

San Francisco Health Service System Health Service Board

Board Forum

Healthcare Delivery System Consolidation
Pricing Impacts

November 8, 2018

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Health & Benefits



Healthcare Delivery System Consolidation Pricing Impacts—Agenda

- Healthcare Delivery System Transformation—Current State
- Hospital System Consolidation Drivers
- Consolidation Impacts on Hospital Prices
- Reaction to Hospital Consolidation Developments
 - Legislative Scrutiny
 - Litigious Environment
- California Health Plan Data
- San Francisco Health Service System (SFHSS) Strategic Plan Linkage

Major Transformation in Healthcare Delivery System

Current Environment Theme—Teaming Together

External Disruptors

- JPMorgan Chase, Berkshire Hathaway, Amazon
- Technology companies

Carriers

- Consolidation within core (like) businesses—health plan to health plan, PBM to PBM
- Consolidation within industry—health plan and physician groups, health plan and PBM
- Transition to value-based contracts within 3 to 5 years (full effect of transitions could take 8-10 years)

Hospital Systems

- Aggressive pace—twice as many M&A deals in 2015 versus 2011 ¹
- Vertical and horizontal consolidation—hospital acquisitions of hospitals, physician practices, and ambulatory centers
- Value-based payment emphasis (i.e., ACO, PCMH, COE)—from clinical integration / population management, to accepting unprecedented levels of risk

Providers

- Physician group consolidations
- Acquisitions by health plans and hospital systems

¹ Source: “Mergers and Acquisitions: Strategy Takes Precedence Over Scale”, Healthcare Financial Management Association (www.hfma.com), March 8, 2017

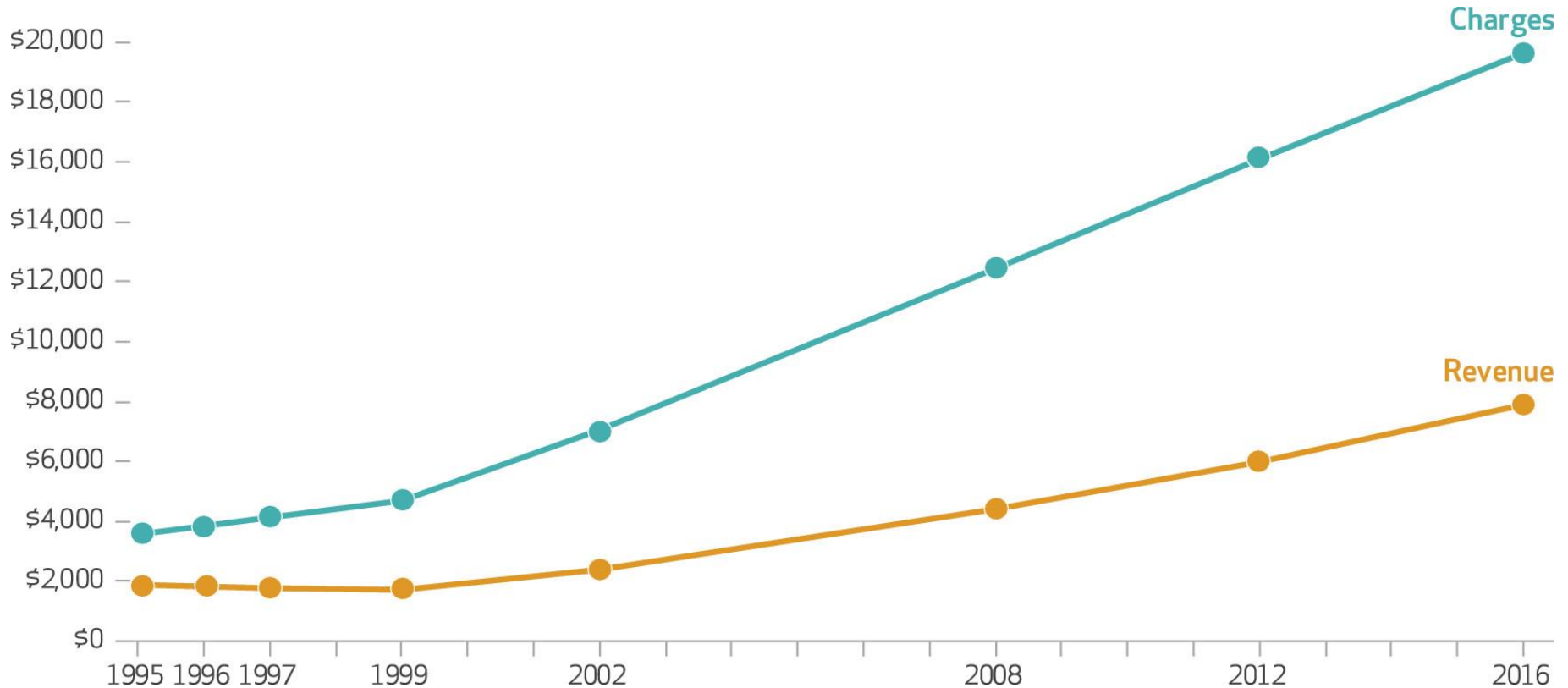
Consolidation Impacts on Hospital Prices

