

MERGERS & ACQUISITIONS IN HEALTH CARE: THE EMPLOYERS' PERSPECTIVE

Oregon House Committee on Health Care

Presentation by Bill Kramer

February 9, 2021

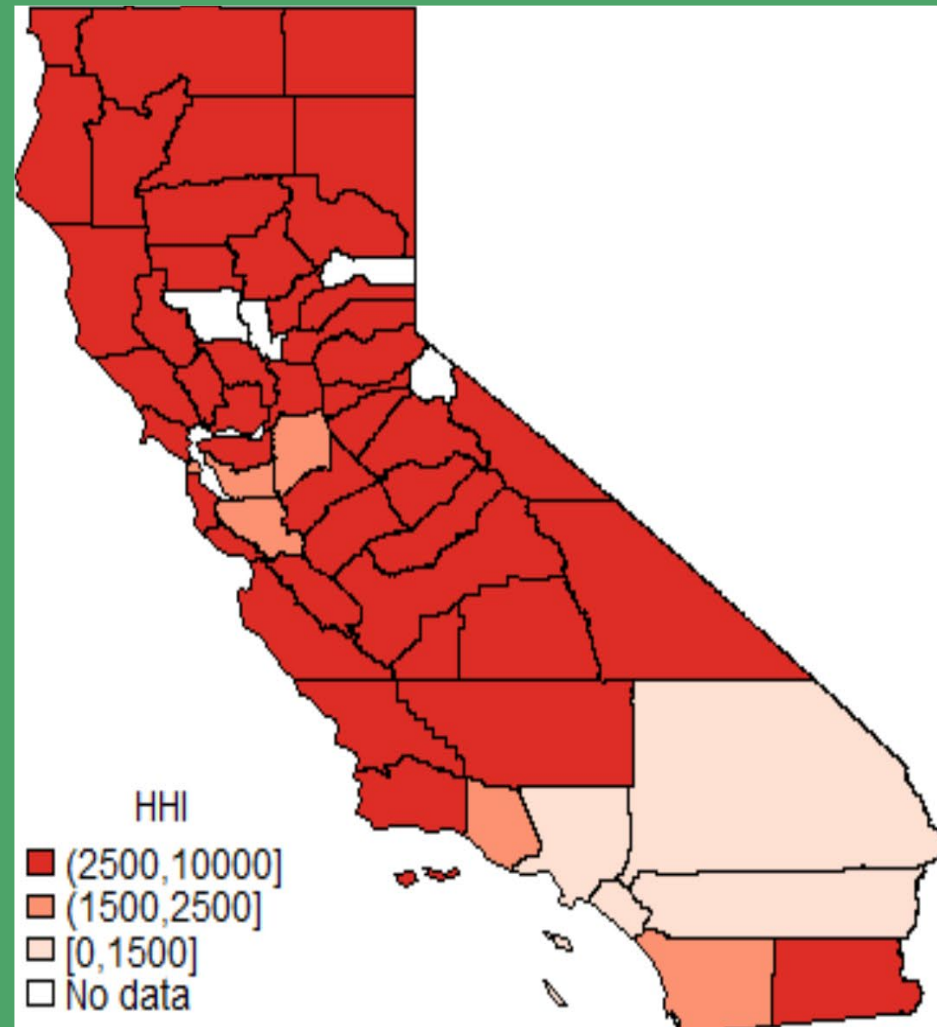
OVERVIEW

- Consolidation in the health care industry is a major concern to employers
- The California experience: increasing levels of consolidation, leading to higher prices
- Government must step in to ensure that there is healthy competition in health care markets

I. CONSOLIDATION IN THE HEALTH CARE INDUSTRY IS A MAJOR CONCERN TO EMPLOYERS

- The high cost of health benefits → crowds out core business investments and workers wages
- Increased prices have been the primary driver of increased costs, not increased utilization or aging
- Increasing consolidation has been the major cause of higher prices
- This applies to public sector employers as well as private sector
- Most employers are in a very weak bargaining position vis a vis hospitals, physician groups, and health systems
 - Fragmented demand side, consolidated supply side
 - Information asymmetries

