



NEW ENGLAND STATES: REVIEW OF HOSPITAL MERGERS AND AFFILIATIONS

MAY 21, 2019

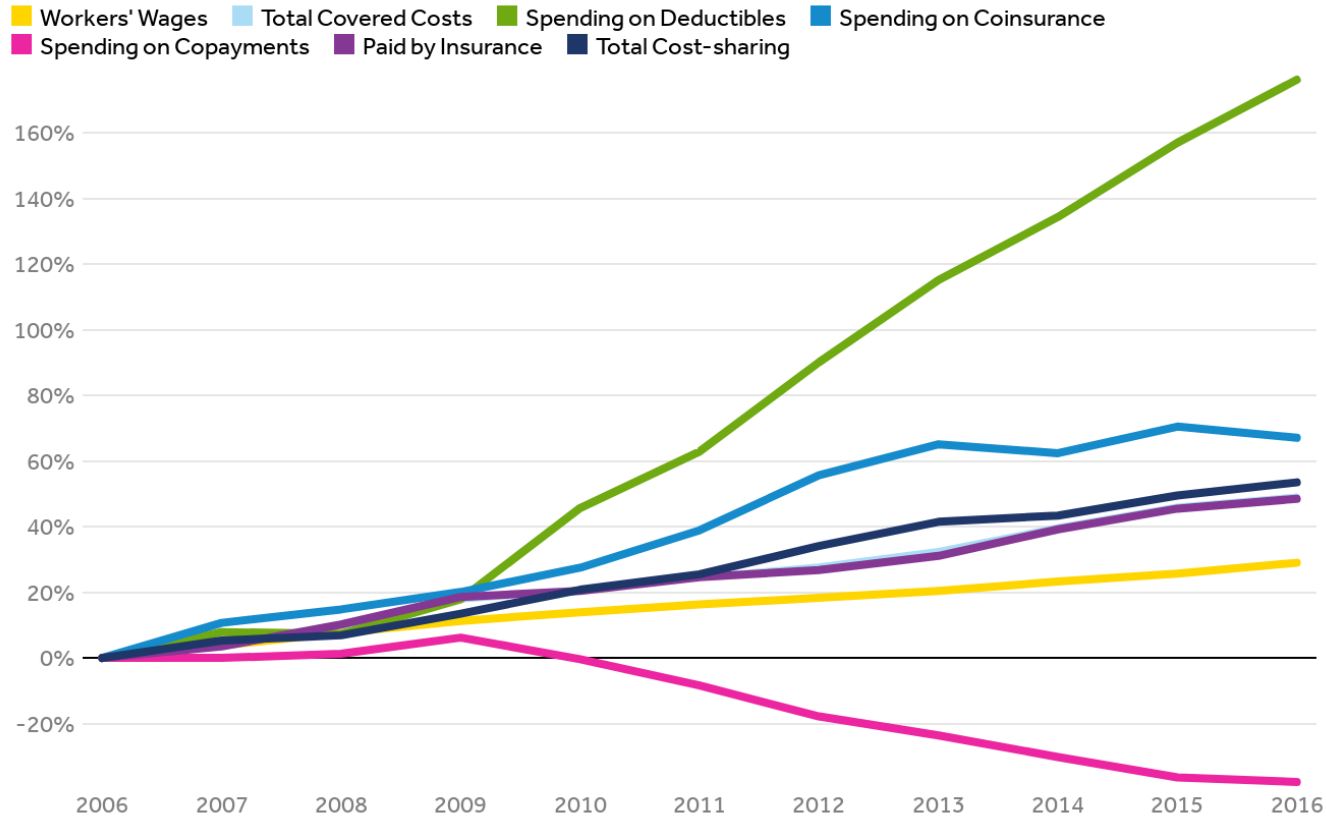
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Cumulative increases in health costs, amounts paid by large employer insurance coverage, amounts paid for cost sharing and workers wages, 2006-2016



Source: Kaiser Family Foundation analysis of Truven Health Analytics MarketScan Commercial Claims and Encounters Database, 2006-2016; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 2006-2016. • [Get the data](#) • [PNG](#)