- Studies examining hospital consolidation impacts on service pricing are not new—this has been a decades-long phenomenon—but recently released studies evaluate these impacts today in California
- In September 2018, Health Affairs published an updated assessment of rates of hospital pricing increases in California, with two key trends driving erosion of price competition: ²
 - Regulations enacted to provide timely access to emergency hospital services (example: 1999 “prudent layperson” rule) have produced unintended effect of increasing hospital negotiation leverage with health plans; and
 - Antitrust authorities allowed hospitals to consolidate into multihospital systems by adding members that were not local market direct competitors
- Two charts from the Health Affairs article follow which show these trends

² Source: “The California Competitive Model: How Has It Fared, and What’s Next?”, Health Affairs (www.healthaffairs.org), September 2018

Consolidation Impacts on Hospital Prices

Hospitals' net revenue and billed charges for commercial payers per day in California, selected years 1995–2016 (Exhibit 3)

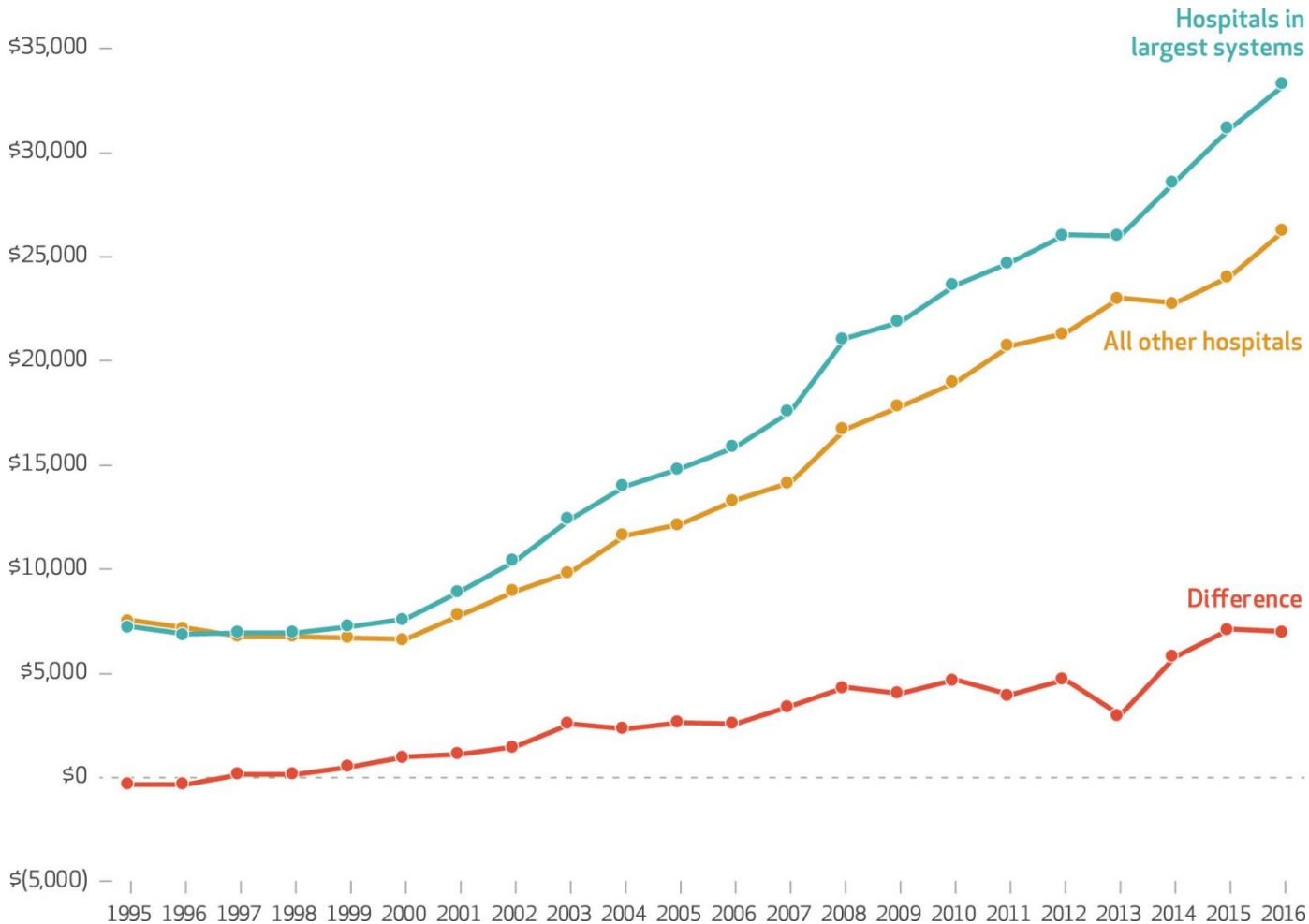


SOURCE: Authors' analysis of hospital financial disclosure pivot data for 1995–2016 from California's Office of Statewide Health Planning and Development.

NOTE: Billed charges and net revenue were adjusted for outpatient volume.

Consolidation Impacts on Hospital Prices

Adjusted average prices per admission at hospitals in the two largest systems and at all other hospitals in California, 1995–2016 (Exhibit 4)



SOURCE: Authors' analysis of hospital financial disclosure pivot data for 1995–2016 from California's Office of Statewide Health Planning and Development.

NOTE: Prices were adjusted for differences in hospital case-mix, cost of labor, and outpatient volume.

Consolidation Impacts on Hospital Prices

- In March 2018, a University of California, Berkeley study documented impacts on Northern California relative to the rest of the State—driven in large part by the Bay Area’s more concentrated hospital, physician, and health plan market dynamics ^{3,4}
