CONFRONTING HOSPITAL CONSOLIDATION

STATES TAKE THE LEAD
HOSPITALS HAVE INCENTIVES TO GROW; DOCTORS HAVE INCENTIVE TO SELL

Regulations Permit Generous Outpatient Pricing

Hospitals Have Access to Capital for IT, back office
MORE PEOPLE INSURED...

POLITICO

7.3 million in Obamacare plans, beats CBO forecast

9/18/14
...BUT MORE PEOPLE UNDERINSURED

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Have</th>
<th>Plan To</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Move employees to Consumer Directed Health Plans</td>
<td>56%</td>
<td>17%</td>
<td>73%</td>
</tr>
<tr>
<td>Raise employee contributions toward health insurance</td>
<td>52%</td>
<td>19%</td>
<td>71%</td>
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A University of South Carolina poll released in September shows that more than 70% of large employers have plans to move employees to high deductible “consumer directed” health plans or raise employees’ contributions for health care – and a majority have already done so.
RUNAWAY PROVIDER PRICES AND COST SHARING: PERFECT STORM FOR PATIENTS

60/40 = “Affordable”

**Example – Facility Fees:**
- Doctor’s office visit costs rise 80% overnight
- Cost Medicare $2 billion per year
- Undermine High Deductible “Consumer Directed Health Plans”
Jepsen takes aim at health care ‘facility fees’

Gov Malloy Signs Bill Requiring Greater Disclosure Of Hospital Facility Fees
June 9, 2014

New Haven Independent
Sleep Center’s Fate Reflects Brave New Health Care World

News and Observer 12/15/2012:
Jenny Palmer of Durham had been seeing a Duke neurologist for years for her epilepsy. She was furious when her $50 copay turned into a $425 payment applied to her deductible. The visit was less than 10 minutes...
ACA PUSHES EDUCATION, PRIMARY AND PREVENTIVE CARE....

....But Provider Prices Threaten Gains
UNITE HERE BEST PRACTICES

Yale – Lorraine Skibitcky, Local 34

• Majority in tightly controlled staff model HMO ($0 premium) – incentivizing enrollment

• Open PPO replaced by tighter network

• Member Education:
  • Metrics
  • Chronic Disease Self Management Program Pilots

College and K-12 Cafeterias – Ken Blair, Local 217:

• Bargained into tailored Unite Here Health plan

• Members go from 20% to 0% premium and employer still saves $1,000/member

• Union wide health care committee for Member Education
  • 1,2,3 Program
  • Better Living Program
Federal Policy Contradictions

FTC Opposes Some Monopolies (OH, ID)....

....BUT ACA ACCELERATES CONSOLIDATION PROCESS....
CT CASE EXAMPLE: TENET AND YALE-NEW HAVEN HEALTH SERVICES CORP. STRATEGIC ALLIANCE

Regional Provider Organization: Joint Purchases

Risk Organization: Preparing for major risk contracts

Geographic Service Area: CT, RI, NY, Parts of MA
THE STRATEGIC ALLIANCE AGREEMENT PROVIDES THAT, FOR AS LONG AS [YALE-NEW HAVEN HEALTH SERVICES CORPORATION, (HSC)] IS A MEMBER OF THE REGIONAL PROVIDER ORGANIZATION, HSC MAY NOT ACQUIRE, OWN, MANAGE OR OPERATE ANY LICENSED HOSPITAL OR OTHER HEALTH CARE FACILITY WITHIN THE GEOGRAPHIC SERVICE AREA OTHER THAN THROUGH THE REGIONAL PROVIDER ORGANIZATION, WITH CERTAIN EXCEPTIONS.

EXCEPTIONS:

- Non-profits that join but do not convert
- Existing Yale-New Haven Health Services Corp. facilities (i.e. Bridgeport, Greenwich systems)
TENET/YALE-NEW HAVEN: SUPER-REGIONAL STRATEGIC ALLIANCE

Risk Organization: Goal is system of owned and affiliated facilities and networks large enough to accept risk contracts.

“Manage increasing levels of risk of enrolled populations at participating locations within the Geographic Service Area, including managing such risk contracts with Medicare, Medicaid and other third-party payers as may be able to be negotiated by the Risk Organization”
**Prior to purchasing the Hospital of St. Raphael, Yale-New Haven Health System’s market share within an 18 minute drive was already at a level that caused the FTC to intervene in other states.**
**NEW PURCHASES EXPAND MONOPOLY SCOPE**

<table>
<thead>
<tr>
<th>Town</th>
<th>Waterbury Before</th>
<th>St. Mary’s Before</th>
<th>YNHHS Before</th>
<th>Waterbury/St Mary’s/YNHHS/Tenet Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waterbury</td>
<td>40%</td>
<td>44.9%</td>
<td>7.0%</td>
<td>92.2%</td>
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<tr>
<td>Wolcott</td>
<td>26.2%</td>
<td>45.4%</td>
<td>17.2%</td>
<td>88.7%</td>
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<tr>
<td>Watertown</td>
<td>54.6%</td>
<td>25.6%</td>
<td>8.5%</td>
<td>88.6%</td>
</tr>
<tr>
<td>Middlebury</td>
<td>47.5%</td>
<td>25.7%</td>
<td>9.6%</td>
<td>82.8%</td>
</tr>
<tr>
<td>Naugatuck</td>
<td>37.4%</td>
<td>32.1%</td>
<td>13.3%</td>
<td>82.8%</td>
</tr>
</tbody>
</table>

*More current data may reflect different discharge patterns*
CONSOLIDATION RAISES PRICES

- Mergers and Acquisitions raise prices 10-40% (Vogt and Town, 2006)

- Mergers of hospitals located within five blocks of each other (“co-located”) cause 40% marketwide price increase (Dafny, 2005)
**PATIENTS HAVE VERY LIMITED HOSPITAL CHOICE**

*Majority* of Medicare knee replacement patients report *no choice* of hospital.

Factors that affect choice for those who can choose:

- Size
- Depth of Service
- Reputation of Surgeon or Hospital
- Provider recommendation

*Hospitals ≠ Toothpaste*

Source: Losina et al, *Arthritis Care and Research*, 10/5/05
IS SO. CT HOSPITAL COMPETITION FINISHED?

Even BEFORE St. Raphael Takeover:

Milford Residents: 71 times more likely to be discharged from YNHH or HSR than New Haven residents to be discharged from Milford Hospital

Derby Residents (Derby): 89 times more likely

Meriden Residents (MidState): 95 times more likely
NO CAVALRY FROM GRIDLOCKED DC

Without Competition, States Need Strong Tools to Protect Patients from Market Excess

- MA Cost Commission
- Price Transparency (CA, MA).
- Anti-Trust (ID, MA)
- Rate Regulation