Peterson-Kaiser
Health System Tracker

National Trends: Employer Sponsored Health Care

According to Health Care Cost Institute national data base*

- **“Average annual health care spending for individuals with employer-sponsored insurance increased to an all-time high of \$5,641 in 2017 — 16.7% higher than in 2013.** That spending reflects expenditures for medical services and prescription drugs (but excludes manufacturer rebates for drugs)”
- Between 2013 and 2017- Nationally, prescription drug spending had the highest growth at 28.9%, while inpatient spending experienced the lowest growth at 9.8%. Prescription drug spending is estimated from point-of-sale payments, which reflect discounts from the wholesale price, but not manufacturer rebates.

America's Health Rankings, 2018: New Hampshire – overall 6th best

Category	NH Ranking
Total ESI Spending Per Enrollee- \$5,487	6 th highest
Infant Mortality	1 st best
Immunizations	4 th best
Adult Obesity (28%)	13 th best
Excessive Drinking	10 th worst
Death rate from Drugs, Alcohol, Suicide	2 nd worst

Overview

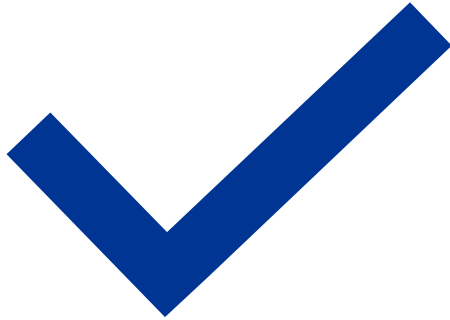
- Health Care Mergers and Affiliations Generally
- New Hampshire Merger and Affiliation Activity
- New Hampshire Law
- New Hampshire's Hospital Merger Details
- Requirements in Nearby States
- HB 552-FN

HEALTH CARE MERGERS AND AFFILIATIONS

On the rise!

- Mergers and acquisitions in healthcare have been “accumulating at a mighty clip” over the past several years, and a big part of the reason is scale. Consolidation helps healthcare organizations increase the scale of their business and retain, or even increase, their market share.
Healthcare Finance News, 8/22/18
- There's little doubt that our industry has entered a new era of consolidation. While 2018 didn't see quite as many hospital and health system mergers as the year before (68 deals through Q3 2018, versus 87 through Q3 2017), the sheer size and scope of the deals this year underscores the popularity of this strategy. On a certain level, it's understandable. Facing challenges on all fronts (declining reimbursement, rising costs, demanding consumers, disruptive new competitors), health systems often believe that if they can just get big enough, they will be able to weather the storm—or at least not capsized.
Healthcare Finance News, August 22, 2018.
- In the last several decades, hospital systems have consolidated substantially through horizontal mergers (Cutler and Scott Morton 2013; Gaynor and Town 2012). *Mergers and Marginal Costs: New Evidence on Hospital Buyer Power, NBER, August 2018.*

What good outcomes might be achieved?



- Cost to access capital in municipal bond markets may be lower if the acquiring entity has better ratings
- Supply side savings
- Consolidation of back-office functions
- Capital avoidance
- Standardization of clinical protocols and of systems
- Ability to acquire greater claims data and use to understand the community's health, drive quality and achieve
- Better negotiating power

A View from the Economists:

- Private insurers' prices for specific services vary substantially across markets, across hospitals within markets and even within hospitals.... Overall prices are 12 percent higher for monopoly hospitals than for hospitals with four or more competitors. *The Price Aint Right? Hospital Prices and Health Spending on the Privately Insured.*, NBER, May 2018.
<https://www.nber.org/papers/w21815>
- When hospitals and health systems merge they often cite lower costs and operational efficiencies as the main reasons, and a report this year from the National Bureau of Economic Research indicates that only very modest savings take place.
<https://www.healthcarefinancenews.com/news/hospital-merger-and-acquisition-activity-slows-down-third-quarter-large-scale-transactions>