- Even after adjusting for the Bay Area’s higher cost of living (COL) and wages compared to the rest of California:
 - Inpatient procedures are **32% higher** in No CA
 - Outpatient procedures are **28% higher** in No CA
 - Healthcare premiums are **10% higher** in No CA

³ Source: “Health Care Costs 30% More in Northern California Than in Rest of the State”, San Francisco Chronicle (www.sfchronicle.com), March 26, 2018

⁴ Source: “Consolidation in California’s Health Care Market 2010-2016: Impact on Prices and ACA Premiums”, Nicholas C. Petris Center on Health Care Markets and Consumer Welfare, School of Public Health, University of California, Berkeley, March 26, 2018

Consolidation Impacts on Hospital Prices

- The Health Care Cost Institute (HCCI), in partnership with Robert Wood Johnson Foundation, just released 2016 price index data within their Healthy Marketplace Index study ⁵
- Out of 112 market areas studied by HCCI, Northern California markets ranked #2 and #3 for highest health care prices in the U.S. (only Anchorage, AK was higher)
 - San Jose was **65% higher** than national average
 - San Francisco was **49% higher** than national average
- By comparison, major Southern California markets (Los Angeles and San Diego) were approximately 10% higher than national average

⁵ Source: Health Care Cost Institute Healthy Marketplace Index, <https://www.healthcostinstitute.org/research/hmi/interactive>

Legislative Scrutiny to Hospital Consolidation

- The U.S. Senate Judiciary Committee Chairman has asked the Federal Trade Commission (FTC) to investigate whether contracts between insurers and hospital systems are limiting competition and pushing up healthcare costs ⁶
 - Concern over possible “secret” contract terms that can require health plans to include costly hospital systems and prohibit steering patients toward less-expensive rivals
 - Part of the Chairman’s request involves asking the FTC whether consolidation in the marketplace increases the potentially harmful impact of these provisions on competition

⁶ Source: “Grassley Seeks Probe on Hospital Contracts”, The Wall Street Journal (www.wsj.com), October 10, 2018

