

## **Wave of Consolidation Engulfing Health Care Systems**

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Roughly a dozen mergers have taken place among health systems in Wisconsin in the past two years. Some have involved small rural hospitals, others large health systems.

The mergers all have one thing in common: They were driven at least partly by the changes taking hold in health care.

The mergers are part of a wave of consolidation that has taken place among health systems nationally in recent years.

"The whole sector is moving to bigger, larger organizations," said Martin Arrick, an analyst with Standard & Poor's Rating Services.

Last year, 102 mergers and acquisitions among health systems were announced, according to Irving Levin Associates Inc., which tracks health care transactions. More than 90 have been announced in each of the past five years, compared with 59 in 2004 and 50 in 2005.

In Wisconsin, each of the three largest health systems in Madison have been involved in a major merger or acquisition in the past two years. The most recent was in December, when Madison's UW Health merged with SwedishAmerican Health System in Rockford, Ill. But the trend can be seen throughout the state.

Two smaller health systems merged with Appleton's ThedaCare last year. In Wausau, Aspirus has merged with or acquired two smaller systems since July.

The burst of deal-making stems partly from the pressure to make the health care system more efficient.

New models are emerging that will reward health systems that provide quality care at a lower cost and penalize those that don't.

Under accountable care organizations, for instance, health systems are paid to manage the care for a group of patients. The health systems share in the savings if they succeed in providing care at a lower cost while meeting specific quality measures. At the same time, they are penalized if they don't.

That will require new skills, such as being able to analyze huge quantities of data from electronic health records and insurance claims to manage the care of high-cost patients, such as those with chronic diseases.

Health systems also know that Medicare payments will increase at a slower rate under the Affordable Care Act. And increasingly Medicare is linking what it pays hospitals to how well they perform on certain quality measures.

For instance, Medicare will reduce its payments by as much as 3% this year for hospitals with high readmission rates for certain conditions, such as heart attack, heart failure and pneumonia. Commercial health insurers are taking similar steps.

**"There's more to come, no question," said Matthew Caine, a managing director at SOLIC Capital Advisors, an Evanston, Ill. financial advisory firm.**

The new payment models could make it harder for health systems to increase revenue in coming years. At the same time, inpatient admissions have been falling for years, and the trend is expected to continue.

### **Benefits to being bigger**

The expected changes and challenges have prodded large health systems to become bigger and small rural hospitals and health systems to merge with larger health systems.

Mergers and acquisitions can generate efficiencies — up to a point, said Matthew Heywood, the president and chief executive officer of Aspirus.

The health system's recent mergers and acquisitions also have increased its geographic footprint in northern Wisconsin and the Upper Peninsula of Michigan. That will help ensure it has enough patients to continue to provide specialized services at its main hospital in Wausau.

At the same time, smaller health systems, particularly those that operate "critical access" hospitals with 25 beds or less, can benefit from the expertise of a larger system.

The health systems that have merged with ThedaCare will get access to its Epic system for electronic health records, said Dean Gruner, a physician and president and CEO of ThedaCare. They also will have better access to capital and be able to draw on ThedaCare's initiatives to improve quality.

Getting bigger also can give health systems more leverage when negotiating contracts with health insurers. That drove the last big wave of consolidations in the 1990s, as hospitals responded to the spread of health maintenance organizations and other forms of managed care.

The increase in bargaining power with health insurers remains a concern.

A review of the research on consolidation among health systems done for the Robert Wood Johnson Foundation in 2012 by Robert Town, a health economist at the Wharton School at the University of Pennsylvania, and Martin Gaynor, a professor of economics and health policy at Carnegie Mellon University, found that hospital consolidation led to higher prices and reduced quality.

"Health systems mergers have worked out pretty well for management," Town said. "They haven't worked out for patients."

State and federal regulators have rejected some proposed mergers and acquisitions in recent years for that reason.

### **Focus shifts to savings**

Health systems know their world is changing.

In the past, mergers and acquisitions tended to focus on adding services and growth. Now they focus on lowering costs.

"The focus is beginning to shift," said J. Kevin Holloran, an analyst with Standard & Poor's Rating Services.

The move to electronic health records and the role that information technology is expected to have in the future is another change. The hope is that larger health systems will be able to determine the most effective and least expensive ways to treat patients, Holloran said.

Four or five years ago, St. Louis-based Ascension Health, the parent of Columbia St. Mary's and Ministry Health Care in Milwaukee, put in place a guideline that prohibited elective births before 39 weeks. Now the guideline is 39 weeks and six days.

"They've gotten so good with the data that they've revised that," he said. "That's what size and scale get you."

