



Mergers and acquisitions are important tools that some hospitals use to manage financial pressures and increase access to care for patients. **Merging with a hospital system can help some facilities ease these financial burdens and improve patient care** by providing scale to help reduce costs associated with obtaining medical services, supplies and prescription drugs, and

can enable health systems to reduce other operational costs.

Perhaps most importantly, mergers can allow struggling hospitals vital to their communities to remain open. **Without mergers, hospitals could shutter, patients could lose access to care, and communities could suffer. This is particularly important for rural hospitals,** where mergers and acquisitions have played a critical role in preserving access to care for these patients and communities.

Additionally, mergers and acquisitions are an effective path for developing coordinated strategies to spur innovation and value-based care.

Realignment, for example, is a direct response to the changing needs of communities, continuous pressures to reduce costs and the drive to improve quality for patients.



Hospital Merger Myths

MYTH

FACT

Hospital Merger Facts

Despite these benefits of hospital consolidation, the American Hospital Association has noted many myths on the subject prevail.

Some common myths include:

MYTH: Market concentration leads to higher costs for patients.

FACT: Studies show that mergers **not only decrease costs,** but also enable health systems to focus on **improving quality and expanding their scope of services.**

A recent study found that revenues per admission at merging hospitals actually decrease by 3.5% relative to non-merging hospitals, and these savings are in turn passed on to patients.¹ The same study also concluded that acquisitions are associated with a 2.3% reduction in annual operating expenses, deemed statistically significant, and decrease costs as well.²

MYTH: Hospital/health system consolidation reduces access to care.

FACT: Between 2005 and 2022, **Texas had more rural hospital closures than any other state,** resulting in the loss of over 850 inpatient hospital beds.³ Mergers

can serve to keep hospitals open, a particularly acute need in rural areas – where, among other factors, patient volumes are low and reliance on Medicare and Medicaid is high. For some rural hospitals, health system affiliation can bring access to needed capital and keep their doors open.



MYTH: Hospital consolidation is making patients sicker.

FACT: It has been shown that consolidation has led to measurable **reductions in patient readmissions and mortality.**¹ Hospitals joining a health system bolsters the continuum of care, including through improved access to specialists through health system networks and better care coordination.



MYTH: Hospitals are driving consolidation with physician practice groups.

FACT: Physician preferences, not hospitals, are the driving force behind this industry shift. In a 2019 survey, **91% of final-year medical residents said they'd prefer to be an employee of a hospital, medical group or other facility** rather than in independent private practice.⁵ Broader trends have also prompted hospitals and health systems to respond accordingly – such as the acquisitions of physician groups and specialists by private equity firms, which don't have to worry about federal limits on acquisition of physician practices.



MYTH: Hospitals are the most consolidated entities in health care.

FACT: In addition to the cost savings and quality improvements, hospital consolidation is a direct response to counter extreme consolidation in the commercial health insurance market. According to a November 2022 report by the Government Accountability Office, **the state's top three commercial health insurers control more than 87% of the large-group insurance market.**⁶ The individual and small-group markets are similarly concentrated at 78.8% and 97.8%, respectively.⁷ Contrasted with the approximately 600 hospitals in Texas, these large health insurance companies hold the majority of the negotiating power.

As the cost of health insurance has increased, so have the profits of health insurance companies. Over the past decade, the strength, size and market dominance of these large insurance companies have allowed them to raise premiums well in excess of inflation.⁸ Even in more recent years with the general rate of inflation trending higher and higher, premium increases have outpaced inflation.⁹ Rather than passing even a portion of this new revenue to providers to counteract skyrocketing costs, insurers have used it to post record profits. **Insurers reported record profits in 2022.**¹⁰

In the meantime, 48% of Texas hospitals finished 2022 with negative margins.¹¹

The market concentration of health insurance companies is not limited to health insurance products. Health insurance companies are rapidly merging with other insurers, physician groups and pharmacy benefit managers, resulting in significant market strength and bargaining power. For example, Optum, a subsidiary of UnitedHealth Group, employs 90,000 physicians and is now the largest employer of physicians nationwide.¹²

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¹ Monica Noether, Sean May, and Ben Sterns, Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis - An Update (American Hospital Association, 2019), <https://www.aha.org/system/files/media/file/2019/09/cra-report-merger-benefits-2019-f.pdf>

² Ibid

³ Jamie Falconnier and Morgan Hecht, "Rural Counties Face Hospital Closures: The Economics of Medical Care Outside Cities," Fiscal Notes: A Review of the Texas Economy (Comptroller of Texas, 2022)

⁴ Ibid

⁵ Merritt Hawkins, 2019 Survey, Final-Year Medical Residents, https://www.tha.org/wp-content/uploads/2024/03/Merritt_Hawkins_2019_Survey_of_Final_Year_Medical_Residents.pdf

⁶ General Accountability Office, <https://www.gao.gov/assets/gao-23-105672.pdf>

⁷ Ibid

⁸ KFF 2023 Employer Health Benefits Survey, <https://www.kff.org/report-section/ehbs-2023-section-1-cost-of-health-insurance/>

⁹ Ibid

¹⁰ Becker's Healthcare, <https://www.beckerspayer.com/payer/the-house-always-wins-health-systems-face-worst-finances-in-decades-as-payers-rake-in-record-profits.html> (login required)

¹¹ Kaufman Hall, The Financial Impact of COVID-19 on Texas Hospitals, <https://www.tha.org/wp-content/uploads/2022/11/Texas-Hospital-Association-Financial-Impact-Report-11.1.22.pdf>

¹² Becker's Hospital Review, <https://www.beckershospitalreview.com/legal-regulatory-issues/optum-added-nearly-20-000-physicians-in-2023.html#:~:text=The%20UnitedHealth%20Group%20subsidiary%20is,Desai%20said.> (login required)

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