



# Module 3: Hospital Pricing and Competition

## Part 4: Mergers and Competition Policy

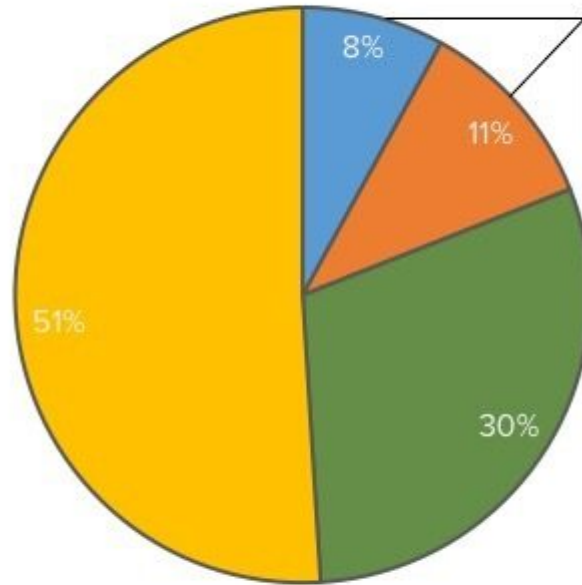
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Econ 372

# Types of hospitals involved in mergers



## Many Mergers and Acquisitions Are Between Large, Strong Partners



In one fifth of the announced 2018 deals, the seller or smaller partner had **net annual revenues of more than \$500M**

### Across all announced deals in 2018:

- ❑ the average revenue of the smaller partner was \$409 million, the highest figure in a decade of tracking
- ❑ only 20 percent of the deals involved a “financially distressed” partner

■ > \$1B ■ \$500M - \$1B ■ \$100M - \$500M ■ < \$100M

Annual Revenue of Seller or Smaller Partner in Transaction

For full slide deck and all references see <https://www.nihcm.org/categories/hospital-consolidation-trends-impacts-outlook>.

# Types of hospitals involved in mergers

- Ascension-Presence: Largest non-profit system in US adds 10 hospitals to existing 9 hospitals in Chicago
- Fairview-HealthEast: 11 hospital system becomes largest in Twin Cities area
- Hospital corporation of america (HCA) adds 4 hospitals to the 10 existing HCA hospitals in Houston
- Northwestern-Centegra: Forms 10 hospital system in Chicago
- Emory-DeKalb: Forms 10 hospital system in Atlanta
- Jefferson-Einstein: Forms 18 hospital system in Philadelphia area

Source: NIHCM Hospital Consolidation Trends

# Different merger types

Essentially two types of mergers:

1. "Within-market"
2. "Out-of-market"

Why do you think these matter?

# Within-market mergers

- Most well-understood merger type
- Established tools for examination in anti-trust
- Defining the market is still a contentious issue

# Within-market mergers

- Listed previously (Emory-DeKalb, etc.)
- **Big** price effects
  - 20 to 40% in many studies
  - Up to 60% in some studies
  - Bigger increases the closer are the hospitals
  - Price increases spillover to other hospitals too
- Account for about 50% of all mergers since 2000

# Out-of-market mergers

- Less understood
- No formal structure for analyzing in court
- These types of mergers are essentially permitted without risk of DOJ/FTC challenge

# Out-of-market mergers

- Involve larger systems spanning different isolated markets
  - Advocate-Aurora: 27 hospital system in IL and WI
  - Baptist Memorial-Mississippi Baptist: 22 hospitals in TN, AR, and MS
  - UPMC-Pinnacle: 24 hospital system recently added 8 in central PA
  - Catholic Health Initiatives-Dignity Health: 142 hospitals in 21 states
  - HCA: 177 hospitals in 21 states
  - RCCH HealthCare Partners: 89 hospitals in 30 states, focusing on non-urban areas
- About 35% of all mergers are out-of-market but in same state, 15% out-of-state
- Smaller but meaningful price increases, 5 to 10%



# How do they increase prices?

- Already discussed within-market mergers, outside options, and bargaining power
- What about out-of-market mergers?

