American Hospital Association®

Hospital Field Realignment

Background

Features of the Affordable Care Act (ACA) and market trends are driving a major realignment of the health care system. To better serve their patients and communities, hospitals are strengthening ties to each other and physicians in response to new global and fixed payment schemes, incentives for improved quality and efficiency, implementation of electronic health records (EHRs), and greater coordination across the health care continuum. Much of this realignment involves mergers and acquisitions. Health plans and other consolidation critics claim hospital realignment leads to higher prices and higher premium growth. These allegations are inconsistent with data showing price growth is at historic lows.

AHA View

Increasingly, a hospital's ability to provide the care its community expects and needs, and compete in the marketplace turns on its access to capital, ability to invest in technology, and increase in operational efficiency and value. Stand-alone hospitals, especially smaller ones, are particularly vulnerable to these changing trends and may be forced to downsize their operations and services. Mergers and acquisitions are one way hospitals can adapt to these recent health care trends thereby increasing their economies of scale, building a continuum of care and improving access to capital.

Need for Capital. Hospitals are faced with unprecedented demands for capital to invest in new improvements, including EHRs, which can cost as much as $50 million for a mid-size hospital, implementing new modes of delivering care, such as telemedicine, and building or upgrading facilities. Funding these investments requires access to significant capital. Access to traditional sources of capital, such as tax-exempt bonds, continues to be challenging for many not-for-profit hospitals. Smaller hospitals may be particularly disadvantaged if they receive lower credit ratings, which minimize their opportunities to access capital and burdens them with high interest rates. Moody's states that "[a]ccess to capital markets has become more difficult for lower-rated hospitals, driving the need for many to seek a partner."

Changes in Payment Models. Government and private payers are implementing dramatic changes to how payment for health care delivery is calculated, shifting from a fee-for-service to value-based purchasing model. The amount hospitals will be paid depends on meeting certain performance metrics, such as improved clinical outcomes, lower cost per case, information technology (IT) compliance, high patient satisfaction and lower readmission rates. Bundled payment systems also are being tested.

Coordinated care has been shown to increase clinical outcomes, but decades old regulatory barriers can prevent hospitals and doctors from working closely together in improving care and reducing costs unless they are under the same ownership umbrella. Antitrust laws, outdated fraud and abuse policies and even tax-exempt rulings favor consolidation over clinical integration.

Reductions in Reimbursement. Government reimbursement for hospitals services has been declining. Both Medicare and Medicaid, which account for more than half of hospitals' revenue, have been cut as federal and state governments look to close fiscal deficits and balance budgets. As political pressures intensify, these cuts will likely continue. Hospitals that serve low-income populations have seen cuts to Medicaid Disproportionate Share Hospital payments, which will be especially painful to the hospitals in states that do not expand Medicaid. The recent declines in inpatient stays as care shifts to outpatient settings compounds these cuts.

Benefits to Patients and Communities. Some critics claim hospital mergers and acquisitions drive up health care costs because they disadvantage large commercial insurers in contract negotiations. But the facts show that the overwhelming majority of transactions over the past six years are procompetitive. The Federal Trade Commission, which oversees most hospital transactions, consistently notes how few have been challenged for being anticompetitive.

Data from hospital mergers between 2007 and June of 2013 show that of the 607 hospital mergers and acquisitions that occurred, more than 96 percent occurred in regions with more than five other independent hospitals, providing the community with plenty of alternatives for care. The vast majority of these deals involved only one hospital. Of those that occurred in regions with fewer than four other hospitals, the majority did so in rural or mid-size regions with fewer than 200,000 people. Of these mergers, nearly 40 percent had fewer than 50 beds.

Patients receive significant benefits when caregivers work together to provide more coordinated, more efficient and higher-quality care. The numbers of transactions and the stories behind them demonstrate that mergers and acquisitions are supporting the changing landscape of health care delivery in a positive way for patients and communities by improving health and offering a long sought after alternative to an otherwise fragmented health care delivery system. To learn more, visit *www.changinglandscape.org*.