Hospital Consolidation: The Good, the Bad, and the Backlash

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Overview

- The economics of organizational integration
- Integration of physicians and hospitals
  - Efficiencies
  - Pricing
- Whither the integrated delivery system?
Three Forms of Integration

1. Horizontal mergers and acquisitions
   - Hospitals merge, or an existing hospital chain acquires a facility within the same market
   - Physician practices, health plans etc.

2. Diversification into new markets or services
   - Hospital chain acquires facilities in other markets or expands in ambulatory services

3. Vertical mergers and acquisitions
   - Hospital acquires or creates health plan
   - Hospital acquires medical group and/or employs physicians (this is both vertical and diversification)
Potential Effects of Integration

1. Increased efficiency (lower cost, higher quality)
   - Can lead to regionalization of services, with higher patient volumes and better outcomes
   - Reduced costs of supplies, access to capital

2. Decreased efficiency
   - Large firms can become complex, slow-moving, resistant to change and innovation
   - Incentives for employees are weakened

3. Increased pricing
   - Integrated firms may obtain efficiencies but then not pass them to customers through lower prices
   - Integrated firms can lose efficiency and then need to raise prices to compensate
The Most Important Integration is Between Hospitals and Physicians
THE GOOD
What are the Potential Efficiencies from Physician-Hospital Integration?

Improved assessment and purchasing of high-value physician preference items

- Orthopedic joints and ancillary supplies
- Spine fusion implants: rods, screws, plates, etc.
- Cardiac rhythm management: pacemaker, defibrillator, CRT

Improved coordination of care and discharge planning

- Faster OR throughput, more cases per day
- Reduced LOS and readmissions
- Better relationships with SNF, subacute, rehab, PT
Potential Savings from Effective Purchasing: Econometric Analyses of California Hospitals

- 10 hospitals provided patient-level cost, utilization, and revenue data to Integrated Healthcare Association
- Econometric analysis of variance in implant use and price for orthopedic (N=6055), spine (N=1846), and cardiac patients (N=1877)
- Secondary analysis of discharge destination and LOS

American Journal of Managed Care, 2014
Savings from Effective Purchasing and Discharge Planning, as % of Patient Care Expenditures

Table 4. Total Incurred Procedure Costs and Potential Savings for 10 Hospitals From Adoption of Local Best Practices in Supply Chain Management and Discharge Planning

<table>
<thead>
<tr>
<th></th>
<th>Joint Replacement Surgery</th>
<th>Spine Fusion Surgery</th>
<th>Cardiac Rhythm Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total incurred costs</td>
<td>$68,510,369</td>
<td>$33,989,730</td>
<td>$30,195,611</td>
</tr>
<tr>
<td>Total potential savings</td>
<td>$9,925,039</td>
<td>$6,403,655</td>
<td>$8,794,178</td>
</tr>
<tr>
<td>Savings as % of costs</td>
<td>14.5%</td>
<td>18.8%</td>
<td>29.1%</td>
</tr>
<tr>
<td>Number of patients</td>
<td>6055</td>
<td>1846</td>
<td>1877</td>
</tr>
</tbody>
</table>
THE BAD
What are the potential vices of integration?

If poorly executed, physician-hospital consolidation can...

• Move care to high-cost rather than low-cost settings
• Create higher prices than in competitive markets
• Create complex, slow-moving, bureaucratic organizations
### Price Per Procedure for Commercially Insured Patients in 61 Hospitals

<table>
<thead>
<tr>
<th></th>
<th>Angioplasty with Stent</th>
<th>Knee Replacement</th>
<th>Pacemaker Insertion</th>
<th>Lumbar Spine Fusion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concentrated Markets</strong></td>
<td>$30,610</td>
<td>$24,920</td>
<td>$23,354</td>
<td>$48,868</td>
</tr>
<tr>
<td><strong>Competitive Markets</strong></td>
<td>$19,801</td>
<td>$18,505</td>
<td>$16,548</td>
<td>$39,318</td>
</tr>
<tr>
<td><strong>% difference after controls for other factors</strong></td>
<td>53%</td>
<td>32%</td>
<td>33%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Figure 1
Prices in Hospital Outpatient Departments (HOPD) and Freestanding Ambulatory Surgery Centers (ASC) Prior to Implementation of Reference-Based Benefits

Total Cost of Care per Patient in Physician Organizations in California

THE BACKLASH
How are Payers (Insurers, Employers) Responding?

Benefit design: Increased cost shifting to patients
Network design: reduced provider choice for patients

Mix and match:
- High deductible health plans
- Narrow hospital networks
- Reference pricing
- Transparency tools
Employers Move towards High Deductibles
Require Patient to Pay Initial $1000- $5000 in Costs Incurred

Percentage of Covered Workers Enrolled in a Plan with a Deductible of $1,000 or More for Single Coverage
Source: Kaiser Family Foundation/ HRET 2015 Employer Survey
Individual Consumers Favor High-Deductible Silver and Bronze Plans in ACA Insurance Exchanges

Plan selection by metal level

- **Bronze**: 20%
- **Gold**: 9%
- **Platinum**: 5%
- **Silver**: 65%
- **Catastrophic**: 2%

Note: Percentages rounded by HHS.
## What is a Bronze or Silver Plan?