"...what we do know is that after a merger, even if there are cost advantages, those most certainly do not translate into lower prices. For instance, one study found that, when hospitals in the same market merge, prices tend to increase by 7% to 10%. Another estimated that the average price of a hospital stay in the markets with the highest rates of consolidation increased by 11% to 54% in the years following M&A. **I am aware of no study that suggests that M&A leads to lower prices for consumers."**

1/9/19 David Willis, Advisory Board; <https://www.advisory.com/research/health-care-advisory-board/blogs/at-the-helm/2019/01/hype-mergers>

"The analysis showed that the price of an average hospital stay soared, with prices in most areas going up between 11 percent and 54 percent in the years afterward, according to researchers from the Nicholas C. Petris Center at the University of California, Berkeley."
<https://www.nytimes.com/2018/11/14/health/hospital-mergers-health-care-spending.html>

A View from The Hospitals

- American Hospital Association Report by Charles River Associates found that “we continue to see a statistically significant decline post-merger in expense per adjusted admission, with the effect being greatest for mergers of hospitals that are in close proximity.”
<https://www.aha.org/system/files/2019-01/hospital-merger-benefits-a-review-and-extension-jan-2-19.pdf>
- Deloitte with HFMA also surveyed hospital executives and reported that mergers were used to access capital and **nearly 80% indicated that significant capital investments were undertaken post-merger, including clinical information systems.** Nearly 80% of the executives said that post-merger the combined system was able to achieve at least some of the projected cost-structure efficiencies.
<https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/hospital-mergers-and-acquisitions.html>

Important
Observations:
*A successful
merger takes
work!*

Deloitte also identified integration practices that were more often associated with successful mergers and acquisitions. Specifically, they found that a merger was more likely to be viewed as successful by its own executives ***when leaders:***

- Developed a strong strategic vision for pursuing the transaction;
- Had explicit financial and non-financial goals;
- Held leadership accountable, often at the vice-president level, for integration efforts;
- Identified cultural differences between the organizations;
- Made clear and upfront decisions on executive and mid-management leadership;
- Aligned clinical and functional leadership early in the process;
- Followed best practices for integrating the acquired or merged organization into the parent organization; and
- Implemented project management best practices, with tracked targets and milestones, from day one of transaction close until two years after.

