ACA Hospital Impact Research

Hospital Acquisition and Bankruptcy

SOURCE 1:

Rural, For-Profit Hospitals Closing at an Alarming Rate Putting Some Independent Clinical Laboratories and Pathology Groups at Risk

https://www.darkdaily.com/rural-for-profit-hospitals-closing-at-an-alarming-rate-putting-some-independent-clinical-laboratories-and-pathology-groups-at-risk/

See attached Excel file: "Rural Hospitals Closure Data"

- Most Hospital Closures in Rural Southern United States
    - Approximately 2.2 million people are affected by the coverage gap, and there are similarities between where those people live and where hospitals are closing. For example, 89% of those caught in the coverage gap live in the south—where the majority of hospitals have closed, KFF noted.
- According to Becker's:
    - Texas has seen the most closures with 15;
    - Tennessee is second with nine closures since 2010;
    - Next is Georgia at seven; and,
    - Alabama, Mississippi, North Carolina, and Missouri are tied each with five hospitals closed in the last few years.
- About a third of the hospitals (21) that closed between 2013 and 2017 were 20-35 miles away from the next nearest hospital, according to a report given to Congress by the Medicare Payment Advisory Commission in June of last year.
- GAO Reports For-Profit Hospitals Most Vulnerable
    - The combination of lower incomes and fewer insured people makes it difficult for hospitals to cover their fixed costs, leading to bankruptcy. According to a report released by the Government Accountability Office (GAO), for-profit hospitals have been disproportionately affected by bankruptcy.
    - Only about 11% of the hospitals in rural areas were for-profit organizations in 2013;
    - However, 40% of those hospitals that closed due to bankruptcy between 2013 and 2017 were for-profit.
- "While Medicaid expansion has improved all hospitals' operating margins and total margins, the effect was particularly pronounced in rural areas," noted a report from the Center on Budget and Policy Priorities. That's because uncompensated care is provided

more often in for-profit, rural hospitals located in states where Medicaid expansion did not occur.

SOURCE 2:

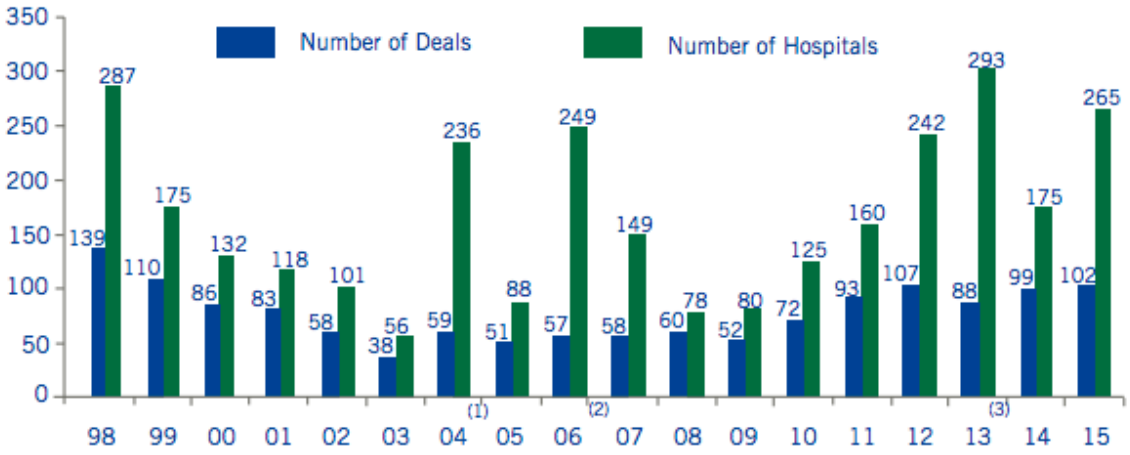
Hospitals in the Post-ACA Era: Impacts and Responses

https://www.milbank.org/wp-content/uploads/2017/03/IssueBrief_NESCSO_9-FINAL-3.pdf

- Hospitals are responding to the ACA by consolidating. Since the ACA was passed, the number of hospitals involved in mergers and acquisitions nationally has exceeded 100 per year (2010 through 2015) and was above 250 in 2013 and 2015 (Figure 5). This level of merger and acquisition activity has not occurred since the late 1990s.

Figure 5.

Announced Hospital Mergers and Acquisitions, 1998–2015



Source: Irving Levin Associates, Inc. (2016). *The Health Care Services Acquisition Report*, Twenty-Second Edition.

(1) In 2004, The Privatization of Select Medical Corp., an Operator of Long-Term and Acute-Care Hospitals, and Divestiture of Hospitals by Tenet Healthcare Corporation Helped to Increase the Number of Hospitals Affected.

