

Health system mergers in the U.S. at record high

January 31 2018, by Christopher Snowbeck, Star Tribune (Minneapolis)

Hospital and health system mergers set a record in 2017, with a new report saying networks of care providers bulked up to offer a broader range of services and prepare for new contracts that ask health systems to take financial risk.

The consulting firm Kaufman Hall tracked 115 [hospital](#) deals last year. It was the single highest annual tally since the company started tracking mergers in 2000, and was particularly noteworthy for deals involving systems with at least \$1 billion in revenue.

Health systems say the deals are part of a future where hospitals and clinics are better able to provide efficient care across a broad population of patients. But there also are worries that bigger systems are part of an ongoing story line in which hospitals and health insurers keep getting bigger, and health care consumers are faced with ever-growing prices and costs.

"The implications reach far beyond the unprecedented number of individual transactions," Illinois-based Kaufman Hall said in a report released Monday. "Organizational size and scale have mattered for decades—but today, they are proving to be imperatives."

By September, merger and acquisition activity was on pace to set a record, according to Kaufman Hall. But the trend was further charged, the consulting firm said, by fourth quarter activity among groups that haven't been traditional health care providers.

Pharmacy giant CVS Health announced in December a \$69 billion deal to buy the health insurer Aetna. Also last month, Minnetonka-based UnitedHealth Group's division for health services said it was buying a large group of medical clinics for \$4.9 billion.

"The announcement of pivotal mega deals demonstrates how non-provider entities are moving aggressively into the provider space made vulnerable by high costs, low value and lack of consumer focus," Kaufman Hall said in its report. "While these incursions do not pose a comprehensive threat to [health systems](#), the emergence of health care segments that can be scaled is clear and signals the potential for new market entrants to focus on tactical competition with legacy providers."

The number of deals in 2017 edged the 112 transactions seen during 2015, according to Kaufman Hall. But last year's activity was notable for the large size and scale of the transactions, including eleven deals that involved sellers with net revenue of \$1 billion or more.

The 2017 transactions involved sellers/merger targets with a total of \$63.2 billion in annual revenue, nearly double the comparable revenue in 2015, according to Kaufman Hall.

In Minnesota, mergers among health care groups have been going on for a long time, but the promised goal of efficiency hasn't yet been realized, said Kip Sullivan, a board member at Health Care for All Minnesota, an advocacy group pushing for universal [health care](#).

"The goal is not efficiency, it's the power that comes with size—the power to tell your workers and suppliers how much you'll pay them and to tell your customers what they will pay you," Sullivan said in an e-mail.

Sullivan noted that mergers among health insurers have been going on for a long time too, and are no less troubling. They started in the 1980s,

he said, with HMOs getting bigger in order to extract discounts on services from hospitals.

"Hospitals learned quickly that to prevent their own demise, they needed to develop power commensurate with the power of the burgeoning insurance companies," Sullivan said by e-mail. "As the hospitals merged into big chains, the insurance companies responded with more mergers among themselves, and so on."

More Health System Deals

A [consulting firm](#) says 2017 set a record for [merger](#) and acquisition activity among hospitals and [health](#) systems across the country.

Year Number of Transactions Collective Revenue of Sellers/Merger Targets

2013 98 \$31.3 billion

2014 102 \$23 billion

2015 112 \$32 billion

2016 102 \$31.3 billion

2017 115 \$63.2 billion

Source: Kaufman Hall

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