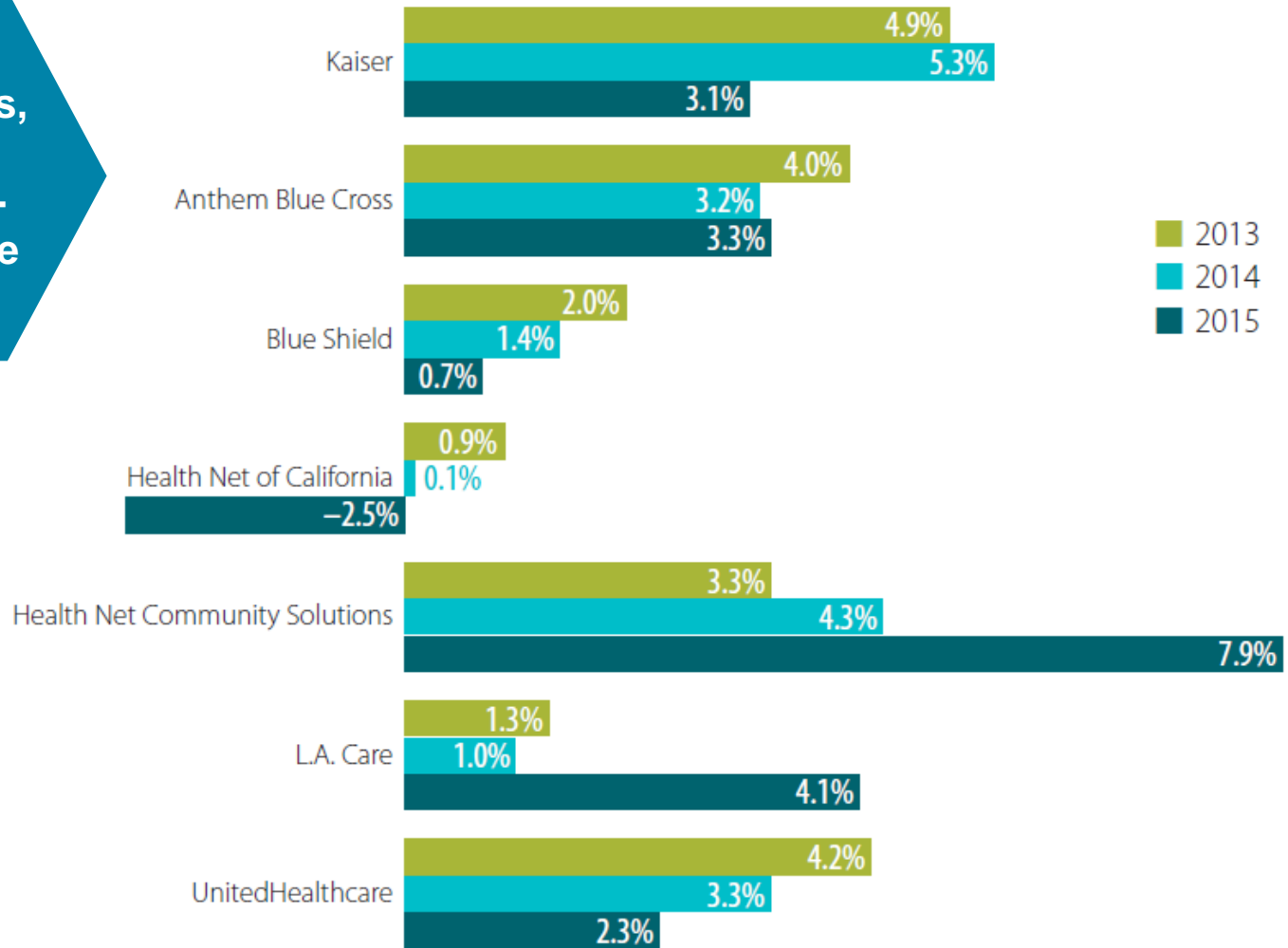
Litigious Environment to Hospital Consolidation

- The Wall Street Journal article on the prior slide listed two examples of litigious activity involving competition concerns with health systems:
 - The U.S. Justice Department is suing Atrium Health (Charlotte, NC area), claiming Atrium “uses its market power to impede insurers from negotiating lower prices with its competitors and offering lower-premium plans”
 - The California Attorney General is suing a large health system, alleging anticompetitive practices in its contracting