(2) In 2006, The Privatization of Hospital Corporation of America, Inc. Affected 176 Acute-Care Hospitals. The Acquisition was the Largest Health Care Transaction Ever Announced.

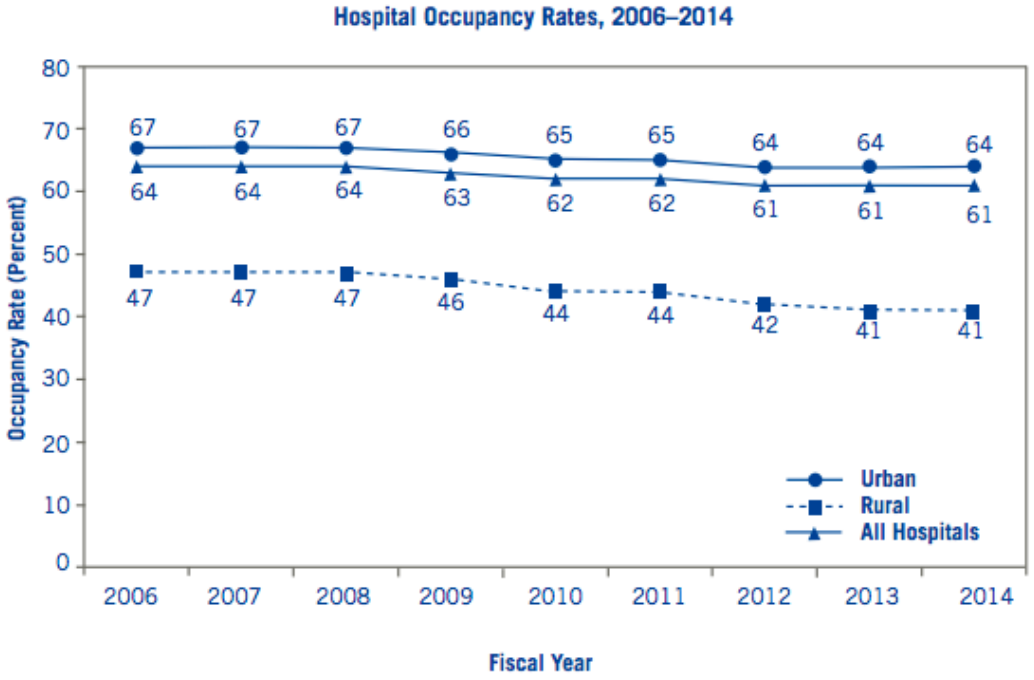
(3) In 2013, Consolidation of Several Investor-Owned Systems Result In a Large Number of Hospitals Involved in Acquisition Activity.

Chart. 2.10 in 2009 and earlier years' Chartbooks.

- With respect to utilization, hospital occupancy rates remain pretty much at pre-ACA levels—a little above 60% (much lower for rural hospitals)—indicating at least some ongoing level of excess capacity (Figure 4). Some rise in occupancy rates might be expected given the ACA's focus on expanded health insurance coverage. However, as

noted, hospital data for 2014 may not fully reflect the effects of key ACA provisions. Also, occupancy rates may not be increasing because hospitals are continuing to experience a shift in utilization away from inpatient care toward outpatient services, which is leading some hospitals to close or convert to ambulatory clinics. At the same time, hospital emergency department visits have been rising, which, according to some reports, may stem in part from difficulties patients have in securing appointments with primary care providers.

Figure 4.



Source: MedPAC analysis of Medicare Hospital Cost Reports.

- The ACA also appears to be promoting broader industry consolidation as hospitals integrate vertically into other health care sectors. Hospitals are integrating vertically presumably to be in a better position to coordinate patient care and to be positioned to control the flow of health care dollars, both considered important for success in the post-ACA world. In particular, hospitals are aggressively acquiring physician practices and employing physicians directly.
- A recent report indicates that hospitals own 26% of physician practices, up from 14% in 2012. Several factors underlie physicians' motivation to join hospitals, but a key factor is the substantial financial requirements needed to purchase information technology for managing patient care. Many physician practices lack the necessary financial capital. This type of hospital-physician integration is not entirely new. Hospitals acquired primary physician practices in the 1990s as a response to managed care pressures, though this was followed by a period of retrenchment as many hospitals experienced significant financial losses from these acquisitions. A distinction between the recent

trend and the one in the 1990s is that hospitals are currently acquiring specialty practices (e.g., cardiology) as well as primary care practices.

