

California hospital mergers cause soaring prices, study shows



[A recent study](#)

by USC researchers, entitled “Hospital Prices

Increase in California, Especially Among Hospitals in the Largest Multi-hospital Systems,” examined the impacts on prices of the recent trend of hospital consolidation sweeping California.

The study found that prices at hospitals that are members of multi-hospital systems increased by 113% between 2004 and 2013; at California hospitals not associated with these systems, prices also rose, but substantially less (70%).

These findings sound an alarm bell for the entire nation. “California experienced its wave of consolidation much earlier than the rest of the country,” the study’s authors wrote, “and as such our findings may provide some insights into what may happen across the United States from hospital consolidation including growth of large, multi-hospital systems now forming in the rest of the country.”

A surge in mergers

In the midst of the most rapid period of hospital consolidation since the 1990s, it’s critical to consider the forces driving these transactions. Why the surge in mergers?

Some hospitals have argued that the Affordable Care Act is a driving force; they contend that “the incentives for integration found in the Affordable Care Act (ACA) and recent Medicare payment reforms justify significant consolidation,” says Thomas Greaney, a healthcare and antitrust law expert. Greaney concedes that indeed, the ACA incentivizes efficiency, which could be interpreted as pro-merger policy. Those more optimistic about the mergers argue that multi-hospital systems “serve larger populations more efficiently” and can better “focus on population health management to improve outcomes and reduce costs.”

But “as antitrust enforcers have pointed out,” Greaney says, “the law depends on market competition; hence mergers creating or entrenching market power are anathema to the underlying purposes of system reform.” The USC study’s authors point out that hospitals that consolidate into large systems become nearly impossible to exclude from insurance companies’ preferred networks; when a hospital becomes a “must-have” hospital, it has leverage in negotiating with health plans for all system member hospitals to be included in the plan’s preferred networks, even if prices are high and quality is low. High costs for health plans are transferred to enrollees in the form of higher premiums and co-pays.

California’s hospital landscape

Two hospital systems in California, Sutter Health and Dignity Health, dominate the hospital landscape, controlling

almost 60 hospitals.

USC's study debunks the argument that hospital mergers drive down prices by increasing efficiency and quality – all across California, the last decade of consolidation has shown dramatic increases in hospital prices, despite low economic growth, minimal inflation, and no increase in demand for hospital care. The rhetoric of scaling up to increase efficiency has contributed to California's historically laissez-faire attitude about healthcare mergers.

But rather than using consolidation to keep prices low, hospitals in large systems are “tying their hospitals together using ‘all-or-none’ contracting” to “achieve market power over prices.” Mergers have stifled competition and allowed prices to soar in a time when the United States' exorbitant health care spending is a hot ticket item on the national agenda.

Representatives from Sutter and Dignity, however, claim the data from the study are “outdated” and misleading. Sutter spokesman Bill Gleeson said to the Los Angeles Times that the study was “a self-serving play by Blue Shield to use stale and potentially misleading data to further its negotiations and attempt to advance its positions in pending litigation with Sutter Health.” (The study's authors declared no potential conflicts of interest.)

Policy implications

The study's authors recommend that policymakers heed the warning signs implicit in the data, given the nationwide pattern of consolidation.

“What happened in California is now happening across the country,” said Glenn Melnick, a co-author. 115 hospital mergers were announced in 2015 – a 70% increase since 2010, according to the LA Times. Interventions like restricting all-or-none contracting and banning “anti-competitive contract language that flows from market power” could prevent further price hikes.

Los Angeles Times columnist [Michael Hiltzik has a simple solution](#) for this troubling trend. “Experience suggests that regulators can have only one response if they're serious about protecting the public interest,” he says. “Just say no.”

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