



UNIVERSAL HEALTH CARE  
FOUNDATION OF CONNECTICUT

## ***Hospital Consolidations and Conversions – A Review of the Literature*** **Executive Summary**

### ***Introduction***

Connecticut's hospitals and hospital systems are undergoing rapid change. Universal Health Care Foundation of Connecticut is publishing a literature review to increase understanding of how hospital mergers, the potential conversion of non-profit hospitals to for-profit entities and hospital absorption of physician practices may impact health care cost, quality and access in Connecticut.

### ***Why are Hospitals Consolidating or Converting?***

Many factors are cited as drivers of hospital consolidations and for-profit conversions. Changes in medical practice have contributed to a reduced need for hospital beds. The economic recession had a negative impact on hospital revenues, as many people postponed medical care because they could not afford it. Hospital revenues have been challenged by shifts in payments and payment methodologies by a variety of federal, state, and commercial payers. Medicare payments to hospitals have been reduced and Connecticut hospitals have also absorbed reductions in Medicaid payments. There is great uncertainty among health care executives about how and how much they will be paid now and in the future in an era of health reform and push-back against double digit increases in health care costs. Hospitals also cite the need to access capital to keep up with the pressures to redesign and upgrade old infrastructure and keep up with expensive technologies.

### ***Impacts of Consolidations***

Consolidation is seen as a viable response to the many revenue and expense challenges listed above. Mergers can help reduce expenses through achieving greater economies of scale in purchasing and administration. Unfortunately, the literature indicates that the expected benefits of consolidation, such as reductions or stability in prices and costs, improvements in quality, and stability in access to care, do not occur. Instead, the preponderance of the evidence shows that when hospitals consolidate, price goes up, cost does not go down, quality does not improve, and access decreases, except if the alternative is closure of the hospital. The strongest driver of consolidation appears to be to gain increased bargaining power with payers in order to garner higher rates for services.

Hospital consolidation is not always about hospitals merging with other hospitals. It also can occur through vertical integration, where hospitals acquire a variety of services, including physician practices. The aim of this form of consolidation is to better integrate and coordinate care and to set up hospitals to be ready to respond to new payment methodologies that reward the outcomes of care rather than the volume of services provided.

Here, too, the jury is still out about the benefits. Efforts to integrate care through Accountable Care Organizations (ACOs), a new payment and delivery structure supported by the Affordable Care Act, have so far produced mixed results, with the evidence showing little impact on costs and only a modest boost to quality. Meanwhile, the acquisition of physician practices by hospitals has led to a concerning increase in often expensive facility fees.

### ***Impacts of Conversions***

Conversion in the hospital industry consists of shifting a non-profit organization to a for-profit entity. While this does not necessarily constitute a consolidation, most conversions involve the sale of an independent non-profit hospital to a larger for-profit company. The transaction ends up as a de facto consolidation.

Non-profit and for-profit hospitals are similar in that they both treat patients with a comparable mix of needs, contract with the same insurers and government payers, generally operate under the same health and safety regulations and employ equally trained and ethically obligated staff. Conversion supporters point to evidence that for-profits can be more efficient, more able to quickly adapt to market changes and have better access to capital. For-profit hospitals also pay taxes which bring revenue into the local, state and federal government, provided no tax abatement has been granted. Supporters of non-profit hospitals point to evidence that shows that non-profits are more likely to keep an unprofitable, but perhaps necessary, service open, and that any generated “profits” remain in the community, rather than accruing to shareholders. Finally, one study showed that for-profit ownership did not ultimately change the fate of already failing hospitals, particularly in over-bedded markets.

### ***Regulation of Consolidations and Conversions***

Regulation of consolidation and conversion transactions on the federal level generally falls under anti-trust rules. These acquisitions are viewed as mergers, and must comply with regulations governing the restriction of monopolies in markets. Historically, the Federal Trade Commission has seldom intervened to prevent

hospital mergers. However, more recently there has been an uptick in successful anti-trust cases, indicating a potential shift toward tighter federal enforcement.

On the state level, Connecticut has recently increased oversight over consolidations and conversions. In 2014, two laws were passed, PA-14-168, *An Act Concerning Notice of Acquisitions, Joint Ventures, Affiliations of Group Medical Practices and Hospital Admissions, Medical Foundations and Certificates of Need* and PA-14-145, *An Act Concerning Fees Charged for Services Provided at Hospital-Based Facilities*. The former law gives the Office of the Attorney General and the Department of Public Health's Office of Health Care Access, greater authority to monitor hospital consolidations and conversions. They have the ability to prevent them or modify them if they are found to have a deleterious effect on health care costs or access or if they threaten the preservation of charitable assets for the public good. The latter law requires increased transparency around facility fees. A study of the impact of facility fees by the state's Comptroller is currently underway, also authorized in 2014 legislation.