2. THE CALIFORNIA EXPERIENCE: THE HOSPITAL MARKET IS HIGHLY CONSOLIDATED

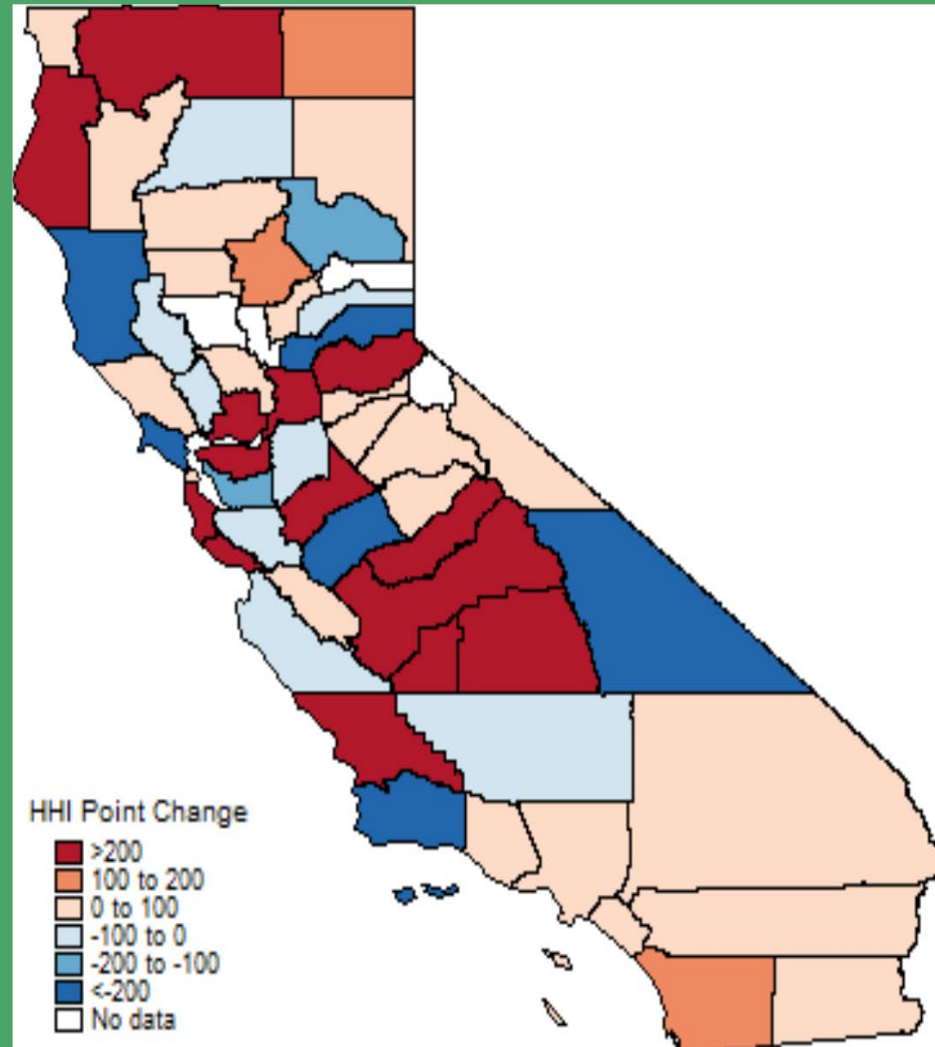


Source: Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health. *Consolidation in California's Health Care Market, 2010-2016: Impact on Prices and ACA Premiums*. Petris Center; 2018. https://petris.org/wp-content/uploads/2018/03/CA-Consolidation-Full-Report_03.26.18.pdf. Authors' analysis of the American Hospital Association's Annual Survey Databases.

