

## The AHA Reports Economic Benefits Associated with Increased Hospital Consolidation

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The American Hospital Association (“AHA”) recently released a [report](#) that concludes that hospital acquisitions result in better care for patients at lower costs. The study described in the report consisted of structured interviews with the leaders of about 20 hospital systems and an econometric analysis of hospital acquisitions.

According to the study, hospital acquisitions are associated with a 2.3% reduction in annual operating expenses. The hospital leaders expressed that the larger size of the combined hospital system allows for decreased costs due to the economies of scale and data-driven clinical standardization, which leads to better outcomes for patients and decreased costs for care. A large scale is needed for the effective use of data analytics since it is expensive to set up and maintain the infrastructure needed for data analytics and to ensure data is continually uploaded across the health system. A larger entity can better support more sophisticated analytical capabilities, which can improve quality and lower costs across a greater number of patients.

Other benefits associated with consolidation identified by the study include reductions in readmission and mortality rates and increased ability for the consolidated hospital system to bear risk for cost of care and adopt value-based care frameworks. The study also determined revenues per admission to be lower at acquired hospitals than non-acquired hospitals by 3.5%. Since operating expenses and revenue per admitted patient are both lower, the study concludes that the savings are being passed down to the patients.

Others, however, disagree with the conclusions of the AHA report. Some are concerned that increased hospital consolidation actually increases healthcare costs because the reduced competition gives the larger health systems more market power to set higher prices for private payers. A study by the National Bureau of Economic Research Study found that: (i) consolidated hospital markets have prices 12% higher than markets with 4 or more competitors and (ii) markets with 4 or more competitors have lower prices and have hospitals that take on more financial risk.<sup>[1]</sup>

Some are of the opinion that not all acquired hospitals experience quality improvements and higher operating margins after a transaction but that such benefits can be achieved if there is an effective

strategy in place, advanced planning, and effective execution.<sup>[2]</sup>

A study published in Health Services Research, however, reaches the opposite conclusion of the AHA article by finding that health outcomes became worse when cardiology markets were more concentrated.<sup>[3]</sup>

Ultimately, the AHA report presents an interesting discussion as to whether hospital consolidation furthers the goal of hospital systems to improve the quality of patient care while decreasing costs for care.

[1] Leemore Dafny, Kate Ho & Robin S. Lee, "The Price Effects of Cross-Market Hospital Mergers," National Bureau of Economics Research, Working Paper 22106, <https://www.nber.org/papers/w22106.pdf>.

[2] Jimmy Peterson and Sarah Thomas, "Hospital mergers and acquisitions "When done well, M&A can achieve valuable outcomes," Deloitte, <https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/hospital-mergers-and-acquisitions.html>.

[3] Thomas Koch Ph.D., Brett Wendling Ph.D., and Nathan E. Wilson Ph.D., "Physician Market Structure, Patient Outcomes, and Spending: An Examination of Medicare Beneficiaries," Health Services Research (January 22, 2018), <https://onlinelibrary.wiley.com/doi/abs/10.1111/1475-6773.12825>.

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