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# Mergers & Acquisitions

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# Update: OHA will seek an amendment

OHA will seek an amendment and redesign of this legislative concept

For the **2021 Legislative Session** - As a first step OHA to develop and plan for the program outlined in the Legislative Concept

OHA will submit the plan to interim Legislature for consideration.

- Plan will include operational details and dovetail with existing DCBS processes

For future legislative sessions - As a second step OHA will request program authority to implement the developed plan

# Goals of the Legislative Concept

- The goal of the legislative concept is to allow for **transparency** and **public input** when health care entities propose to merge or acquire (M&A)
- Not all consolidation is bad; M&As can help entities shore up finances or improve solvency
- M&As can also result in increased prices for consumers
- The purpose of reviewing proposed M&As is to disentangle these complexities, solicit input, and publish those findings

# Oregon families' health care costs are growing

# The burden of health care costs is high for Oregon families

Oregon **premiums** and **deductibles** are growing faster than **household income**.

(Percent change 2010-2016)

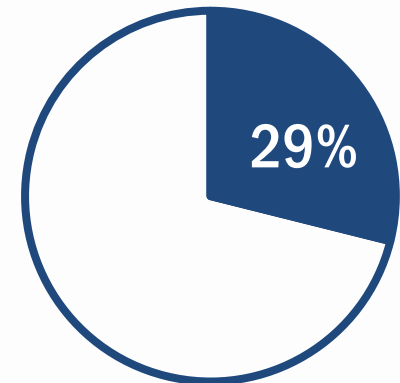
Family deductibles → +77%

Family premiums → +25%

Household income → +15%

2010 → 2016

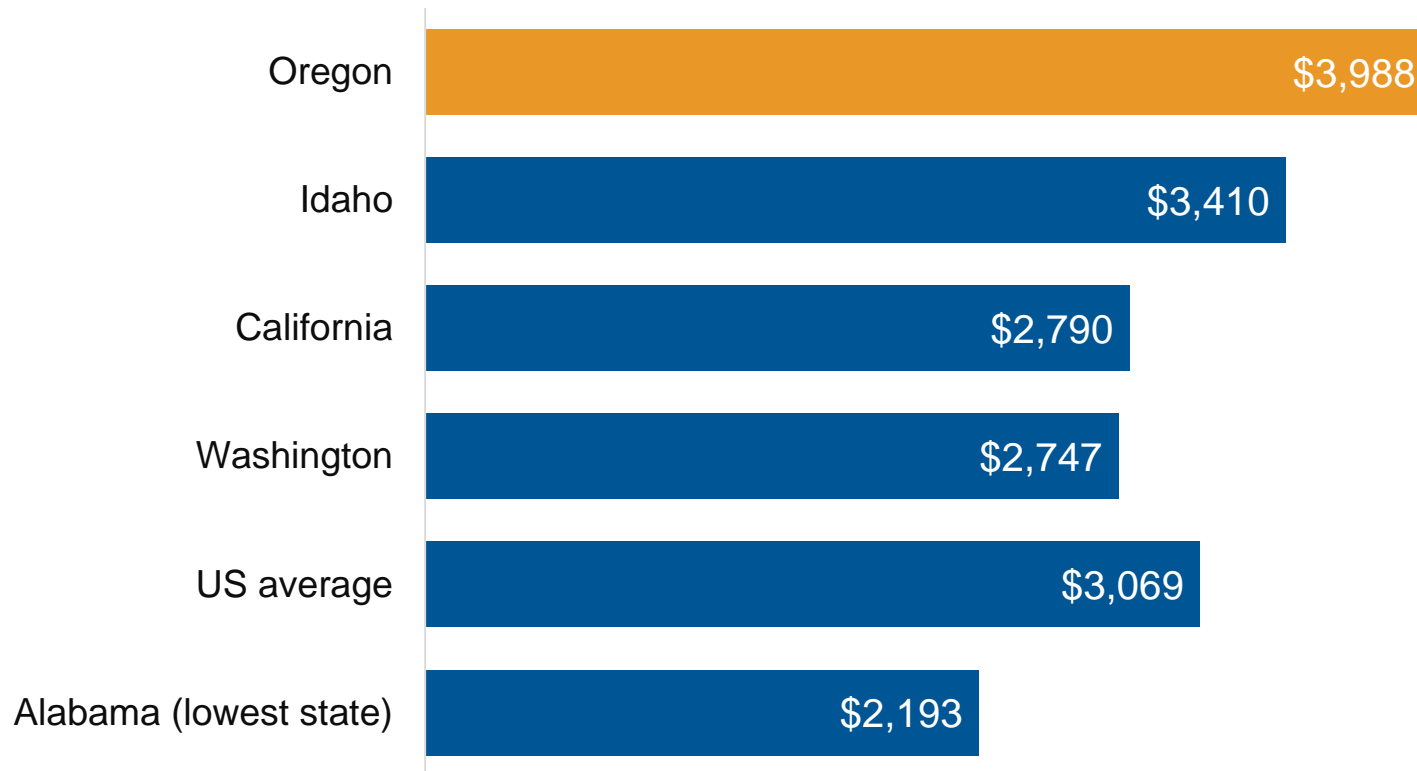
In 2016, Oregon premiums equated almost a third of a family's total income.



