



Pricing Increases at Independent Hospitals Post-Acquisition

Over the past decade, hospital acquisitions have changed the healthcare market, with transactions leading to hospital consolidation and resulting in larger health systems and fewer hospitals.¹ In the \$4.3 trillion healthcare industry, over one third is spent annually on hospital care;² therefore, changes in the hospital subsector have significant implications for the rest of the healthcare industry. An August 2023 study conducted by the Public Policy Institute³ of health insurer Elevance Health (formerly known as Anthem) found that when independent hospitals are acquired by health systems, employers, payors, and consumers are exposed to higher pricing without a similar increase in hospital care access or quality of care.⁴ This Health Capital Topics article will review the Elevance study and the impact of acquisitions on independent hospital pricing.

Over the past two decades, the percent of hospital bed capacity that is part of a health system has increased from 58% to 81%.⁵ Similarly, the percentage of markets with no independent hospitals increased from 7% to 25%.⁶ These increases accelerated in the second half of the timeframe, concurrent with escalating hospital prices.⁷

The report authors utilized data from Elevance Health-affiliated health plans in twenty states and compared independent hospitals that remained independent to independent hospitals that merged with a hospital system.⁸ The authors analyzed insurance claims and quality performance measures from 2012 through 2018 showed that after health systems acquired independent hospitals, prices at those hospitals rose while expenses decreased; simultaneously, some quality metrics at those hospitals decreased.

Not surprisingly, hospitals experienced a 6% decrease in operating expenses post-acquisition.⁹ 60% of the decline was attributed to personnel spending reductions, with employment falling 3% due to decreases in support staff.¹⁰ While operating expenses decreased, the average inpatient price rose 5% for commercially-insured patients, and prices increased 5-8% across the major diagnostic categories.¹¹ Specifically, prices in the circulatory system, digestive, respiratory, infectious disease, and labor and delivery categories experienced the highest increases.¹² The health system size did not seem to play a role in the extent of increases in pricing; however, price growth was observed in every one of the formerly-independent facilities.¹³

Perhaps the report's most concerning findings regard the declining quality of independent hospitals post-acquisition. For example, readmission rates for cardiac care increased by 12% at acquired hospitals and remained high for three years post-acquisition.¹⁴ Additionally, readmission rates for admitted Medicare patients increased 2-3%.¹⁵ Overall, the report did not find increases in any quality category post-acquisition. Further, the report found that access to care at these hospitals declined post-acquisition. For example, a number of maternity wards were closed at independent rural hospitals post acquisition.¹⁶

While hospital acquisition activity slowed during the COVID-19 pandemic, it has rebounded over the last year.¹⁷ The number of independently-operated hospitals are starting to decrease once more, as acute care markets have become more consolidated.¹⁸ Independent hospitals claim that joining large health systems that have more resources will help them negotiate better contracts with commercial insurers.¹⁹ These hospitals also assert that being acquired by larger systems will also reduce the cost of information technology (IT) and supply chain operations, while increasing access to and improving the quality of care.²⁰

Elevance's report received pushback from the American Hospital Association (AHA).²¹ AHA CEO Rick Pollack stated that the Elevance analysis drew "absurd conclusions about the impact of healthcare systems on access to care, cost and quality."²² Pollack also argued that "of greatest irony is that while the national health plan behemoth, which dominates many insurer markets, is pointing fingers at the actual healthcare providers serving patients, it is pocketing record profits."²³ Dr. Richard Stefanacci, a physician at the Jefferson College of Population Health, also spoke about the benefit of acquiring independent hospitals, but mentioned how financial savings needed to be used appropriately.²⁴ Dr. Stefanacci stated that "there's an opportunity to capitalize on the additional resources gained through these mergers by directing them towards enhancing the value of healthcare delivery."²⁵

1 "Costs & Quality After Independent Hospitals Are Acquired by Health Systems" Elevance Public Policy Institute, Elevance Health, August 2023, https://www.elevancehealth.com/content/dam/elevance-health/articles/ppi_assets/63/EH_Hospital%20Merger_R6_7-21-2023_FINAL.pdf (Accessed 8/18/23), p. 1.

2 *Ibid.*

3 Per Elevance, its Public Policy Institute "was established to share data and insights that inform public policy and shape the healthcare programs of the future." "Costs & Quality After Independent Hospitals Are Acquired by Health Systems" Elevance Public Policy Institute, Elevance Health, August 2023, https://www.elevancehealth.com/content/dam/elevance-health/articles/ppi_assets/63/EH_Hospital%20Merger_R6_7-21-2023_FINAL.pdf (Accessed 8/18/23), p. 6.

