Rhode Island Medical Society

Ad hoc Committee on Hospital Mergers

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This report has 3 sections:

1. **Observations** regarding potential hospital mergers *in general* in RI.
2. **Discussion** regarding the *specific proposal* to merge two hospital systems in RI.
3. **Recommendations** regarding potential hospital mergers *in general* in RI.

Observations regarding potential hospital mergers in RI

1. Rhode Island needs a long-term, comprehensive, statewide process with effective authority to plan and shape a balanced health care system to meet the needs of patients now and in the future.
2. No corporate merger of hospitals or hospital systems in Rhode Island can be adequately evaluated in the absence of comprehensive statewide planning. The planning must come first, and Rhode Island should seize the occasion to begin this vital work.
3. The overriding goal of any effort to restructure the health care system locally should be to optimize access for all Rhode Island residents to affordable, timely, quality care provided in consistently appropriate settings.
4. Hospital mergers tend to be driven primarily by corporate and competitive considerations, but state authorities must evaluate them in relation to the broader public need for access to affordable, quality patient care.
5. Uniting neonatal and pediatric care under one corporate roof would be advantageous for a variety of reasons relating to optimal patient care, teaching and research.
6. Greater ease in moving patients among facilities and greater capacity to move health care information electronically through shared systems (see #11 below) are other potential benefits of hospital mergers.
7. Mergers can help secure the financial future of the merging institutions but are likely to do so at the expense of institutions and professionals who find themselves outside of the merged entity. To the extent these outside institutions and private practices may already be financially stressed, the impact of a merger on them and the communities they serve could be dramatic.
8. The greater market leverage gained by hospitals that merge will have a tendency to make health insurance less affordable and thereby increase the number of uninsured. It will also have a tendency to depress the reimbursement available to professionals and facilities that are outside of the merged entities.

9. Primary care needs to be supported and developed to form the robust foundation of Rhode Island's future health care system. Therefore, any approval of a major hospital system merger should be conditioned upon a commitment to an ambitious, practical and sustained contribution by the merger partners to strengthen primary care and the "patient-centered medical home." Success in this endeavor would also require complementary efforts of others, whether coordinated by state authorities or through coalitions of community stakeholders. Included among the priorities for this effort to boost primary care should be support for the community health centers, support for the care of the uninsured through clinics and/or an insurance pool, and substantially improved access to tertiary care for the uninsured.
10. Ideally, a coherent statewide plan would clarify the role and mission of every hospital in relation to needs of the population and to the rest of the health care infrastructure as a whole. This analysis might reasonably look beyond the state's borders for certain services and must include considerations of financial sustainability, the potential to provide neglected services, and the possibilities of rationalizing the division of labor among the hospitals and perhaps creating "centers of excellence."
11. A major hospital merger in Rhode Island at this time would bring with it a rare and valuable opportunity to set standards that will help position the state for years to come as a national leader in the use of health information technology. Any approval of such a merger should therefore include a mandate to maximize present and future interoperability with other systems and entities throughout the community, including hospitals, professional offices, laboratories, pharmacies and imaging facilities.
12. Despite the finding of the Federal Trade Commission, at least preliminarily, that hospital merger proposals within Rhode Island's borders do not raise antitrust concerns, the potential concentration of as much as 70% of Rhode Island's hospital beds in a single entity would in fact raise serious and practical concerns about anti-competitive behavior and inappropriate limits on the therapeutic choices available to doctors and patients. This is especially true when the dominant local health insurer cannot market its products beyond the borders of Rhode Island and individual patients' freedom of choice is curtailed by the plans' policies on out-of-network services. Furthermore, private physician practices are, of course, very much constrained by anti-trust law. Accordingly, any approval of such a major hospital merger should mandate public appointments to the governing bodies of the new entity as well as meaningful representation of all physicians who rely upon the entity's facilities in caring for their patients. In addition, there should be specific provisions for oversight, in the public interest, by the Attorney General, the Health Insurance Commissioner, and the Department of Health.
13. The concentration of facilities and services provided by merged entities should benefit Rhode Island's educational programs in medicine, nursing and pharmacy, and may encourage the establishment of additional programs. The academic independence and integrity of these programs should be shielded from undue influence of corporate interests.

14. The Attorney General should require transparency and disclosure by all parties to any merger of non-profit hospitals with regard to their individual and corporate financial interests, governance structures, and the disposition of community and charitable assets.

Discussion regarding the current proposal to merge hospital systems in RI

Proponents of merging the Lifespan and Care New England hospital systems point to two principal advantages to be gained. One is the assurance of continued and enhanced availability of sophisticated, high quality clinical care in Rhode Island. The other is financial stability for the merged institutions and related benefits for the local economy.

Proponents anticipate that quality and access will be enhanced by improved coordination and rationalization of facilities and services and, in the longer term, by the creation of a comprehensive academic medical campus that can advance teaching, research and clinical care at superior levels. At the same time, the merged institutions expect to gain financially through economies of scale, consolidated management, and negotiating leverage with third-party payers

Without the merger, say proponents, not only will these positive opportunities be lost, but access and quality will eventually erode as Rhode Island loses ground to Worcester, Boston, New Haven and New York.

