

The Corporatization of Hospitals: The Impact on Health Care Costs and Quality

SYNOPSIS

As health system consolidation grows, a first-of-its-kind study examines the effects of hospital corporatization, or the acquisition of independent hospitals by health systems. Analyzing data from over 100 acquisitions, the findings reveal an increase in negotiated inpatient prices for commercially insured patients within two to three years post-acquisition. This increase was greater in acquisitions that heightened market concentration or involved hospitals within the same geographic market.

The total operating expenses of the acquired hospitals declined per bed, primarily due to reduced capital and personnel costs. Hospital readmission rates rose, but there were no significant changes in patient mortality rates or satisfaction scores.

This Research Insights provides timely information for policymakers and health care leaders on the operational implications of hospital corporatization.

A CONVERSATION WITH THE RESEARCHERS



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Q: What were the surprises in your findings? Which ones are likely to have the biggest impact?

A: Two findings surprised us. First, we found a sharp difference in the effects of acquisitions by hospital systems depending on the organization of the target. Formerly independent targets experienced a sizable decrease in operating costs after acquisition, mainly due to a reduction in staff, both administrative and clinical. However, system-owned targets did not experience a reduction in operating costs on average upon acquisition by another system. This is important because it implies that deals targeting system-owned hospitals—more than half of all deals during the sample period—didn’t generate pass-through savings for consumers. To our knowledge, this heterogeneity has not previously been documented. Second, and dovetailing with the first finding, we find an increase in the risk of rehospitalization (i.e., a decline in quality of care) for patients only at independent targets. Again, the prior literature has typically not detected an effect on quality of care after hospital acquisitions.


Q: How do these findings inform health policy around hospital corporatization, especially regarding antitrust issues and market competition?

A: There was little prior evidence on the effects of system acquisitions of independent hospitals, which we termed “corporatization.” The first finding discussed above highlights the importance of examining heterogeneity in the effects of hospital consolidation by the organization of the target. This finding has important implications for antitrust agencies. Merging parties often justify hospital consolidation by arguing that it will generate cost savings, which will be passed through to consumers in the form of price reductions. However, our results imply that when a system acquires another system (in part or whole), cost synergies are negligible. At the same time prices increase at the same rate as for acquisitions of independent hospitals. We also estimate a 50% larger price effect when the acquirer and target are located in the same market. This finding supports the use of predicted change in market concentration as a screening tool for antitrust enforcement.



RESEARCH INSIGHTS



A recent study found that when **health systems acquired independent hospitals**, there was a:



6% increase in negotiated inpatient prices for commercially insured patients.



4.8% decrease, around \$48,300 per bed, in total operating expenses.

Read the *exclusive interview* to learn more.

Andreyeva, Gupta, Ishitani, Sylwestrzak, & Ukert, 2024 | www.nihcm.org

Q: What factors might be contributing to the 6% increase in inpatient prices following corporatization?

A: In general, there are three mechanisms that affect prices after an acquisition. First, the acquirer may have superior negotiation ability relative to the target hospital. Among other reasons, this could be due to larger and more specialized negotiation teams and better market intelligence. Second, the acquisition leads to an increase in the combined entity's market power, which is the canonical antitrust concern. Third, consolidation may lead to cost savings, some of which may be passed through to insurers as price reductions during negotiations. The first two channels will increase, while the third will reduce negotiated prices. Our results imply that all three mechanisms are present in the deals analyzed in our sample, however, our methodology cannot quantify the exact contribution of each. The market power channel likely plays an important role since the price effect is about 50% larger for deals that result in an increase in market power.

Q: Reductions in personnel drove the majority of the cost savings. How might workforce changes, particularly among support staff, impact hospital operations, care quality, and delivery?

A: Formerly independent targets experienced both staff cuts and an increase in readmission rates, while targets that were already system-owned experienced neither. The negative association between staffing and readmission rates suggests that a disruption to existing team structures and protocols may be a causal mechanism for elevated readmission risk. This correlation is also found within the group of independent targets. We show that independent targets experiencing greater staff cuts also experienced greater increases in readmission rates. Corporatization leads to reductions of employees in both administrative (e.g., biller and coders) and clinical roles (e.g., case managers, technicians), with the former group being disproportionately targeted. Although we do not find a reduction in nursing staff, prior studies have shown that case managers and social workers also play an important role in avoiding readmissions by improving coordination and discharge planning. Furthermore, cuts to support staff may have increased the workload for the clinical staff.

Q: How might the ongoing trend of consolidation and corporatization impact the relationship between hospital systems, insurers, and public payers like Medicare and Medicaid?

A: As mentioned above, the consolidation and corporatization significantly increase hospital market power and drive up prices for privately insured patients. Other researchers have shown that private insurers typically respond by increasing premiums. Similar patterns may play out in the managed care market. For example, while Medicare Advantage (MA) prices are less sensitive to hospital market power, and we find null effects in our paper, the MA population is a high-volume line of business for hospitals and insurers that could become an attractive population to be added to the negotiation table. The general proliferation of managed care enrollees may lead hospitals to ask for higher rates from insurers, not only for the commercially insured but also for managed care patients. On the other hand, the growth in managed care could give insurers additional market power that may allow insurers to negotiate lower rates.

Q: Could you explain the differences, in terms of the benefits or challenges posed by hospital corporatization, in rural versus urban markets?

A: Rural independent hospitals can certainly benefit from "corporatization". They can get access to the system's clinical personnel, capital, facilities, and other "know-how," all of which could benefit hospital operations and quality of care for rural patients. However, we see three concerns for rural hospitals. The first one is higher prices. Residents of rural areas have, on average, lower incomes than residents of urban areas, which means that medical spending may reflect a larger share of their take home salary. Second, cost-savings at acquired hospitals can affect the economy. We found that the acquisition of independent hospitals significantly reduces spending on support personnel, which may lead to the loss of jobs for rural residents—a concern given that hospitals are often the largest employers in the area. Finally, we find a decline in delivery services at rural targets, suggesting a loss in access to clinical care services for rural residents.

Q: Do the effects of hospital acquisitions differ depending on whether the acquired hospital was previously independent or already part of another health system?

A: Acquisitions of system-owned hospitals by another system lead to similar price increases as the acquisition of independent hospitals. However, cost savings are detected only after acquisitions of previously independent hospitals. System-owned hospitals that change hands to another system do not see operational savings, suggesting that there are no further efficiencies to be realized after the initial acquisition of the hospital by a system. This is concerning from an antitrust perspective because we found evidence of pass-through of cost savings to lower negotiated prices, suggesting that system-to-system acquisitions have little savings to pass through to consumers in the form of lower prices. Thus, these types of transactions can only increase hospital profits by raising prices, and indeed, this is what we see.

Q: Where does your research go from here? What questions did this study prompt?

A: In this study, we only looked at prices and quality of care for inpatient hospital stays. More studies are needed to expand the scope of our work to a breadth of outpatient services, which now account for more than half of hospital revenue nationally. Some interesting dimensions of outpatient services include imaging (x-ray, MRI, CT) and ambulatory surgery, particularly orthopedic procedures, that are generally considered profitable. Relatedly, a greater body of evidence is needed on the consequences for the quality of care. In our study, we find evidence of increased readmission rates following an acquisition, however, the mechanisms that exacerbate readmission rates following system ownership are not well understood. Finally, quantifying the precise pass-through of cost reductions due to system ownership to insurers and what factors determine the magnitude of the pass-through are not well understood, but are important components for regulators assessing the effects of system ownership on prices.

This study was chosen to win the NIHCM Foundation's 2025 Research Award for outstanding published work by an independent panel of judges.