

# Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis - An Update

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## Executive Summary

Hospitals are experiencing rapid change in the competitive dynamics that are shaping health care. Pressures to deliver cost-effective, value-based care continue to develop, resulting in an increasing need to gain scale and scope. **The ability to take financial responsibility for the total cost of patients' care requires both volume and scale to mitigate risk and coordinate the continuum of health care services that patients require.** Increasingly important is the role played by sophisticated analytical tools: health systems are investing substantial amounts to harness vast repositories of cost and clinical data to determine optimal care patterns across the spectrum of patient needs. In addition, hospitals are aligning with other types of health care providers so that their patients can receive care in the best settings from a clinical and cost perspective.

Given these simultaneous pressures to control costs and to invest in systems that improve the delivery of health care, it is not surprising that nearly 100 hospital transactions were announced in 2018. To address these pressures, hospitals continue to seek to become fully scaled hospital systems and combine with other types of health care providers.

Charles River Associates vice presidents, Monica Noether and Sean May, updated their 2016 analysis of hospital mergers (*Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis*) with additional interviews of health-system leaders and econometric analysis of hospital mergers that occurred in the subsequent three years. These updated findings confirm and strengthen their previous conclusions that hospital mergers result in benefits that accrue to patients in the form of better care at reduced cost.

Hospital executives interviewed reiterated the themes expressed three years ago in the initial study. **Scale is increasingly critical**, although the motivation for

scale driven by a need to reduce costs has been joined by a need to maintain and advance the infrastructure necessary to promote data-driven, value-based care, and align with other components of the health care industry to promote population health. As the health care landscape evolves with the emergence of new players focused on advances in information technology and consumer-directed management of chronic disease, traditional independent hospitals frequently benefit from alignment with larger systems to best serve the health needs of their communities.

Supplementing their previous econometric analysis with data on cost, quality, and revenue outcomes for hospital transactions in 2015-2017, the authors found:

- **Acquisitions decrease costs** due to the increased scale of the combined system and the data-driven clinical standardization that can be realized. Consistent with our previous analysis, hospital acquisitions are associated with a statistically significant **2.3% reduction** in annual operating expenses at acquired hospitals.
- **At the same time, quality is enhanced:** our new empirical analysis shows **statistically significant reductions in rates of readmission and mortality**. This is consistent with health system leaders' reports on their extensive efforts to use their systems' data to develop clinical best practices and hold hospitals accountable to measurable outcomes in ways that require scale and resources that individual community hospitals may lack.
- **Revenues per admission at acquired hospitals also decline** relative to non-merging hospitals by a statistically significant **3.5%**. These results suggest that savings that accrue to merging hospitals are passed on to patients and their health plans.