MERGER/AFFILIATION ACTIVITY

New Hampshire Hospitals

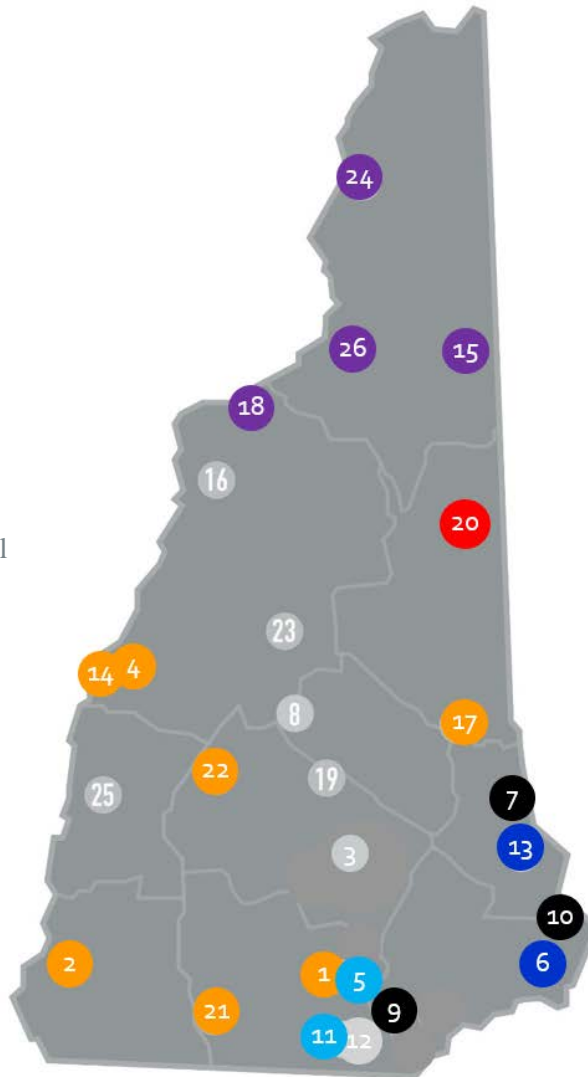
MAP OF PENDING AND COMPLETED HOSPITAL MERGERS AND AFFILIATIONS

Prospective Payment Systems Hospitals

- 3 Concord Hospital
- 8 LRGHealthcare, Lakes Region General Hospital
- 12 St. Joseph Hospital, *a member of Covenant Health*

Critical Access Hospitals

- 16 Cottage Hospital
- 19 Franklin Regional Hospital, LRGH Healthcare
- 23 Speare Memorial Hospital
- 25 Valley Regional Healthcare



North Country Healthcare: 2016

- 15 Androscoggin Valley Hospital
- 18 Littleton Regional Healthcare
- 24 Upper Connecticut Valley Hospital
- 26 Weeks Medical Center

MaineHealth, ME

- 20 Memorial Hospital

HCA Healthcare, Inc, TN

- 7 Frisbie Memorial (pending)
- 9 Parkland Medical Center
- 10 Portsmouth Regional Hospital

Mass General Hospital (Partners), MA: 2016

- 13 Wentworth Douglass Hospital
- 6 Exeter Hospital (pending)

Clinical Affiliations with MGH

- 1 Catholic Medical Center
- 11 Southern NH Medical Center

SOLUTIONHEALTH: 2017

- 5 Elliot Hospital
- 11 Southern NH Medical Center

GraniteOne Health

- 1 Catholic Medical Ctr. pending
- 17 Huggins Hospital
- 21 Monadnock Comm Hosp. 2016



Dartmouth Hitchcock

- 2 Cheshire Medical Ctr.
- 4 Dartmouth Hitchcock Medical Center
- 14 Alice Peck Day
- 22 New London Hosp. Mt. Ascutney Hosp. (VT)

Pending Hospital Mergers and Affiliations

Frisbie Memorial
Hospital

LETTER OF INTENT
TO JOIN

HCA Healthcare Inc.

(controls Portsmouth Regional Hospital
and Parkland Medical Center)

Dartmouth-Hitchcock

LETTER OF INTENT TO
COMBINE AND BECOME
DARTMOUTH-HITCHCOCK
HEALTH GRANITEONE

GraniteOne Health

Exeter Hospital

LETTER OF INTENT TO
DEVELOP A REGIONAL
HEALTH NETWORK

Mass General Hospital
Wentworth Douglass

Hospital Mergers Since 2013

Wentworth Douglass
Hospital



Mass General Hospital
(2016)

Memorial Hospital



MaineHealth (2013)

Hospital Affiliations Since 2013

Alice Peck Day  Dartmouth-Hitchcock (2016)

New London Hospital  Dartmouth-Hitchcock (2013)

Androscoggin Valley Hospital
Littleton Hospital Association
Weeks Medical Center
Upper Connecticut Valley Hospital  North Country Healthcare
(2015-16)

Catholic Medical Center  Mass General Hospital (2016)
Clinical Affiliation

Southern NH Medical Center  Mass General Hospital (2013)
Clinical Affiliation

Catholic Medical Center
Huggins Hospital
Monadnock Community Hospital  GraniteOne Health (2016)

Elliot Health System
Southern NH Health  SOLUTIONHEALTH (2018)

Other Strategic Affiliations, e.g.,

- **Benevera Health:** “Benevera Health supports health insurance plans and risk-bearing providers accelerate their transformation to value-based care. Developed through a payer/provider Joint Venture among Harvard Pilgrim Health Care (HPHC), Dartmouth-Hitchcock Health, Elliot Health System, Frisbie Memorial Hospital, and St. Joseph Hospital with the goal of delivering better health care by working together, Benevera Health developed a model proven to decrease costs and improve the quality of care.”
- **Tufts Freedom Plan:** “...an innovative joint venture between Granite Health and Tufts Health Plan. **Granite Health** is comprised of the following leading New Hampshire health systems: Catholic Medical Center, Concord Hospital, LRGHealthcare, Southern New Hampshire Health, Wentworth-Douglass Hospital.”
- **Accountable Care Organizations**
- **Population health and value based payment efforts**