Note: HHI=Herfindahl-Hirschman Index.

Hospital Market Concentration, 2016

THE CALIFORNIA EXPERIENCE: CONSOLIDATION IS ACCELERATING



Source: Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health. *Consolidation in California's Health Care Market, 2010-2016: Impact on Prices and ACA Premiums*. Petris Center; 2018. https://petris.org/wp-content/uploads/2018/03/CA-Consolidation-Full-Report_03.26.18.pdf. Authors' analysis of the American Hospital Association's Annual Survey Databases.

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Hospital Market Concentration Changes from 2010 to 2016

THE CALIFORNIA EXPERIENCE: CONSOLIDATION DRIVES HIGHER PRICES

Table 10. Input cost adjusted Prices (2014) and ACA Premiums (2016) by HHI Level

	HHI < 1,500	HHI ≥ 1,500	% Diff
Input cost adjusted Avg. Inpatient Procedure Price	\$108,483	\$165,119	52
<i># of rating areas</i>	6	12	
Input cost adjusted Avg. Outpatient Primary Care Procedure Price***	\$472	\$622	32
<i># of rating areas</i>	12	6	
Input cost adjusted Avg. Outpatient Hematology/Oncology Procedure Price	\$10,370	\$13,269	28
<i># of rating areas</i>	11	7	
Input cost adjusted Avg. Outpatient Orthopedist Procedure Price	\$311	\$577	85
<i># of rating areas</i>	17	1	
	HHI < 2,500	HHI ≥ 2,500	% Differen
Input cost adjusted Avg. ACA Benchmark Plan Monthly Premium	\$233	\$256	10
<i># of rating areas</i>	9	10	

Source: Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health. *Consolidation in California's Health Care Market, 2010-2016: Impact on Prices and ACA Premiums*. Petris Center; 2018. https://petris.org/wp-content/uploads/2018/03/CA-Consolidation-Full-Report_03.26.18.pdf.

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THE CALIFORNIA EXPERIENCE: THE SUTTER HEALTH SYSTEM LAWSUIT

- Class action lawsuit + AG lawsuit: alleged anti-competitive contracting practices that strengthened Sutter's market power to raise prices
- Settlement: \$575 million for past damages; agreement not to engage in anti-competitive contracting practices

Sutter Health to Pay \$575 Million to Settle Antitrust Lawsuit

The deal resolves allegations of anti-competitive behavior by the large hospital system in Northern California.



The Sutter Medical Center in Sacramento, part of the vast Sutter Health hospital system in Northern California. Rich Pedroncelli/Associated Press

By **Katie Thomas**

Dec. 20, 2019



Sutter Health, the large hospital system in Northern California, said Friday that it had agreed to pay \$575 million to settle claims of anti-competitive behavior brought by the California state attorney general as well as unions and employers.

WHAT IS NEEDED

- More assertive purchasing strategies by employers can help, but ultimately cannot restore balance
- If we're going to rely on competitive market forces to keep prices reasonable, government must step in to make sure that markets are working the way they should:
 - Oversight of M&A to ensure that transactions will result in public benefit
 - Prohibitions on anti-competitive practices by hospitals and other providers that are used to gain market power

SUMMARY

- Consolidation in the health care industry is a major concern to employers
- The California experience: increasing levels of consolidation, leading to higher prices
- Government must step in to ensure that there is healthy competition in health care markets

A FINAL THOUGHT

“The challenges of rising health care costs and market power will still be with us after Covid-19 has passed, and further consolidation will make costs even harder to restrain.”

Michael L. Barnett, MD, MS, Ateev Mehrotra, MD, MPH & Bruce E. Landon, MD, MBA, MSc, “Covid-19 and the Upcoming Financial Crisis in Health Care”, NEJM Catalyst, April 29, 2020. <https://catalyst.nejm.org/doi/full/10.1056/CAT.20.0153>