California Health Plan Data

After-Tax Net Income / Loss as a Percentage of Total Revenues ⁷

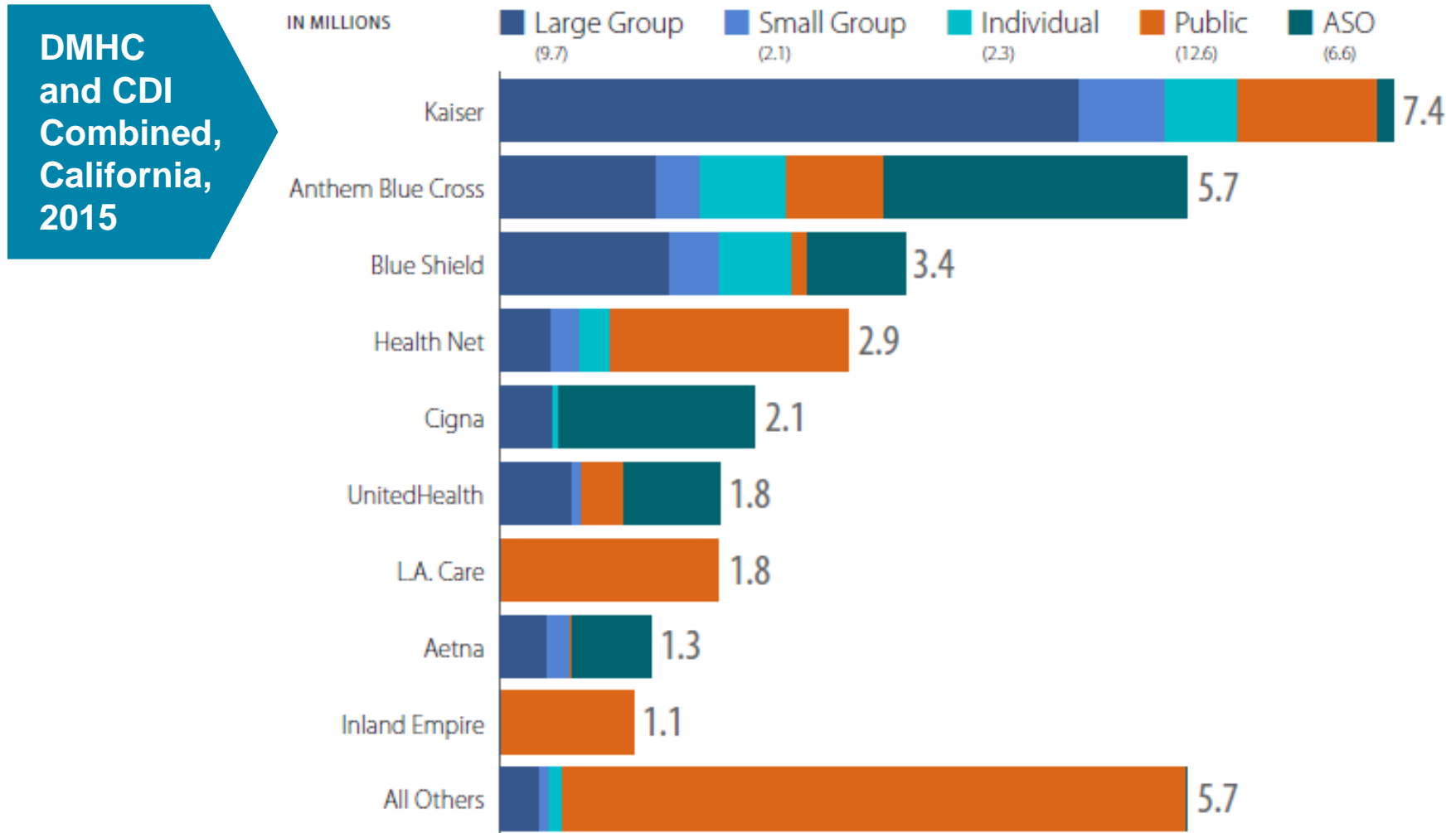
**Largest
DMHC Insurers,
California,
2013 to 2015—
Mostly Positive
Net Income**



⁷ Source: “California Health Insurers: Two Years After Reform”, Page 8, California Health Care Foundation (www.chcf.org), April 2017—Department of Managed Health Care (DMHC) analysis

California Health Plan Data

Enrollment, by Insurer and Market Sector ⁸



⁸ Source: “California Health Insurers: Two Years After Reform”, Page 21, California Health Care Foundation (www.chcf.org), April 2017

SFHSS Strategic Plan Linkage

- The suggestions below support SFHSS' strategic goal of “Affordable and Sustainable” through the objective that focuses on investing in an integrated delivery model that will enhance care delivery, improve care outcomes, and reduce cost over time.
 - Evolve partnerships with health plans in pursuing and enforcing value-based initiatives.
 - Foster collaborative relationships with provider groups.
 - Explore opportunities to expand purchasing power.