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Hospitals Expansion: Coordinated Care or a Vie for Insured Patients

As the healthcare industry strives to maintain stability in the wake of the most recent recession and brace itself against the turbulence of healthcare reform, hospitals have developed a new method for achieving growth and securing revenue. In what has been termed the “geographic expansion race,” U.S. hospitals have begun employing new strategies to expand their market presence and compete for valuable insured patients. In a fourteen-year study of twelve healthcare markets, the Center for Studying Health System Change observed facility growth in large metropolitan areas, analyzing the different expansion strategies employed, and the market composition that resulted. Though the study acknowledges it is likely too early to predict the impact hospitals’ geographic expansion will have on patient access, quality, and costs, others in the industry have both praised and sharply criticized this new trend for its anticipated effects.

Prior to 2007, hospitals often sought to achieve growth by expanding or developing specific service lines, such as cardiac care or cancer treatment, but the last several years have been marked by a significant shift in expansion strategies, whereby many hospitals and healthcare systems are expanding into new geographic areas in order to acquire more patients. In order to target privately-insured patients during geographic expansion, hospitals are increasingly using one or more expansion strategies, including: acquiring existing full-service hospitals or constructing new facilities; building freestanding emergency departments; building ambulatory care facilities; and, strengthening relationships with emergency medical transport systems or operating their own transport services. While hospitals offer efficiency and quality justifications for these expansion methods, others in the healthcare industry assert that these strategies pose the potential to raise costs, reduce quality, and eliminate some patients’ access to care.

Hospitals that decide to purchase or construct full-service hospitals, do so for a number of strategic reasons, such as to prevent patients who reside in outlying areas from being drawn to competitors in more distant cities, or in response to increased growth by smaller competitors in outlying areas who are seeking to expand their scope of services to directly compete with their larger, tertiary care counterparts. When part of a larger system, freestanding emergency departments can stabilize patients and then transfer them to an affiliated hospital, effectively bypassing nearby competing hospitals. Ambulatory care facilities capitalize on the supply of physicians who are either employed by, or closely aligned with, hospitals, thereby allowing hospitals to develop service lines for complicated cases. By expanding into emergency medical transport operations and strengthening relationships with existing providers through workflow process improvement and providing various amenities, hospitals may be able to further impact the number of patients that are delivered to their facilities and diverted away from competitors.

In its findings, the Center for Studying Health System Change noted that hospitals studied in each of the twelve markets were either considering or actively employing one or more of these strategies, a trend which has sparked considerable debate and the forecasting of negative consequences among various industry stakeholders.

Hospitals’ acquisition of physician group practices and other hospitals has led to increased consolidation in markets, which in turn confers significant leverage to the acquiring hospitals when negotiating rates with insurers. Insurers have stated that due to increasing hospital leverage, they are unable to contain rate increases. Insurers then translate higher rates to premium increases for employers. Despite the potential to raise premiums, most of the consolidation occurring in healthcare markets will likely avoid scrutiny under antitrust regulations, as many mergers take place over broad geographic areas and do not result in excessive market concentration. Several factors beyond mergers and acquisitions can contribute to hospitals’ increased market power. For example, a hospital’s brand recognition or its ability to provide a specialized service confers significant leverage in negotiations with insurers. With respect to multi-hospital systems, the ability to negotiate a single contract on behalf of all the facilities allows systems to bargain for higher reimbursement rates.

In terms of access, hospital expansion strategies have the potential to improve coordination of care as ties between outlying facilities and tertiary care centers are strengthened. However, there is some concern that the addition of locations has the possibility to encourage overutilization of services, and that quality of care may be diminished as a result. Further, patients in lower

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income communities may not experience any improvement in access to care, as resources continue to be invested elsewhere and hospitals abandon struggling facilities in favor of more profitable ventures.  

While hospitals insist that geographic expansion will allow them to improve access to care, their increased leverage with insurers may result in higher premiums. As this trend continues, patients who are less sought after because of their insurance status may face hospital closures and consequently struggle to obtain care. In the current market emphasizing care coordination among providers, policy makers should be mindful of unhindered geographic expansion.

1 “Hospitals’ Geographic Expansion in Quest of Well-Insured Patients: Will the Outcome be Better Care, More Cost, or Both?” By Emily R. Carrier et al., Health Affairs, Vol. 31, No. 4 (April 2012), p. 827.
3 Ibid, p. 831, 832.
4 Ibid, p. 827; “Key Findings from HSC’s 2010 Site Visits: Health Care Markets Weather Economic Downturn, Brace for Health Reform” By Laurie E. Felland, Joy M. Grossman, and Ha T. Tu,
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