NEW HAMPSHIRE LAW

NH State Statutes: Past and Present

- ***Certificate of Need Statute:*** Health care expenditures and new services reviewed for affordability, quality and access
 - *Repealed and CON Board eliminated effective June 30, 2016*
- **Standards for Acquisition Transactions Involving Health Care Charitable Trusts and Review by Director of Charitable Trusts (RSA 7:19-b)**
 - Sets “minimum standards” for approval of a health care charitable trust acquisition involving a change in control of more than 25% of the assets of a health care organization
 - The Director of Charitable Trusts receives documents related to the proposed transaction
 - May request additional information and conduct a public hearing; must accept public comment
 - Must determine whether the acquisition transaction satisfies the “minimum standards” and issue a report objecting to or not contesting the proposal
 - “The assets of the health care charitable trust and any proceeds to be received on account of the transaction shall continue to be devoted to charitable purposes consistent with the charitable objects of the health care charitable trust and **the needs of the community** which it serves.”

Other Review?

DHHS: Special Health Care Service License Statute (RSA 151:2-e,4)

- Amended effective July 1, 2016
- Requires notice to commence a new special health care service, including:
 - Cardiac catheterization laboratory services;
 - Open Heart surgery or coronary artery bypass graft surgery; and
 - Megavoltage radiation therapy
- Requires proposed new special health care services to notify critical access hospitals within a 15 mile radius of their intent to file an application AND written determination by the Commissioner that the proposed new facility will not have a material adverse impact on the essential health care services provided in the critical access hospital's service area.

Attorney General:

- N.H. RSA 356, the Combinations and Monopolies Act (the "Act"): the Consumer Protection and Antitrust Bureau (the "Bureau") can conduct a pre-transaction review
- RSA 151 contains a patients bill of rights and certain reporting requirements regarding hospital ownership of and financial relationships with physician organizations.

Director of Charitable Trusts: Recent Reports

Elliot Health System and Southern New Hampshire Health System Transaction

- Post closing conditions include:
 - Convening internal working groups to undertake planning and implementation to improve local access to at least one specialty health care service, develop initiatives to improve population health management, and improve service of community behavioral health needs, among other things

Monadnock Community Hospital, Huggins Hospital, Catholic Medical Center Affiliation

- Post closing conditions include:
 - The hospitals will create a plan for assessing access and quality and cost of clinical services, which will be reported to the Director of Charitable Trusts
 - The hospitals will maintain a level of community benefit spending proportionate to or greater than their current ratio of community benefit spending to net patient service revenue for a period of five years from the closing

REQUIREMENTS IN NEARBY STATES

Vermont

Rhode Island

Massachusetts

Connecticut

Maine

Vermont and Massachusetts: Cost oversight and expenditure caps

Vermont

Green Mountain Care Board

- Oversight: “health system provides quality, affordable health care to all Vermonters while reducing waste and controlling costs.”
- Certificate of Need Process

Hospital Budget Review: reviews and establishes hospital budgets; **set a 2.8% growth target for 2019 Net Patient Revenue**

Massachusetts

Determination of Need Board

Health Policy Commission

- Sets annual health care cost growth benchmarks (currently 3.1%)
- Reviews material changes such as mergers, acquisitions and affiliations for impact on MA’s ability to meet the health care cost growth benchmark and on the competitive market.
- Requires registration of Accountable Care Organizations

Attorney General’s Office – Review certain non-profit transactions, anti-trust, consumer protection.

Vermont Action

In 2016, the Board told UVM Medical Center and Central Vermont Medical Center to come up with a plan to spend about \$29 million in excess revenue when they exceeded the hospital cap. Regulators approved:

- ❖ \$17 million toward bringing down commercial insurance rates, and
- ❖ \$12 million for community programs.