# How do they increase prices?

Two ways this can happen theoretically:

1. Common customers (hospital markets are local, but insurance markets are more broad)
2. Multi-market contact (particularly relevant for understanding out-of-state mergers)

# 1. Common customers



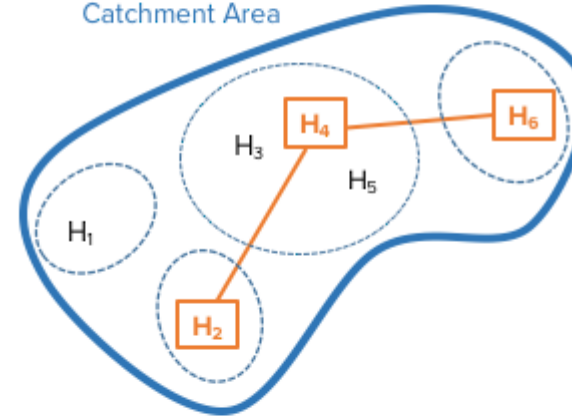
## Broader Merger Geographies Require New Approaches by the FTC

These emerging conceptual frameworks have not yet been used in a federal merger challenge, despite the rapid pace of cross-market and multimarket hospital mergers.

### Cross-Market Regional Mergers<sup>a</sup>

- ❑ Employers often draw workers from numerous distinct markets within a broader geographic region.
- ❑ To sell insurance to these employers, insurers must build a hospital network covering all markets where their employees live.
- ❑ A merger that gives a hospital system a presence in several of these distinct markets also gives that system more market power – **even if it does not increase hospital concentration within any of the smaller markets.**
- ❑ By negotiating on an “all or nothing” basis, the system can force insurers to include all system members in the network and to pay them higher prices.

Employer's Workforce Catchment Area



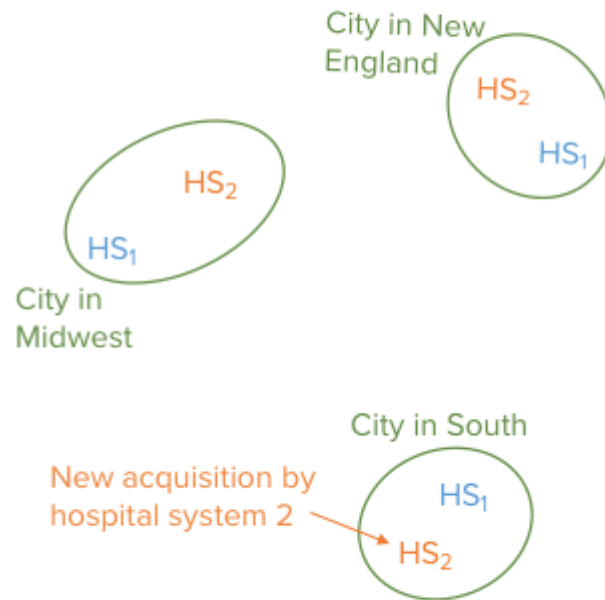
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## 2. Multimarket contact



### Broader Merger Geographies Require New Approaches by the FTC

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#### Mergers Across Distant Markets<sup>a</sup>

- ❑ As large hospital systems (HSs) expand their geographic reach nationally, they are increasingly competing against one another in multiple far-flung markets.
- ❑ The mutual forbearance hypothesis posits that such systems may avoid competing strenuously in any given common market so as to not set off vigorous competition with rival system members in other common markets.
- ❑ Consolidations that increase the extent of multimarket contact can lead to higher hospital prices – **even when the markets of the merging entities do not overlap at all and there is no increase in market power locally.**

For full slide deck and all references see <https://www.nihcm.org/categories/hospital-consolidation-trends-impacts-outlook>.

# Where do we go from here?

1. Adopt sensible policies
2. Antitrust enforcement

# Finishing the class

- Please read the Cooper et al. paper, "The Price Ain't Right", available on **Canvas**
- Please review the Brookings Report, [Making health care markets work](#)