital, which was laden with debt and operating with a budget deficit.



Johnston Medical Center – Smithfield.
Photo courtesy Johnston Health

UNC is also allocating \$50 million to establish a new community-health fund there that will award health and wellness grants. That same day, UNC and Johnston Health System signed a letter of intent to partner.

On the other side of the state, CarePartners Health Services and Mission Health, both located in Asheville, entered into a nonbinding memorandum of understanding this month, making CarePartners an affiliated member of Mission Health. Two years ago, UNC committed to a 10-year management partnership with Pardee Hospital in Lenoir said it is currently considering a strategic

Old and New

“I think there’s something old and something new about this kind of acquisition,” David Dranove, the Walter McNeerney Professor of Health Industry Management at Northwestern University’s Kellogg School of Management, said in an interview last year. Dranove is also a professor of management and strategy and director of the Center for Health Industry Market Economics.

What’s old, he said, is the desire of tertiary medical centers to acquire satellite hospitals so as to increase their referrals from suburban areas. What’s new is the push from the federal government under the Affordable Care Act to force health care facilities to create accountable care organizations (ACOs) for their communities. Under the federal legislation, ACOs are required to serve a large percentage of the poor population. However, smaller hospitals are trying to balance those costs against maintaining profitability.

“With all of the changes reshaping health care, it will become increasingly difficult for independent hospitals to remain financially strong and successful, necessitating some to increase costs to remain in existence,” said David Strong, president of Rex Healthcare and chief operating officer of System Affiliations at UNC Health Care. “By joining forces with UNC Health Care, Johnston Health will be able to continue meeting the needs of a growing and aging population with a low-cost and effective delivery model.”

Johnston Health CEO Chuck Elliot challenged the assertion of intentionally increasing costs.

“That’s not our motive for looking at an affiliation or partnership of this type,” he said. “Our intent is to keep our costs as low as possible.”

According to Elliot, with the bundling of Medicare payments to hospitals and the increasing emphasis on accountability, for example, Johnston Health would not have the resources to comply. After the relationship is finalized later this summer, Elliott said Johnston County residents will benefit from resources such as UNC’s clinical-research expertise and physician subspecialties.

Cost Savings?

Another goal is to use the combined size and scale to create efficiencies such as buying supplies, equipment and other items in bulk to save money. Elliot said that any savings realized would be used to add new services and pass along lower costs to patients.

N.C. Hospital Association general counsel Linwood Jones said another big cost is the IT infrastructure needed to implement new reimbursement systems and to coordinate care among hospitals, physicians and other providers that is beyond the financial means of many smaller hospitals.

“There is limited capital available to these facilities to finance the IT infrastructure, upgraded facilities and other improvements needed for the future,” said Jones. “In addition, as many of these new reimbursement models pose more risk to hospitals, smaller hospitals often have too small of a patient base to allow for effective risk management.

“Affiliation with larger systems not only ensures the survival of many of the smaller hospitals but also will likely improve their patient outcomes and lower their operating costs.”

For UNC, it appears the benefits of collaboration are more strategic, in that it gains a more public footprint in the Johnston County market, remaining a strong competitor to WakeMed Health & Hospitals. WakeMed is building a new medical park in Garner, not far from Johnston Health’s new medical center there. In 2012, WakeMed withdrew its hostile \$750 million bid to take over Rex Healthcare from UNC. Had WakeMed been successful in its bid to buy Rex, experts believe WakeMed would have controlled 90 percent of the Raleigh market.

According to Kevin Schulman, director of health sector management at the Fuqua School of Business, the good intentions of controlling costs through synergies don’t always come to fruition.

“In terms of access to services, I don’t think there’s a lot of evidence that mergers result in substantial changes on the ground in terms of service provision,” he said. “At least not from the data I’ve seen.”

“The result is that we end up with organizations that have accumulated market power but haven’t really changed the way health care is delivered,” Dranove said. “That’s just bad for everyone – except for the organizations, because they’re making more money.”

No End in Sight

Another issue for the FTC and the DOJ is that nonprofit hospitals appear to be operating more like their for-profit counterparts in pursuing these mergers.

Ashish Jha, a professor at the Harvard School of Public Health and one of the nation’s leading researchers in health care management, said that “policymakers, and probably judges, have tended to see [nonprofit hospitals] very differently than they might if they were for-profit corporations. But the truth is that a vast majority of hospitals behave like for-profit entities.”

A study of hospital mergers in the Chicago area, as well as in Boston and Orlando, revealed anywhere from a 35 percent to 40 percent increase in costs to the patient. And Schulman pointed

out that data from insurance provider BlueCross BlueShield of North Carolina on group health insurance revealed 40 percent increases in unit prices between 2007 and 2010 across the state.

The pace of consolidation does not seem to be slowing.

Though a planned merger between Greensboro-based Cone Health and Alamance Regional Medical Center was delayed more than 16 months by an FTC inquiry, it now appears close to being finalized. The FTC had raised concerns about market consolidation in the Triad.

“The simplified view, in my mind, is we are going to see a lot more consolidation,” Jha said. “I think we’re going to see hospitals trying to exercise more market power, and that’s not inherently a bad thing.

“But my take is that hospitals need to earn their nonprofit status.”

Citing the trend in mergers, state Attorney General Roy Cooper said that hospitals should be required to notify his office and the FTC of their intent to merge.

In a letter to Republican state senators Bob Rucho (R-Mecklenburg) and Harry Brown (R-Onslow), Cooper offered several ideas on reducing hospital costs and increasing transparency for their proposed legislation to require hospitals to publicize the costs of their most common procedures.



Johnston Medical Center – Clayton.
Photo courtesy Johnston Health

“Recently, my office and the Federal Trade Commission received a victory before the U.S. Supreme Court when the court ruled that state health care facilities are not immune from anti-trust laws,” Cooper wrote. “In order to be able to better exercise this authority, it is important to receive timely notice of important mergers and acquisitions.”

Those on the receiving end of this proposed legislation applauded Cooper’s efforts, but said they already implement notification measures.

“While we recognize that health care consolidation is facing more scrutiny in many parts of the country, we believe that it’s a trend that will improve care and reduce costs in the long term,” explained UNC’s Strong.

Several of Cooper’s requests have been added to legislation currently pending in the General Assembly.

Schulman said that understanding health care policy is a very complicated business, and there are no easy solutions.

“Very few people in business or public life have the tolerance for understanding anything about health care,” he said. “But people should be really satisfied that we have the best possible infrastructure for health care delivery in the state, and that we have health care easily available and at affordable prices.”

Rose Hoban provided additional reporting for this story.

Correction: The story originally said WakeMed was building a new Health Park in Clayton.

<http://www.northcarolinahealthnews.org/2013/04/29/hospital-mergers-a-new-accelerating-trend/>