

# The Source Roundup: July 2023 Edition

Summer is here, and we hope you can enjoy some vacation time. Whether you're at work or on the beach, our July roundup brings you the highlights of recent healthcare pricing and competition studies and reports. First, we share several articles that discuss the potential for anticompetitive impacts from consolidation through collaborative agreements and cross-market mergers, two types of lesser-examined transactions that more easily escape regulatory scrutiny. Next, we share an American Hospital Association fact sheet that spotlights insurer policies and acquisitions as under recognized contributors to the changing landscape of physician practices. We also highlight a PWC report indicating dealmaking in healthcare remains strong in 2023, and one study that reveals how deals resulting in hospital consolidation may impact pediatric care. Lastly, we examine the latest trends in healthcare affordability: although healthcare costs declined between 2019-2022 due to COVID-19 policies, 2023 signifies a return to the year-over-year increase in healthcare costs that Americans experienced consistently in pre-pandemic years.

## Consolidation

The Source's own Amy Gu and Katherine Gudiksen published an issue brief for the California Health Care Foundation, titled [Collaborative Agreements in Health Care: Complexities, Uncertainties, and Considerations for Oversight](#). The brief examines collaborative agreements as an increasingly common alternative to traditional mergers and acquisitions between healthcare entities. Gu and Gudiksen emphasize that

collaborative agreements are complex and nebulous, making oversight and enforcement difficult. The agreements may form varying levels of integration between transacting entities but have potential for anticompetitive effects on prices as a result of the stealth consolidation. The state and federal regulatory landscape around collaborative agreements is rapidly evolving; the Department of Justice recently withdrew decades-old guidance on the topic, while in California, the newly formed Office of Health Care Affordability as well as the attorney general has authority to conduct pre-transaction review. To better determine whether a collaborative agreement will have anticompetitive effects, Gu and Gudiksen advocate for stronger policies that allow for the collection of data necessary to fully understand and monitor the impact of these agreements.

In their article for the American Health Law Association, [Economics of Cross-Market Mergers](#), Joshua Lustig, Sean May, and Fei Tan of consulting firm Charles River Associates consider another lesser-examined transaction type between healthcare entities: cross-market mergers. The authors discuss economic theories of cross-market mergers' competitive effects and summarize findings of retrospective studies examining these effects. Overall, the studies suggest that cross-market hospital mergers may lead to higher prices. Although there have been no federal challenges to date, the article discusses the FTC's extensive investigation of two recent cross-market hospital mergers. It also highlights two mergers where the California Attorney General imposed price and conduct restrictions as conditions for approving the transactions.

Cory Capps, Lewla Karakas, and Tetyana Shvydko examine the mechanisms by which cross-market hospital mergers and acquisitions can lead to price increases in their article for the Competition Policy Institute, [Cross-Market Mergers: Theories of Harm and Limiting Principles](#). The authors focus on the

“common customer” mechanism, which is when insurers and employers treat different hospitals in a geographic area as interchangeable. This mechanism in particular is associated with lessened competition. The article also touches on state and federal investigations to date.

The American Hospital Association (AHA) recently highlighted the role that insurance companies have played in physician practice acquisition in a fact sheet, [Examining the Real Factors Driving Physician Practice Acquisition](#). The AHA reports that 94% of physicians feel that it has become more challenging to operate their own practice in recent decades. As a result, doctors have come to rely on hospitals, health systems, and other organizations for relief from the high financial and administrative burdens associated with practice management. The fact sheet spotlights insurer policies as major contributors to these burdens that lead to physician burnout and drive them to seek alternative ownership for their practices. Moreover, while acquisitions of physician practices by hospitals and private equity have received a good deal of attention, acquisitions by commercial insurers are significant and warrant more scrutiny.

Meanwhile, levels of corporate and private equity investment in health services remain high in 2023. According to a PWC report, [Health services: US Deals 2023 midyear outlook](#), health services deals are just 4% lower than last year’s as of May 15, 2023. Moreover, over half of the deals so far this year have been “megadeals” valued at \$5 billion or greater.

Relatedly, Allan M. Joseph, Billie S. Davis, and Jeremy M. Kahn published a research letter [Association Between Hospital Consolidation and Loss of Pediatric Inpatient Services](#) in JAMA Pediatrics. Their research suggests that hospital consolidation is significantly associated with a reduction of inpatient pediatric services at four years after a merger or acquisition.

The authors urge policymakers to consider this loss when reviewing hospital deals and indicated that their research is a jumping off point for continued investigation in this area.

## **Healthcare Costs and Affordability**

Michael Karpman, Dulce Gonzalez, and Stephen Zuckerman published a brief with the Health Policy Center at Robert Wood Johnson Foundation: [Health Care Affordability Improved Between 2019 and 2022 Under Pandemic Health Coverage Policies](#). The report examines changes in healthcare affordability between 2019 and 2022, including changes to disparities by race and income. One key finding from the data is that fewer adults reported forgoing treatment due to cost and issues with paying family medical bills. The analysis credits temporary policies put in place at the outset of the pandemic, such as Medicaid's continuous coverage requirement and the expansion of premium tax credits, for this improvement. Notably, such policies have expired or will expire, raising concerns about the durability of this progress.

More recent data shows that healthcare costs have indeed increased in 2023. Milliman, Inc., a consulting and actuarial firm, measures healthcare costs for people on employer-sponsored PPOs in their Milliman Medical Index (MMI) and recently released their [2023 MMI](#). According to Milliman's analysis, healthcare costs increased 5.6% this year and have increased annually by 4.8% since 2021. This level of increase indicates a return to pre-pandemic trends, which saw a consistent increase in the cost of care each year. The report explains how inflation, supply chain issues, and labor shortages in health care have contributed to the shift.

That concludes this month's Roundup. If you find articles or reports that you think should be included in the monthly Roundup, please [send](#) them our way.