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost Sharing (Bronze)</th>
<th>Cost Sharing (Silver)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$5,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>PCP Office Visit</td>
<td>$60 (3 per year)</td>
<td>$45</td>
</tr>
<tr>
<td>SCP Office Visit</td>
<td>$70</td>
<td>$65</td>
</tr>
<tr>
<td>Urgent Care Visit</td>
<td>$120</td>
<td>$90</td>
</tr>
<tr>
<td>ER Visit</td>
<td>$300</td>
<td>$250</td>
</tr>
<tr>
<td>Lab Test</td>
<td>30%</td>
<td>$45</td>
</tr>
<tr>
<td>X-ray</td>
<td>30%</td>
<td>$65</td>
</tr>
<tr>
<td>Generic Drug</td>
<td>$25</td>
<td>$25</td>
</tr>
<tr>
<td>Brand Drug</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>Max OOP: Individual</td>
<td>$6,350</td>
<td>$6,350</td>
</tr>
<tr>
<td>Max OOP: Family</td>
<td>$12,700</td>
<td>$12,700</td>
</tr>
</tbody>
</table>

*Source: Covered California Plan Options Participant Guide*
Narrow Hospital Networks in Employment-Based Insurance

Source: Kaiser Family Foundation/HRET 2015 Employer Survey

- Largest Plan Includes a High-Performance or Tiered Provider Network: 17%
- Firm/Insurer Eliminated Hospitals or Health Systems from Network to Reduce Cost: 9%
- All Small Firms (3-199 Workers) Eliminated Hospitals or Health Systems from Network to Reduce Cost: 6%
- Firm Offers a Plan Considered a Narrow Network Plan: 8%

Source: Kaiser Family Foundation/HRET 2015 Employer Survey
Narrow Networks in Insurance Exchanges

EXHIBIT 1

70 percent of hospital networks on exchanges are narrow or ultra-narrow

Distribution of networks by network breadth

2014 individual exchange – Percent of analyzed silver networks (n = 120)

- Broad: 30
- Narrow: 32
- Ultra-narrow: 38

1 Broad networks: less than 30% of largest 20 hospitals by number of beds are not participating. Narrow networks: 30-68% of largest 20 hospitals are not participating. Ultra-narrow networks: at least 70% of largest 20 hospitals are not participating.

2 Networks offered in silver in Atlanta, Bridgeport, Dallas, Nashville, Houston, Salt Lake City, Miami, Tampa, Louisville, Indianapolis, St. Louis, Los Angeles, San Jose, Pittsburgh, Denver, Philadelphia, Seattle, Chicago, Washington D.C., and Portland, ME.


Data as of: 11.15.2013

McKinsey & Company
Reference Pricing: Consumers Switch to Lower-Priced Facilities When Spending Their Own Money

Percentage of Patients Selecting Ambulatory Surgery Centers (ASC) over Hospital Outpatient Departments (HOPD) for Colonoscopy Before and After Implementation of Reference-Based Benefits

Reference Price Implementation

Anthem

CalPERS
Price-Conscious Consumer Choices Reduce Spending by Employers and Insurers

Average Price (Allowed Charge) for Colonoscopy Before and After Implementation of Reference-Based Benefits

- CalPERS
- Anthem

Reference Price Implementation

2009 2010 2011 2012 2013
Lower-Priced Providers are Not Lower Quality

Rate of Surgical Complications for Colonoscopy Before And After Implementation of Reference-Based Benefits

Reference Price Implementation
## Price and Quality Transparency – Examples

<table>
<thead>
<tr>
<th>Company and Product</th>
<th>Information Offered</th>
<th>Platform</th>
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| **Castlight Health** | • Price transparency – flagship firm  
  • Plan benefit information for consumers  
  • Employer analytics | • Varied: web tools, delivered insights, mobile tools for employees |
| **Aetna iTriage** | • Price comparison information from Healthcare Bluebook  
  • Healthcare services information  
  • Adding new services in future | • Mobile integrated data platform, including an app |
| **UnitedHealthcare** | • Online health care shopping tool for consumers with high-deductible plans | • Integrated in with members’ claims, transparency tools, and in-network providers |
| **Guroo** | • Cost information for over 70 common health conditions and services based on claims data from four major insurers | • Consumer-facing website  
  • Has received Medicare data as a “qualified entity” |
| **Health in Reach** | • Comparison of licensed providers, including doctors and dentists  
  • Discounts and deals  
  • Online appointment system | • Consumer-facing website  
  • Providers can sign up to create a profile |
“Geez Louise—I left the price tag on.”