Massachusetts Action:

Recent Findings on Partners (MGH and Brigham) Merger with Mass Eye and Ear

Partners HealthCare: Largest system in New England reporting over \$13.4 billion in operating revenues and an operating margin of \$53 million in FY17

Health Policy Commission reviewed a proposed acquisition of Mass Eye and Ear.

https://www.mass.gov/files/documents/2018/01/03/PHS-MEE%20Final%20CMIR%20Report_o.pdf

- **“Cost and Market Impact:**

- Partners could likely obtain Partners rates for MEEA physicians – significant rate increases across all commercial payers
- Over time, we estimate that total commercial health care spending would increase by \$20.8 million to \$61.2 million annually if Partners achieves parity between MEEI’s rates and the rates of Partners’ other acute care hospitals.
- The parties concede that they expect MEEI and MEEA to receive higher prices and have declined to offer an unequivocal and measurable commitment to limit such increases.
- These rate increases would ultimately be borne by consumers and businesses through higher commercial premiums, including for tiered and limited network products that include MEE, and may also impact other providers’ spending against risk budgets to the extent that their patients use MEE.
- Simultaneously, the parties expect to achieve internal efficiencies that would reduce their own expenses.”

Massachusetts Recent Findings: Beth Israel-Lahey

Review of the **Beth Israel Deaconess Medical Center and Lahey Health System** merger to form Beth Israel Lahey Health system (BILH).

- **Determination of Need Board** reviewed application and granted with strict conditions.
- **September 27, 2018 Health Policy Commission Report:**
 - BILH's enhanced bargaining leverage would enable it to substantially increase commercial prices.
 - Could close the gap of the 30-40% price difference between it and Partners Health
 - Such price increases could increase total commercial health care spending by an estimated **\$128.4 million to \$170.8 million** annually for inpatient, outpatient, and adult primary services;
 - additional spending impacts would be likely for other services."
 - "[T]he initiatives for which the parties have provided details have the potential to improve care delivery and access to needed services, particularly behavioral health, if implemented as described."

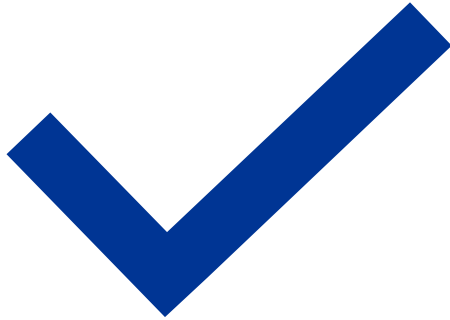
Massachusetts Action on Beth Israel-Lahey:AG Settlement

The AG raised concerns pursuant to the **Regulation of Business Practices for Consumer Protection** ([M.G.L c. 93A](#)) following investigation of the Beth Israel and Lahey Health System proposed merger.

November 29, 2018: The State and BILH reached a settlement, which included the following conditions:

- For 7 years following the merger, BILH will operate under a **price cap** that guarantees BILH's price increases will be kept below the state's Health Care Cost Growth benchmark
- BILH will spend \$71.6 million over eight years **to improve access to health care for low-income and underserved communities**, with a focus on financial support for community health centers, safety net hospitals, and behavioral health
- BILH will make good faith efforts to enroll all licensed providers in Mass Health (Medicaid) within three years and guarantees there will be no caps on MassHealth patients.

Conditions On Beth Israel-Lahey: In effect for 10 years



- Subject to a Cost Growth Cap - if above cost benchmark growth, plan to invest in behavioral health and primary care.
- Increase Medicaid participation
- Cooperation in cost and market impact review
- Mandatory supports for Community Health Centers (CHCs), Safety Net Hospitals, Underserved Populations, and Behavioral Health (generally eight years)
- Expanded access for behavioral health services, low income communities
- Annual reporting to AG (to be shared with other agencies) on:
 - Payer mix and network participation
 - Care delivery, access improvement, and data system integration efforts
 - Using any internal savings to improve quality and access
 - Agreement to use third party monitor

Other New England States:

Maine

Certificate of Need

Voluntary Restraint: To control the rate of growth of hospital services, each hospital may voluntarily restrain cost increases and consolidated operating margins to the statutory limits.