4 Elevance Public Policy Institute, Elevance Health, August 2023, p. 3.

5 *Ibid.*, p. 1.

6 *Ibid.*, p. 2.

7 *Ibid.*

8 "Prices increase at independent hospitals post-acquisition, research shows" By Alex Kacik, Modern Healthcare, August 1, 2023, <https://www.modernhealthcare.com/mergers-acquisitions/independent-hospitals-price-increases-public-policy-institute-elevance-health> (Accessed 8/18/23); Elevance Public Policy Institute, Elevance Health, August 2023, (Accessed 8/18/23), p. 2.

9 "Independent Hospital Acquisitions Tied to Higher Healthcare Prices" By Victoria Bailey, August 9, 2023,

<https://revcycleintelligence.com/news/independent-hospital-acquisitions-tied-to-higher-healthcare-prices> (Accessed 8/18/23).

10 *Ibid.*

11 *Ibid.*

12 *Ibid.*

13 *Ibid.*

14 Kacik, Modern Healthcare, August 1, 2023, p. 4.

15 Elevance Public Policy Institute, Elevance Health, August 2023, p. 4.

16 *Ibid.*

17 "Prices increase at independent hospitals post-acquisition, research shows" By Alex Kacik, Modern Healthcare, August 1, 2023, <https://www.modernhealthcare.com/mergers-acquisitions/independent-hospitals-price-increases-public-policy-institute-elevance-health> (Accessed 8/18/23).

18 Kacik, Modern Healthcare, August 1, 2023.

19 *Ibid.*

20 *Ibid.*

21 "Elevance Health, AHA spar over hospital consolidation" By Frank Diamond, Fierce Healthcare, August 3, 2023, <https://www.fiercehealthcare.com/payers/elevance-research-cites-harm-done-when-systems-buy-independent-hospitals> (Accessed 8/18/23).

22 *Ibid.*

23 *Ibid.*

24 *Ibid.*

25 *Ibid.*

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Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.



Mr. Zigrang is the co-author of *“The Adviser’s Guide to Healthcare - 2nd Edition”* [AICPA - 2015], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Guide to Valuing Physician Compensation and Healthcare Service Arrangements (BVR/AHLA)*; *The Accountant’s Business Manual (AICPA)*; *Valuing Professional Practices and Licenses (Aspen Publishers)*; *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. Additionally, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); the National Association of Certified Valuators and Analysts (NACVA); the American Health Lawyers Association (AHLA); the American Bar Association (ABA); the Association of International Certified Professional Accountants (AICPA); the Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Certified Valuation Analyst (CVA) designation from NACVA. Mr. Zigrang also holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter. He is also a member of the American Association of Provider Compensation Professionals (AAPCP), AHLA, AICPA, NACVA, NSCHBC, and, the Society of OMS Administrators (SOMSA).



Jessica L. Bailey-Wheaton, Esq., is Senior Vice President and General Counsel of HCC. Her work focuses on the areas of Certificate of Need (CON) preparation and consulting, as well as project management and consulting services related to the impact of both federal and state regulations on healthcare transactions. In that role, Ms. Bailey-Wheaton 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.



Additionally, Ms. Bailey-Wheaton heads HCC’s CON and regulatory consulting service line. In this role, she prepares CON applications, including providing services such as: health planning; researching, developing, documenting, and reporting the market utilization demand and “need” for the proposed services in the subject market service area(s); researching and assisting legal counsel in meeting regulatory requirements relating to licensing and CON application development; and, providing any requested support services required in litigation challenging rules or decisions promulgated by a state agency. Ms. Bailey-Wheaton has also been engaged by both state government agencies and CON applicants to conduct an independent review of one or more CON applications and provide opinions on a variety of areas related to healthcare planning. She has been certified as an expert in healthcare planning in the State of Alabama.

Ms. Bailey-Wheaton is the co-author of numerous peer-reviewed and industry articles in publications such as: *The Health Lawyer*; *Physician Leadership Journal*; *The Journal of Vascular Surgery*; *St. Louis Metropolitan Medicine*; *Chicago Medicine*; *The Value Examiner*; and *QuickRead*. She has previously presented before the ABA, the NACVA, and the NSCHBC. She serves on the editorial boards of NACVA’s *QuickRead* and AHLA’s *Journal of Health & Life Sciences Law*.



Janvi R. Shah, MBA, MSF, serves as Senior Financial Analyst of HCC. Mrs. Shah holds a M.S. in Finance from Washington University Saint Louis. She develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition she prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams.



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