

**Statement  
of the  
American Hospital Association  
for the  
Committee on Ways and Means  
Subcommittee on Health  
of the  
U.S. House of Representatives**

**“Why Health Care is Unaffordable: Anticompetitive and Consolidated Markets”**

**May 17, 2023**

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, our clinician partners — including more than 270,000 affiliated physicians, 2 million nurses and other caregivers — and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) appreciates the opportunity to submit this statement for the record to the Ways and Means Subcommittee on Health to provide the hospital perspective on how hospital mergers and acquisitions can expand and preserve access to quality care.

**MERGERS AND ACQUISITIONS HELP HOSPITALS MANAGE CURRENT FINANCIAL PRESSURES**

Hospitals and health systems have faced historic challenges in the last several years. Mergers and acquisitions are one of the most important tools that some hospitals use to manage financial pressures and increase access to care for patients.

A [recent report](#) released by the AHA details the extraordinary financial pressures continuing to affect hospitals and health systems, as well as access to patient care. The report found expenses across the board saw double digit increases in 2022 compared



to pre-pandemic levels, including for workforce, drugs, medical supplies and equipment, as well as other essential operational services such as IT, sanitation, facilities management, and food and nutrition.

Among other findings, the report showed:

- Overall hospital expenses have increased by 17.5% between 2019 and 2022. This far outpaced Medicare reimbursement, which only increased 7.5% during the same time.
- Labor costs, which on average account for about half of hospitals' total budget, have increased by 20.8% between 2019 and 2022.
- For the first time in history, the median price of a new drug exceeded \$200,000 — more than triple the median annual household income in the U.S. At the same time, price increases for existing drugs continue to outpace inflation, which helped drive a 19.7% increase in drug expenses per patient between 2019 and 2022.
- Hospital supply expenses per patient increased 18.5% between 2019 and 2022, outpacing increases in inflation by nearly 30%. Specifically, hospital expenses for emergency services supplies — which include ventilators, respirators and other critical equipment — experienced a nearly 33% increase during the same period.

In addition, a major source of financial pressure for hospitals are the costs of complying with a complex web of local, state and federal regulations, excessive commercial payer administrative requirements, and the chronic underpayments by the Medicare and Medicaid programs. It is well-documented that neither Medicare nor Medicaid covers the cost of caring for its beneficiaries, and hospitals often struggle to make up for these financial losses. On average, Medicare only pays 84 cents for every dollar hospitals spend providing care to Medicare beneficiaries. Exacerbating this pressure is the fact that Medicare and Medicaid account for most hospital utilization. In fact, 94% of hospitals have 50% of their inpatient days paid by Medicare and Medicaid and more than three quarters of hospitals have 67% Medicare and Medicaid inpatient days.<sup>1</sup>

Merging with a hospital system can help some hospitals ease these financial burdens and improve patient care by providing scale to help reduce costs associated with obtaining medical services, supplies and prescription drugs, and enable health systems to reduce other operational costs.

This is particularly important for rural hospitals, where mergers and acquisitions have played a critical role in preserving access to care for these patients and communities. An AHA analysis of the UNC Sheps Center rural hospital closure data between 2010

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<sup>1</sup> <https://www.aha.org/system/files/media/file/2022/05/fact-sheet-majority-hospital-payments-dependent-on-medicare-or-medicaid-congress-continues-to-cut-hospital-reimbursements-for-medicare.pdf>

and 2020 shows that slightly more than half of the hospitals that closed were independent. Health systems typically acquire rural hospitals when these hospitals are under financial distress. Research has shown that rural hospitals are less likely to close after acquisition compared to independent hospitals and that mergers have improved access and quality of care for rural hospitals.<sup>2</sup>

## **BENEFITS OF HOSPITAL MERGERS AND ACQUISITIONS**

Hospital mergers and acquisitions bring measurable benefits to patients and communities, including lower health care costs, improved quality and better access to health care.

### **Lower Health Care Costs**

Acquisitions and mergers help reduce health care costs and create a fiscally sustainable environment for health care delivery for patients and communities. Mergers with larger hospital systems can provide community hospitals the scale and resources needed to decrease costs by increasing administrative efficiencies and reducing redundant or duplicative services. A Charles River Associates analysis for the AHA shows that hospital acquisitions are associated with a statistically significant 3.3% reduction in annual operating expenses per admission at acquired hospitals, along with a 3.7% decrease in net patient revenue per adjusted admission.<sup>3</sup>

The same report shows that additional substantial savings come from improved IT systems and advanced data analytics. Consolidated hospitals can often better invest in IT infrastructure for both clinical and financial data that can be used to identify best practices for more cost-effective, integrated and streamlined care. These data systems have substantial but largely fixed costs, making them effectively inaccessible to independent hospitals.