Source: "The Burden of Health Care Costs for Working Families" Penn LDI, April 2019

# Oregonians' deductibles are the 3<sup>rd</sup> highest in the nation

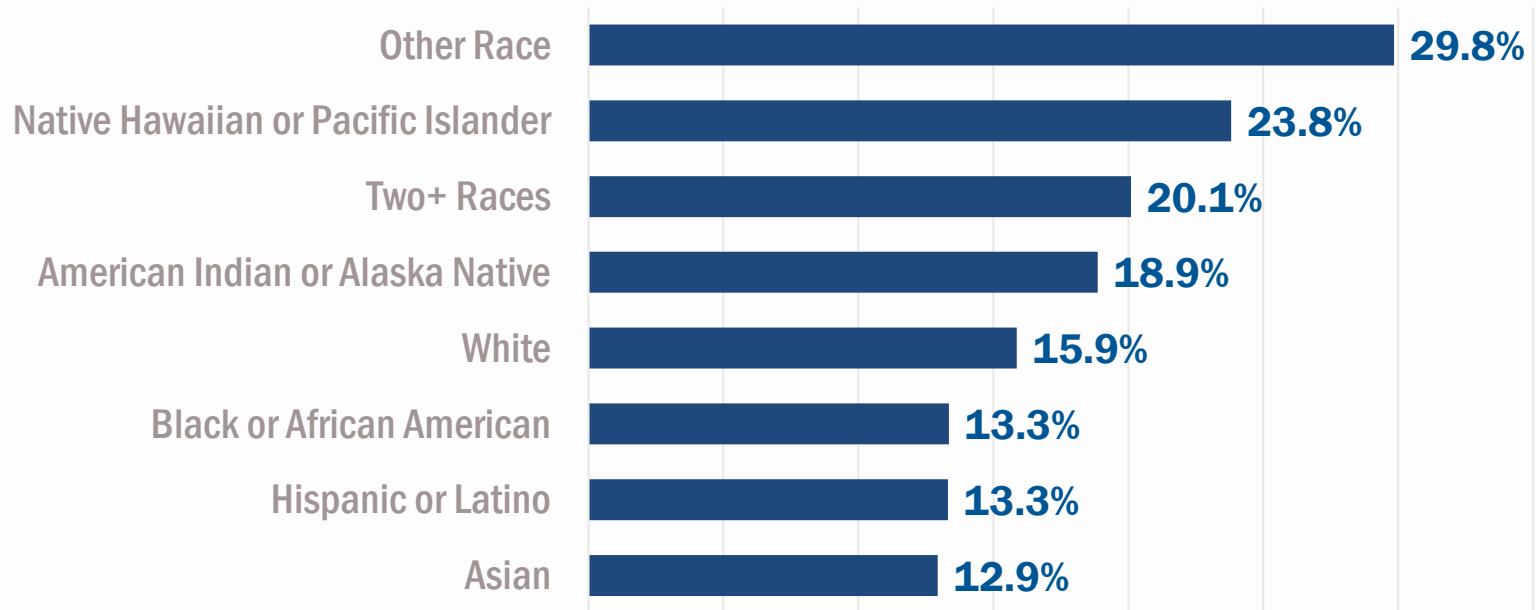
Oregon's deductibles relative to neighboring states



Source: "The Burden of Health Care Costs for Working Families, a state-level analysis." Penn LDI, April 2019

# The increasing health care costs are an equity issue

Percent of Oregonians who reported they delayed any type of care in the past year because of cost, by race/ethnicity



Source: Oregon Health Insurance Survey, 2019

# Health Equity

Oregon will have established a health system that creates health equity when all people can reach their full health potential and well-being and are not disadvantaged by their race, ethnicity, language, disability, gender, gender identity, sexual orientation, social class, intersections among these communities or identities, or other socially determined circumstances.