Hospital and Health Care Provider Cooperation Act (22 M.R.S. §§ 1841-1852): Allows merging health care entities to obtain a *certificate of public advantage*. Certificate requires intensive regulatory oversight in exchange for antitrust immunity at the state level.

Maine Action: October 13, 2010: The State granted, with conditions, a Certificate of Public Advantage authorizing Pen Bay Healthcare to become a subsidiary of MaineHealth. One condition limited Penobscot Bay Medical Center's increase in commercial payor reimbursement to 4% for 6 years.

Rhode Island

Certificate of Need Statute

Licensing of Health Facilities: The licensing statute requires an assessment of changes in owner, operator or lessee of most health care facilities

Hospital Conversions Act: § 23-17.14): Transfers of 20% or more of ownership, assets, membership interest, authority or control of a hospital require approval by the Department of Health and the Department of the Attorney General.

DSRIP: Value Based Strategies

- Health Insurance Affordability Standards, Rhode Island State Innovation Model Sustainability Plan: Part I

Rhode Island:

Goals for cost, access and quality and Cost Growth Targets

The Department of Health reviews completed application in consideration of nine statutory criteria requiring satisfactory safeguards and evidence of the following:

- Character, commitment, competence, and standing in the community;
 - Continued access to affordable care;
 - Access for traditionally underserved populations in the affected community;
 - Procedures or safeguards to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;
 - Continuation of collective bargaining rights and workplace retention;
 - Estimated future employment needs under the conversion, and retraining of employees who may be impacted by the proposed restructuring;
 - Demonstration that public interest will be served, including access to essential medical services needed to provide safe and adequate treatment, and assurance of a balanced health care delivery system;
 - Issues of market share, especially as they affect quality, access, and affordability of services; and
 - Applicants must meet the Conditions of Approval for any previous Conversion under the Act (For-Profit conversions only)
- *Rhode Island's Cost Growth Target is used to assess health care cost growth for all Rhode Island residences who have commercial, Medicaid and Medicare coverage. Performance assessment relative to the target includes consideration of claims spending, non-claims based spending, pharmacy rebates, consumer cost sharing and insurer administrative costs and margin*
 - **The health care cost growth target is 3.2% for 2019 through 2022**
 - It is set at the value of RI's Potential Gross State Product.

Rhode Island Action

Affiliation of Yale-New Haven Health Services Corp., Lawrence + Memorial Corp., and LMW Healthcare, Inc.

- Without the affiliation, Lawrence and Memorial Corp., and consequently Westerly Hospital, may endure unsustainable financial losses.

Conditions include:

- Expansion of MAT (SUD Treatment) providers and services
- Implementation of SBRIT for substance use disorder within the ED and primary care settings
- Participation in interventions to improve the safety of opioid prescribing
- Expanding access to care for the community's vulnerable populations