### **Improved Quality**

Emerging research has demonstrated a clear association between consolidation and quality improvement. For example, one study found that a full-integration approach is associated with improvements in mortality and readmission rates, among other quality and outcome improvements.<sup>4</sup> Another study found significant reductions in mortality for a number of common conditions — including acute myocardial infarction, heart failure, acute stroke and pneumonia — among patients at rural hospitals that had merged or been acquired.<sup>5</sup>

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<sup>2</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9250050/>

<sup>3</sup> <https://www.aha.org/guidesreports/2021-08-18-hospital-merger-benefits-econometric-analysis-revisited-executive-summary>

<sup>4</sup> <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2787652>

<sup>5</sup> <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2784342>

## **Better Access to Care**

Mergers and acquisitions help hospitals improve access to care by expanding the types of specialists and services available to patients. According to an analysis by the health care consulting firm Kaufman Hall, nearly 40% of affiliated hospitals added one or more services post-acquisition. Almost half of all hospitals acquired by an academic medical center added one or more service. Patients at hospitals acquired by academic medical centers or large health systems also gained improved access to tertiary and quaternary services.<sup>6</sup>

Mergers and acquisitions also are a vital tool that some health systems use to keep financially struggling hospitals open, thereby averting bankruptcy or even closure. When hospitals become part of a health system, the continuum of care is strengthened for patients and the community, resulting in better care and decreased readmission rates.

This is particularly true in rural and underserved communities. Partnerships, mergers or acquisitions are a means for creating more cohesive care, making it easier for patients to access specialists or services in the acquiring system. In this way, consolidation ensures that care remains in the community.

## **Insurers Leverage Their Market Power**

Hospitals and health systems face pressure from health insurance companies and private equity firms, which are leveraging their market power to drive up hospital and health system costs. For example, in nearly half of all markets, a single health insurer controls at least 50% of the commercial market.<sup>7</sup> Health insurers can use this market power to implement policies that compromise patient safety and raise costs, such as prior authorization delays, denying medically necessary coverage, or forcing patients to try potentially ineffective treatments or therapies.<sup>8</sup>

Moreover, commercial insurers and private equity have spent billions of dollars acquiring physician and other clinical practices. For example, UnitedHealth, under its subsidiary Optum, has acquired Crystal Run, Kelsey-Sebold and Atrius Health in the past three years. In 2023 alone, CVS Health has announced plans to spend over \$15 billion to acquire both Signify Health and Oak Street.

Once acquired, they raise the rates that hospitals pay for these services, driving up costs. Studies have shown that highly concentrated insurer markets are associated with higher premiums and that insurers are not likely to pass on to consumers any savings achieved through lower provider rates.<sup>9</sup> Though many contend that insurers like

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<sup>6</sup> <https://www.aha.org/system/files/media/file/2021/10/KH-AHA-Benefits-of-Hospital-Mergers-Acquisitions-2021-10-08.pdf>

<sup>7</sup> <https://www.ama-assn.org/delivering-care/patient-support-advocacy/competition-health-care-research>

<sup>8</sup> <https://www.aha.org/white-papers/2022-07-28-commercial-health-plans-policies-compromise-patient-safety-and-raise-costs>

<sup>9</sup> <https://www.healthaffairs.org/doi/10.1377/hlthaff.2015.0548>

UnitedHealth Group (over \$324 billion in revenue in 2022, covering over 46 million Americans) and Elevance (over \$155 billion in revenue over the same period, covering over 47 million Americans) are helpless in their dealings with local hospitals and health systems, the truth is far more complex.

## **CONCLUSION**

Hospitals and health systems have faced historic challenges in the last several years. They will need continued flexibility to seek strategic opportunities and partners as they work to recover from the pandemic, overcome massive increases in the cost of caring, adjust to changing patient and community demographics, adopt new care delivery and payment models, and innovate for the future. Mergers and acquisitions have been a vital tool to allow hospitals and health systems to reduce costs, improve quality and better serve patients where they live.

The AHA appreciates your efforts to examine this issue and looks forward to continuing to work with you.