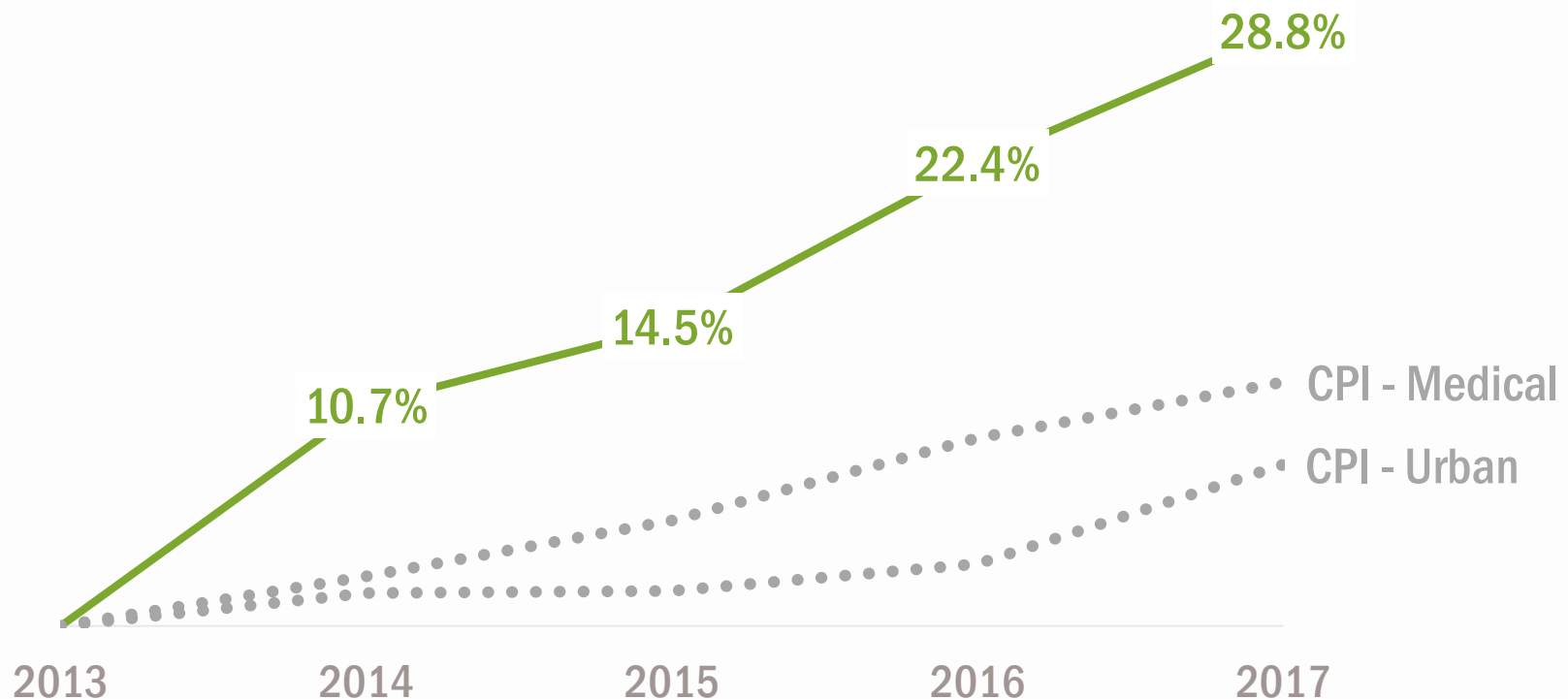
Achieving health equity requires the ongoing collaboration of all regions and sectors of the state, including tribal governments to address:

- The equitable distribution or redistributing of resources and power; and
- Recognizing, reconciling and rectifying historical and contemporary injustices.