One result could be better adherence to clinical guidelines and less variation in how health care is delivered.

Ascension has national experts to identify best practices for improving quality, said Daniel Neufelder, president and CEO of Ministry Health Care. It then will send in physicians and others to help develop and implement local programs.

Ministry Health Care has shown improvement in preventing infections, falls and medical errors as well as other quality measures since becoming part of Ascension in 2013.

"We thought we were good two years ago — and we were — but we are better today," Neufelder said.

## Recent medical system consolidations

■ **January 2011:** Shawano Medical Center merges with ThedaCare.

■ **February 2012:** Ministry Health Care buys Wheaton Franciscan Healthcare's stake in Affinity Health System, which operates hospitals in Appleton, Oshkosh and Chilton, giving Ministry full ownership.

■ **April 2013:** The parent of Ministry Health Care, which has 14 hospitals in Wisconsin and one in eastern Minnesota, becomes part of Ascension Health Alliance, the parent of Columbia St. Mary's Health System

■ **September 2013:** SSM Health Care, the parent of St. Mary's Hospital in Madison as well as hospitals in Baraboo and Janesville, buys Dean Health Systems.

■ **January 2014:** Meriter Health Services in Madison joins UnityPoint Health, a health system based in West Des Moines, Iowa, with 31 hospitals in Iowa and Illinois.

■ **July 2014:** Northstar Health System, a health system based in Iron River, Mich., with a 25-bed, critical-access hospital and clinics in Iron River and Crystal Falls, becomes part of Aspirus in Wausau.

■ **August 2014:** Aurora Health Care buys 49% stake in Bay Area Medical Center in Marinette.

■ **September 2014:** Community Memorial Hospital in Oconto Falls

joins Hospital Sisters Health System, a health system based in Springfield, Ill., with six hospitals in Wisconsin, including St. Vincent Hospital and St. Mary's Hospital Medical Center in Green Bay and St. Nicholas Hospital in Sheboygan.

■ **October 2014:** Watertown Regional Medical Center announces that it has agreed to sell a majority stake to LifePoint Hospitals Inc., a for-profit hospital chain based in Brentwood, Tenn., that operates more than 60 hospitals in 21 states.

■ **December 2014:** SwedishAmerican Health System in Rockford, Ill., and UW Health in Madison merge.

■ **December 2014:** Wild Rose Community Memorial Hospital, which includes a critical-care hospital with 25 or fewer beds and four primary care clinics, merges with ThedaCare.

■ **December 2014:** Community Health Network, which operates a hospital in Berlin and 10 clinics in east-central Wisconsin, merges with ThedaCare.

■ **October 2014:** Mercy Health System, based in Janesville, and Rockford Health System, based in Rockford, Ill., merge, creating a health system with five hospitals and 80 clinics and other sites in northern Illinois and southern Wisconsin.

■ **March 2015:** Aspirus buys Riverview Hospital Association.

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### **More merger options**

Being part of a larger system is not guaranteed to improve quality.

"There is little evidence to suggest that smaller institutions cannot make the investments needed to make care better," Thomas C. Tsai and Ashish K. Jha, physicians and professors at the Harvard School of Public Health, wrote in the New England Journal of Medicine.

Improvements in quality reflect priorities more than resources or size, they wrote. Many initiatives to improve quality, such as checklists, are relatively inexpensive but require a commitment to effective implementation and monitoring.

Size and scale can help, though. Making the best use of electronic health records is an example.

"It's complicated and expensive to implement these systems and use them efficiently," said Town, the University of Pennsylvania health economist.

To gain economies of scale without merging, health systems in Wisconsin are forming partnerships with other systems through Integrated Health Network and a new statewide network called abouthealth.

But health care remains fragmented compared with other industries, and some envision large regional health systems eventually emerging.

"There are going to be multiple models," said Heywood of Aspirus.

**Caine of SOLIC Capital said he would not be surprised to see Aurora Health Care and Advocate Health Care in northern Illinois merge someday.**

**"That's certainly within the realm of possibility," Caine said.**

UW Health has been cited as another possible partner for Aurora. Bellin Health Care Systems in Green Bay and ThedaCare, two health systems that work closely together, are often cited as potential merger candidates. And Wheaton Franciscan Healthcare someday could align with Ascension.

Arrick of Standard & Poor's expects more mergers and acquisitions to take place — with an important caveat. "At some point, getting bigger doesn't get you more size and scale," he said. State and federal regulators are becoming wary of some mergers and acquisitions.

"There are limits to how far the consolidation will go," Arrick said. But he added, "We don't know where they are yet."

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