

Health Systems Continue to Acquire Insurers

Since the start of the roll out of the provisions of the *Patient Protection and Affordable Care Act* (ACA) in 2010, consolidation has become increasingly common in the healthcare industry.¹ Hospitals are merging to form health systems, as discussed in a July 2014 HCC Topics article,² as well as entering into the health insurance industry. This second installment of this three-part series on healthcare consolidation addresses the trend of health systems entering the insurance industry, which is frequently accomplished by acquiring health insurance companies and offering patients self-designed health insurance plans.³

In 2011, approximately one-fifth of health systems were offering their own insurance plans.⁴ Health systems are increasingly seeking to offer health insurance to consumers, as 28% of these organizations, including SSM Health Care, reported a desire to start offering their own insurance plans by 2018.⁵ Ascension Healthcare, the largest not-for-profit hospital system in the United States, recently expressed interest in consolidating with a health insurance provider.⁶ In May 2014, executives of Ascension stated that they are considering purchasing an unnamed insurance company currently offering coverage in 18 states.⁷

Ascension, along with other organizations that offer or plan to offer their own health plans to patients, have observed the benefits that organizations providing care and offering insurance coverage have reaped, as explained below.⁸ Notably, Kaiser Permanente and University of Pittsburgh Medical Center have both been offering insurance coverage and healthcare services for more than two decades.⁹

One motivator for health systems to offer self-designed plans is the pressure on healthcare enterprises to reduce overall healthcare expenditures.¹⁰ Health insurance companies have access to patient information that is unavailable to clinical providers, i.e., all tests conducted on and services rendered to the patient, regardless of who provided the healthcare services. Providers believe having access to this information may help them to avoid duplicative testing, and thereby decrease their healthcare expenditures.¹¹ This information may also help providers to better coordinate care, which may allow these enterprises to receive more favorable reimbursement levels resulting from the new value-

based reimbursement models under the Affordable Care Act.¹²

With the responsibility for their patients and their costs increasing, healthcare providers are motivated to increase their focus on preventative care and keep patients from utilizing services rendered in hospitals.¹³ In doing so, enterprises begin to act more like insurers, motivating providers to create and offer their own health plans in order to eliminate the third party currently providing health insurance to patients.¹⁴ Health systems also find that offering their own health plans may: (1) facilitate the process of creating incentives to offer higher-quality care;¹⁵ and, (2) increase efficiency, helping enterprises reduce non-clinical costs.¹⁶

Opponents of the consolidation of healthcare providers and insurers believe that the stakeholders will see an increase in prices for healthcare services and premiums, due to a decrease in provider competition. Health systems which offer insurance plans seem to have an advantage over hospitals and systems that work with third party insurers, as they are able to provide more coordinated care to patients.¹⁷ A 2013 study, which related the integration of hospitals and insurers with the price of premiums and quality of care, reported that hospitals offering health insurance to patients charge higher premiums and provide a higher quality of care, based on patient satisfaction data,¹⁸ suggesting that the integration between health systems and insurers is beneficial for both consumers and healthcare enterprises.

Despite the reported quality increases found in organizations which have consolidated with insurers, patients may have fewer options when choosing a healthcare provider. A health insurance plan offered by a health system is likely to cover only services rendered through that system. Physicians may be more inclined to refer within their health system, even if the providers cannot offer the best care for the patient.¹⁹

Another area of concern for adversaries of the health system-insurer consolidation trend is the inability of healthcare providers to: (1) comply with the strict regulatory restrictions that health insurance providers face; and, (2) manage both providing care and offering coverage, as funding is limited and many organizations do not have a provider network that can offer a wide

range of healthcare services.²⁰ Additionally, the integrated system may become responsible for dictating the manner in which care is provided. Factors such as the financial capabilities of the system could influence healthcare decisions under this model, potentially compromising physician independence and reducing reimbursements. This duty may create conflict within the organization and may negatively affect the quality of care that patients receive.²¹

The emerging trend of healthcare enterprises acquiring insurance companies and offering their own health plans appears to have benefits that may help alleviate the current issues many organizations face due to the changes caused by healthcare reform. Many healthcare experts believe that, for these systems to be successful, the organizations will need to:

- (1) Ensure that they are able to offer their patients high-quality care and a scope of healthcare services, rather than limiting the patient's choice to the services offered by the organization;²²
- (2) Allocate sufficient resources to both the clinical and the insurance sides of their enterprises; and,²³
- (3) Dedicate time to learning and properly interpreting the strict legal compliance required of insurers.²⁴

The final installment of this series will address some of these regulatory restrictions, specifically, the anti-trust implications of consolidation between: (1) health systems and insurers; (2) hospital and physician practices; and, (3) other providers.

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2 "Health System Consolidation Expands to Post-Acute Care" Health Capital Consultants, July 2014, Volume 7, Issue 7, p. 1-3.

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10 "Hospital Systems Branch out as Insurers" By Anna Wilde Mathews, The Wall Street Journal, <http://online.wsj.com/news/articles/SB10001424127887324677204578183041243834084> (Accessed 6/24/14).

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13 "Why Hospitals are Becoming Insurers" By Caryn Rabin, August 27, 2012, The Advisory Board Company, <http://www.advisory.com/daily-briefing/2012/08/27/why-hospitals-are-becoming-insurers> (Accessed 6/24/14).

14 *Ibid.*

15 Frakt, May 25, 2014.

16 *Ibid.*

17 *Ibid.*

18 "Plan-Provider Integration, Premiums, and Quality in the Medicare Advantage Market" By Austin B. Frakt, Steven D. Pizer, and Roger Feldman, Health Services Research, Vol. 48, no. 6, December 2013, p. 2008.

19 Rabin, "Some Hospital Networks also Becoming Insurers" August 25, 2012.

20 *Ibid.*

21 *Ibid.*

22 Kliff, July 5, 2013.

23 Rabin, "Why Hospitals are Becoming Insurers" August 27, 2012.

24 Overland, July 10, 2013.



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Robert James Cimasi, MHA, ASA, FRICS, MCBA, CVA, CM&AA, serves as Chief Executive Officer of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: “*Accountable Care Organizations: Value Metrics and Capital Formation*” [2013 - Taylor & Francis, a division of CRC Press], “*The Adviser’s Guide to Healthcare*” – Vols. I, II & III [2010 – AICPA], and “*The U.S. Healthcare Certificate of Need Sourcebook*” [2005 - Beard Books]. His most recent book, entitled “*Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services*” was published by John Wiley & Sons in March 2014.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious “*Shannon Pratt Award in Business Valuation*” conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS).



Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives, and serves as President of the St. Louis Chapter of the American Society of Appraisers (ASA). He has co-authored “*Research and Financial Benchmarking in the Healthcare Industry*” (STP Financial Management) and “*Healthcare Industry Research and its Application in Financial Consulting*” (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



Matthew J. Wagner, MBA, CFA, is Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis. Mr. Wagner has provided valuation services regarding various healthcare related enterprises, assets and services, including but not limited to, physician practices, diagnostic imaging service lines, ambulatory surgery centers, physician-owned insurance plans, equity purchase options, physician clinical compensation, and healthcare equipment leases.



John R. Chwarzinski, MSF, MAE, is Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**. Mr. Chwarzinski holds a Master’s Degree in Economics from the University of Missouri – St. Louis, as well as, a Master’s Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. Mr. Chwarzinski’s areas of expertise include advanced statistical analysis, econometric modeling, and economic and financial analysis.



Jessica L. Bailey, Esq., is the Director of Research of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey is a member of the Missouri and Illinois Bars and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as Fall Managing Editor for the Journal of Health Law and Policy.