- Beyond physician services, some hospitals are entering the health insurance sector either organically or through acquisition of plans. According to one report, 13% of hospital-based systems offer health insurance products, covering approximately 8% of all insured lives in the United States. This type of consolidation appears to have become more frequent in the past 24 months. These consolidation trends have raised concerns among policymakers regarding the cost of health care services. Much evidence indicates that hospital consolidation is associated with higher prices for hospital services, attributable to the better negotiating leverage hospitals gain with health plans. One study points to price increases of between 5% and 15% for commercially insured patients when markets consolidate to fewer than four hospitals. Hospital-driven vertical integration generally raises fewer concerns about price effects, but there is evidence suggesting that hospital-physician integration is stoking higher prices. Through this type of vertical integration, hospitals may be enhancing their market power with payers by bundling their services with those of physicians.
- While these price effects raise significant concerns, some policymakers are optimistic that hospital-driven vertical integration can promote better quality through improvements in the coordination of patient care. A few studies point to better quality of care among hospitals that employ physicians, but the evidence base is pretty thin.

Current Hospital Trends in Response to ACA

SOURCE 1:

How hospitals got richer off Obamacare

https://www.politico.com/interactives/2017/obamacare-non-profit-hospital-taxes/

- The ACA has impacted the nation's hospitals through increases in the demand for care, increases in patient revenues, and lowered uncompensated care costs for the uninsured.
- Multiple studies have linked the ACA's coverage expansion to improved financial performance, with one analysis finding that hospitals' profit margins went up by 25 percent in states that expanded Medicaid in 2014. Overall, the industry boasted an 8.3 percent profit margin that year, according to the most recent figures published by the American Hospital Association.
    - That's the highest performance on record — more than triple the industry's 2.6 percent profit margin in 2008, amid the recession and before the Obama administration began pushing its health care reforms — and it's only invited

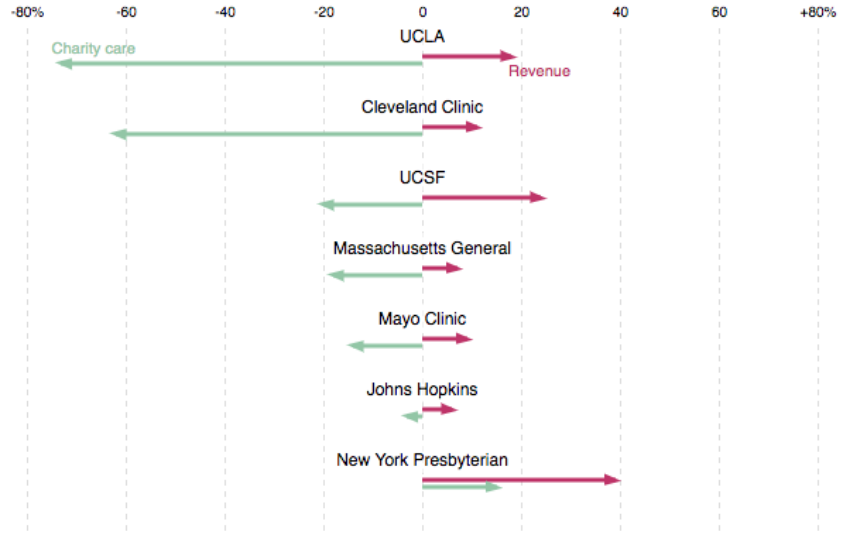
scrutiny from advocates and researchers who say that it's a sign the system is broken.

  - Gerard Anderson, a health care economist at Johns Hopkins University, co-authored a study in 2016 that found 7 of the 10 most profitable hospitals in the United States are technically not-for-profit hospitals. "The taxing system may not be working properly if nonprofit hospitals are making a lot of profit and not necessarily putting it back into the community," Anderson said at the time.

- Hospitals have been provided with more than 20 million paying customers revealing the extent of the hospitals' behind-the-scenes efforts to maintain tax breaks that provide them with billions of dollars in extra income, while costing their communities hundreds of millions of dollars in local taxes.
- The ACA did nothing more to force the hospitals to share their revenue with their neighbors or taxpayers generally. The top seven hospitals' combined revenue went up by $4.5 billion per year after the ACA's coverage expansions kicked in, a 15 percent jump in two years. Meanwhile, their charity care — already less than 2 percent of revenue — fell by almost $150 million per year, a 35 percent plunge over the same period.

Revenue up, charity care down

While operating revenue increased under Obamacare for not-for-profit hospitals like the Cleveland Clinic and UCLA Medical Center, the amount of charity health care they provided fell. For example, while UCLA saw operating revenue grow by more than $300 million between 2013 and 2015, charity care fell from almost $20 million to about $5 million.



SOURCE: Figures drawn from hospitals' financial statements. Revenue growth reflects a mix of ACA coverage expansion, acquisitions and other strategic investments.

- Hospitals justify the billions of dollars they receive in federal and state tax breaks through a nearly 50-year-old federal regulation that simply asks them to prove they're serving the community. (Some states have taken a stricter approach for their tax breaks.) And while hospitals acknowledge that their charity care spending has fallen —

pointing to the fact that a record number of Americans are now insured under the ACA — some leaders say the trend could reverse itself if the ACA is repealed.