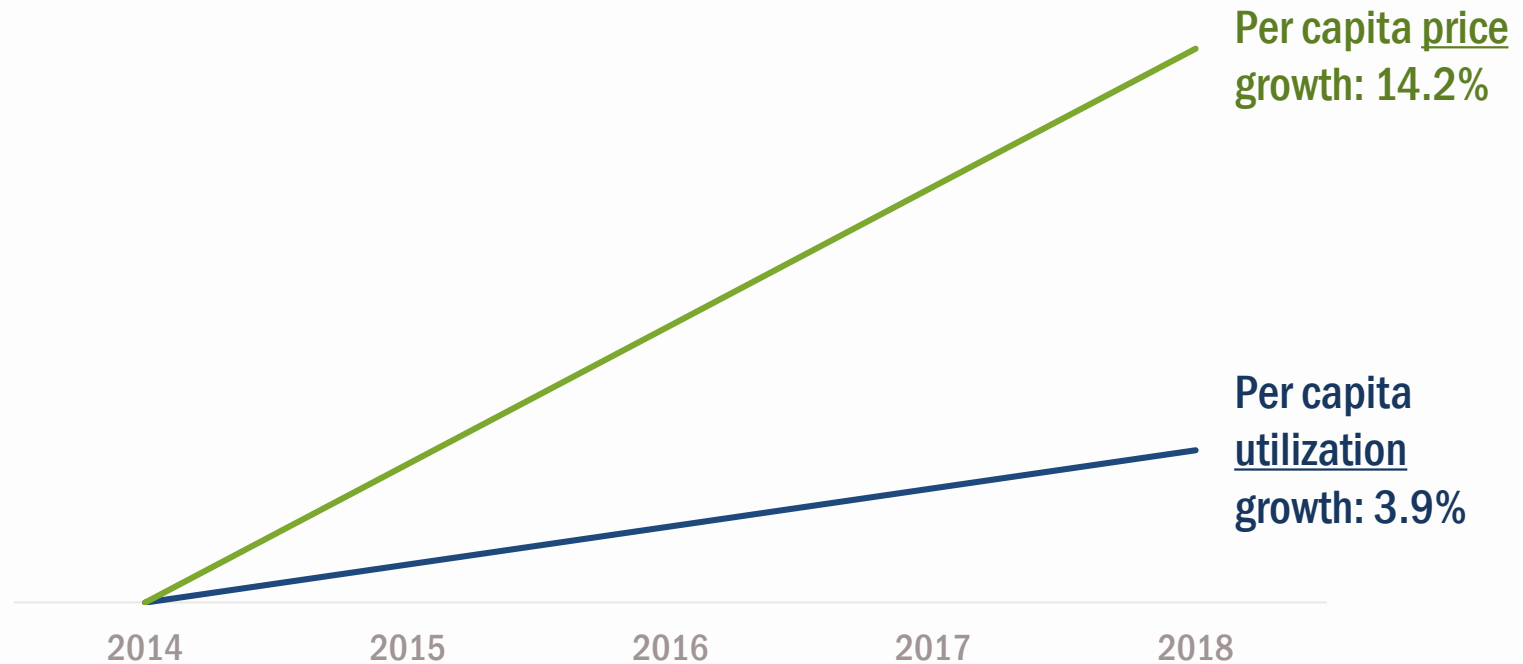
# Before COVID-19, health care spending in Oregon was growing at a rate of 6.5% per person

Meanwhile, Medical and Urban CPIs grew at much slower rates.



**Growing health care  
costs are driven mostly  
by prices, not utilization**

# Per capita **health care prices** grew **14.2%**, yet **utilization** grew only **3.9%** from 2014 to 2018



Source: Health Care Cost Institute, Oregon-specific data. Trend lines show growth from 2014 to 2018, with midpoints interpolated.

# Costs & Market Consolidation

Many studies find a relationship between more consolidated health care provider markets and higher prices.

- For 366 hospital mergers and acquisitions between 2007 and 2011, **prices increased 6%** when the merging hospitals were geographically close but not when further apart.
- Hospital mergers that occurred within a state between 1996 and 2012 **raised prices 7-9%**, while out-of-state mergers showed no significant price increase.
- In areas with consolidated physician groups, physicians were paid **13-26% higher prices** for common procedures compared to areas with low physician consolidation.
- Proponents argue that consolidation will increase quality, but no clear evidence exists. Some research has shown **decreases to quality** after mergers.

# Effects of Consolidation Vary

- Provider consolidation may increase price
- Carrier consolidation can reduce prices, but monopoly carriers can increase premiums