Partners HealthCare Acquisition of Care New England

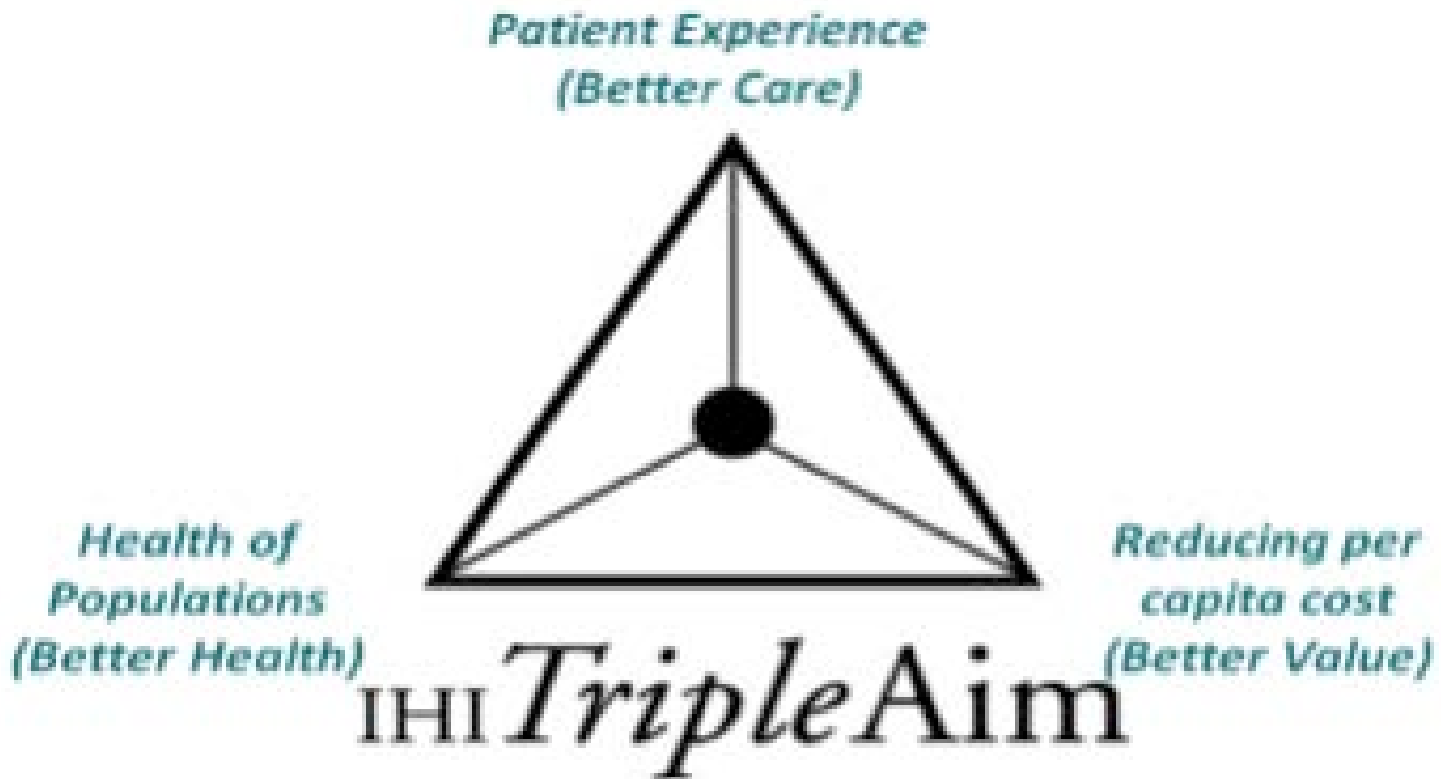
- Affiliation is still under review
- August 2018: Partners HealthCare, Care New England, and Brown announced that the three had signed a MOU. Brown to remain the focus of grants and research and the MOU establishes Brown's Warren Alpert school as the primary academic research and teaching institution for Partners-CNE in Rhode Island, instead of Partners' affiliated college, Harvard University.

Connecticut Action

In 2016, Connecticut Governor placed a moratorium on many forms of hospital mergers within the state. The moratorium remained in place through June 2017 and provided a taskforce the opportunity to review of the state regulated hospital mergers.

WHY WE CARE

New Hampshire Healthcare Purchasers Care About ..



We Care About Health...

- Access to good, timely and valuable hospital inpatient, outpatient and hospital owned care.
- Good patient outcomes and the safety of our members experiencing hospital care. **See** Leapfrog Safety Grades <https://www.hospitalsafetygrade.org/>
- Transparency and collaboration between hospitals, purchasers and our members around quality, cost and incentives.
- A healthy workforce
- A sustainable health care system

We Care About...

Employees

Tax payers

Employers and businesses

Unions

Cities, towns and municipalities

Health care professionals

The mental and physical health of our communities

NH HB 552-FN

Assists Director of Charitable Trusts, on behalf of the community, to assess whether the merger/affiliation is consistent with the charitable objects of the health care charitable trust and **the needs of the community** which it serves including impact on costs, quality and access.