- Hospitals also defend their tax-exempt status by pointing to their total community benefit spending, a roll-up number that can include free screenings and local investments but also less direct contributions, like staff education or hospitals' internal metrics for when they say there is a gap between what they charge for services and what Medicare or Medicaid pays them.
- But in many cases, top hospitals' community benefit spending has remained flat or declined since the ACA took effect, too. For example, Massachusetts General Hospital in Boston, which has been ranked as the best hospital in the world, spent $53.8 million on community benefits in 2015, down from $62.1 million in 2013, even as its total annual revenue went up by more than $200 million.

SOURCE 2:

Obamacare Drives Hospital Consolidation, Raising Prices For Patients

https://www.forbes.com/sites/sallypipes/2019/09/16/obamacare-drives-hospital-consolidation-raising-prices-for-patients/#67f146077cf4

- Hospital behemoth Sutter Health—a non-profit organization in Northern California that has gradually acquired 24 hospitals and 5,000 physicians—will soon go to court to defend itself against allegations that it has violated the state's antitrust laws.
    - The plaintiffs claim that Sutter illegally pushed competitors out of the market and raised prices for patients. Indeed, compared to Southern California, where the market is less concentrated, patients in Northern California pay 70% higher inpatient prices and up to 55% higher outpatient prices.
- This is just one example of a trend engulfing the health sector. Hospitals are rapidly consolidating. Small, independent healthcare providers are dying off—and not of natural causes.
    - Obamacare is killing them.
- Obamacare's architects thought hospital consolidation would streamline care, improve the quality of medical services, and generate savings for patients. Now, nearly a decade later, it's clear they miscalculated.
- Obamacare encouraged consolidation by incentivizing providers to coordinate care and adjusting Medicare payments to make mergers a smarter financial option. The White House's top healthcare advisors wrote an open letter boasting that "these reforms will unleash forces that favor integration across the continuum of care."
    - Hospitals responded to the Obama administration's incentives. There were 93 mergers and acquisitions in 2011. In 2017, that number hit 115, the highest total on record.

    - Large corporate hospital systems also snapped up doctor's offices. Between 2015 and 2016 alone, some 5,000 physician practices were absorbed into larger operations.
- Consolidation, by design, reduces competition. So it should be no surprise that the new corporate behemoths have raised prices.
    - Consider one study analyzing 25 metropolitan areas with the highest rate of hospital consolidation between 2010 and 2013. The analysis revealed that in the years following mergers, the average price of hospital stays in most areas increased between 11% and 54%.
    - Or take a study of physician practices from Northwestern University. Researchers concluded that physician prices jumped 14% following an acquisition by a hospital.
- Consolidation can also compromise the quality of care. Independent physician groups and community hospitals tend to develop intimate connections with their patient populations. They have the freedom to properly customize care, unconstrained from bureaucratic controls.
- Hospital conglomerates, on the other hand, tend to impose a one-size-fits-all model of medical service, with doctors under intense pressure to shuffle patients through as quickly as possible. "I develop a very close relationship with my patients," one independent physician recently lamented. "When you have big organizations, they're pressuring the doctors to see more and more patients. It becomes more like an assembly line to get the patient in and out, and that wears down the trust between the patient and the doctor and things get missed when people are working like that."
- Even Obamacare's architects have acknowledged these ill effects. Bob Kocher, one of the authors of the open letter bragging about the positive impact of industry consolidation, has publicly called for a policy reversal. In an op-ed published by the Wall Street Journal, Kocher wrote, "Having every provider in health care 'owned' by a single organization is more likely to be a barrier to better care." He also said the government should "make it easier for [independent practices] to thrive under ObamaCare and don't tip the scales toward consolidation."
- To reverse the damage done by Obamacare, policymakers need to unleash competition in the hospital industry.
    - They can start by eliminating "certificate of need" laws. Thirty-five states and the District of Columbia have these statutes on the books, which require healthcare providers looking to build a new hospital to first prove there's sufficient patient need.
    - These laws artificially constrain competition and entrench hospital monopolies. Per-capita health spending is 11% higher in states with certificate-of-need laws than those without them.
    - Research from the Mercatus Center shows that eliminating such laws could save significant amounts of money. Florida, for example, would save $235 per capita in total health spending. New York would save $280.

- Making hospital prices more transparent would also help bring overall costs down. Patients typically have no clue what they'll pay when they visit the doctor. That makes it impossible for them to shop around. By listing prices upfront, patients can compare costs and choose care that offers the best value.
- The architects of Obamacare wanted to consolidate hospitals. They got their wish—and the results have been disastrous.