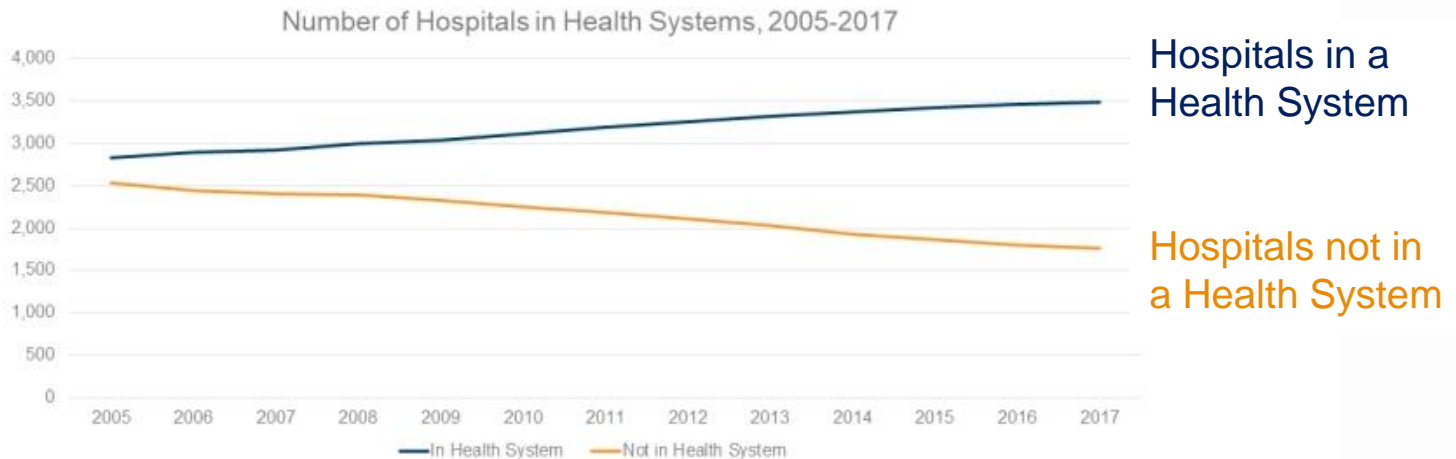
*“The preponderance of the research suggests that hospital consolidation leads to higher prices for commercially insured patients. However, hospital market power is just one factor that affects prices. The literature also suggests that insurer market power can lead to lower hospital prices for commercially insured patients (though these savings may not flow through to lower insurance premiums).”*

*- MedPAC Report to Congress, March 2020*

Source: MedPAC, Report to Congress March 2020. [http://www.medpac.gov/docs/default-source/reports/mar20\\_entirereport\\_sec.pdf?sfvrsn=0](http://www.medpac.gov/docs/default-source/reports/mar20_entirereport_sec.pdf?sfvrsn=0)

# Consolidation is increasing

The Number of Hospitals that Are Part of Hospital Systems Increased from 2005 to 2017



Source: Analysis of American Hospital Association Annual Survey data 2017 for community hospitals



- The proportion of primary care physicians in hospital-owned organizations increased from **28%** in 2010 to **44%** in 2016
- Health insurer consolidation has been relatively stable, although **most (57%) metro areas are “highly concentrated”**

Source: Schwartz, Karyn et al. “What We Know About Provider Consolidation” Kaiser Family Foundation, Sept 2, 2020.

<https://www.kff.org/health-costs/issue-brief/what-we-know-about-provider-consolidation/>

# COVID-19 & Consolidation

- Given the financial strain on the health care system, merger and acquisition activity may increase in Oregon and nationally
- Some of this activity may be needed to shore up organizations' finances and solvency, but we must recognize the potential impact on prices
- Reviewing proposed mergers and acquisitions will allow OHA to ensure consolidation does not lead to unjustified price increases

# QUESTIONS



# Appendix:

## Research Citations for Costs & Market Consolidation slide

Zack Cooper, Stuart V Craig, Martin Gaynor, John Van Reenen, The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured, *The Quarterly Journal of Economics*, Volume 134, Issue 1, February 2019, Pages 51–107, <https://doi.org/10.1093/qje/qjy020>

Leemore Dafny, Kate Ho, Robin S. Lee. "[The price effects of cross-market mergers: theory and evidence from the hospital industry.](#)" *Rand Journal of Economics*, Volume 50, Issue 2 Summer 2019 Pages 286-325

Daniel R. Austin, Laurence C. Baker, "Less Physician Practice Competition is Associated with Higher Prices Paid for Common Procedures." *Health Affairs Blog*. Published October 2015.  
<https://www.healthaffairs.org/doi/10.1377/hlthaff.2015.0412>

Nancy D. Beaulieu, Leemore S. Dafny, Bruce E. Landon, Jesse B. Dalton, Ifedayo Kuye, J. Michael McWilliams, "Changes in Quality of Care after Hospital Mergers and Acquisitions." *N Engl J Med* 2020; 382:51-59. <https://www.nejm.org/doi/full/10.1056/NEJMsa1901383>

COVID-19, Market Consolidation, And Price Growth, " *Health Affairs Blog*, Published August 3, 2020.  
<https://www.healthaffairs.org/doi/10.1377/hblog20200728.592180/full/>