The physician community sees a number of potential positives in the proposed merger, including greater convenience in transferring patients between institutions and greater opportunities for efficient consultation and collaboration with subspecialists in caring for patients and conducting research. Bringing the centers of neonatal and pediatric care under one corporate roof would clearly be advantageous. Moreover, merged institutions are probably better positioned than unmerged institutions to implement compatible data systems and reap the benefits of applied information technology.

The extent to which these potential positives are realized will naturally depend on the success of the implementation. Introducing or integrating information technology systems does not always go smoothly, for example, and can generate unanticipated expenses, delays and extended losses of productivity. Also, administrative efficiency is an attainable goal in theory, but gains from consolidation in some areas of a merged enterprise can be offset by new administrative layers elsewhere. The historical experience of the existing merged entities (Lifespan and Care New England) may provide some indication of how the proposed merger would perform. To what extent have Lifespan and Care New England, on balance, improved efficiency and economy compared with their respective precursors?

Even if the implementation of the merger as planned is highly successful, the overall impact on the larger community is certain to include trade-offs and ambiguities. Indeed, with the exception of bringing pediatrics and neonatal care together and the potential for gains in information technology, the anticipated advantages are likely to be offset to a

greater or lesser degree by disadvantages for the larger community, and even for the merger partners themselves.

These ambiguities include the following:

- The enhanced financial position projected for the new Lifespan is based in part upon increased negotiating leverage with third-party payers. But using such leverage would tend to accelerate the rise in health insurance premiums, which have already been increasing at unsustainable rates in recent years and are a top concern of employers, policy makers and the general public. When insurance premiums rise, the ranks of the uninsured and underinsured grow as well. Lack of adequate health insurance inhibits people from getting needed care, which leads to diminished health status and ultimately to higher health care expenses for society as a whole.

- The ability of the new, larger Lifespan to command a greater share of available resources will inevitably come at the expense of some other parties, including some hospitals, physicians and patients. The impact on hospitals that are already financially stressed and are outside the new Lifespan could be dramatic, and patients in much of the state could see their access to care erode significantly as a result.

- It is a basic fact of medical economics that health professionals and institutions compete for their shares of the health care dollar. Professionals are generally at a disadvantage in this competition, and those outside the new Lifespan will find themselves in a further weakened position if the merger takes place. Here again, the practical ramifications for patient care could be dramatic, given the stresses and inequities that have already robbed the system of much of its resilience. Rhode Island physicians as a group are well known to be reimbursed at significantly lower rates than their colleagues elsewhere in New England and much of the rest of the nation. Significant payment disparities persist within the borders of Rhode Island as well, notably between the Providence area and the southern part of the state. The proposed merger, if it captures an expanded share of the finite pie, would tend to aggravate all of these disparities and starve the human and institutional infrastructure of health care outside of the new Lifespan.

- Primary care is particularly fragile and vulnerable to new stresses that might be introduced by a merger of Lifespan and Care New England. Because primary care needs to be the foundation of our health care system, special consideration must be given to supporting primary care as part of any merger of this magnitude.

- Physicians practicing within the ambit of a hospital system experience certain advantages and disadvantages compared with their independent colleagues. Advantages can include aspects of practice and lifestyle as well as economics. The professional autonomy of hospital based and employed physicians inevitably has limitations that can affect such things as choice of professional liability

coverage and can influence diagnostic and therapeutic options for patients. All in all, the proposed merger would probably tend to increase over time the proportion of Rhode Island physicians who are hospital-employed or hospital-dependent.

- The Warren Alpert Medical School might face challenges in maintaining the integrity of its educational mission and asserting its academic leadership in relation to the new Lifespan. The interests of Lifespan would inevitably influence hiring, retention and tenure of Medical School faculty, administrators and researchers.

All of these ambiguities arise from the fact that the decision to merge is essentially a business strategy, rather than a strategy to improve health care. If patient care, rather than institutional self-preservation and growth, is to be the center of concern about the future of health care in Rhode Island, then a clear need exists for broad community participation in planning and creating a system that allocates resources in a balanced way to meet the health care needs of the population now and into the future.

Recommendations regarding potential hospital mergers in Rhode Island

1. Comprehensive statewide health care planning must provide the basis for evaluation and approval or disapproval of hospital mergers. Accordingly, the state should declare a moratorium on all hospital mergers until a comprehensive statewide plan for coordinated health care is developed. Only in this way can we be assured that patient care rather than competitive business interests will determine the future of health care in Rhode Island.
2. A plan for active and meaningful support for a robust infrastructure of primary care throughout Rhode Island must be part of any hospital merger.
3. A plan for active and meaningful support for the expanded provision of medical care to the indigent and the uninsured, including access to subspecialty care, should be part of any hospital merger.
4. Any hospital merger should enhance Rhode Islanders' access to affordable, quality care in the longer term. State authorities should reserve the right to monitor the impact of any approved merger on the broader community and to intervene if the merger is found to have the effect of impairing access for significant numbers of patients to affordable, high quality services.
5. Any hospital merger should facilitate and promote the broad adoption and usefulness of electronic health information exchange statewide. This end should be accomplished by optimizing interoperability and open architecture, not through hospital-centric, proprietary systems.
6. The governance of merged hospital systems should include meaningful representation of physicians whose patients receive care in the merged hospitals.
7. Authorities should require full disclosure and transparency of financial and other details and incentives relating to any hospital merger.