Still a long way to go to control health care costs

Gains needed on top of significant streamlining in place

While rumors of great consolidation among health care providers abound, Indiana has been notably slow to join the party. The wave of mergers and acquisitions elsewhere in the nation has led to predictions of one-third of hospitals closing by 2020, and surveys indicating three of four hospitals considering a deal to consolidate.

Where is Indiana in this mix? This market has a high degree of clinical integration between its health systems and physicians, with the large, integrated delivery networks employing most of the physicians.

Our state has been ahead on a number of innovative health care activities, including the proliferation of specialty hospitals, adoption of physician-friendly malpractice laws, and successful collaboration around the Indiana Health Information Exchange.

Indiana also led the country in its cost-containment efforts in 2013, with three of the top 10 health system work force reductions. Layoffs of more than 2,000 employees by St. Vincent Health, Franciscan Alliance and Indiana University Health helped these systems achieve efficiencies and cost savings.

Still, Hoosiers devote 18.4 percent of their spending to health care, compared with 16.6 percent for the average American.

To continue to make progress, scale is key. “Go big or get out” is the charge for most providers. Opportunities in adjacent markets like retail health and Medicare Advantage require new competencies that smaller, stand-alone players often are ill-prepared to build or buy.

At the same time, capital markets are skeptical about the sector’s ability to reinvent itself.

Given these challenges, it is not surprising that providers seeking ways to survive and thrive in the difficult environment are concluding they cannot go it alone.

Last month, Clark Memorial Hospital announced its plans to join Norton Healthcare, citing the merger as a way for the hospital to maintain operations without cutting jobs or wages. Wabash County Hospital, Monroe Hospital and Jasper Memorial Hospital have also announced plans to join larger health systems, and Indiana University Health LaPorte and Starke are seeking an additional partner.

These smaller transactions come on the heels of the dissolution of two larger deals this past summer, both of which blamed regulatory hurdles: Community Health Network and Eskenazi Health, and the Accountable Care Consortium between St. Vincent Health, Community Health Network and Suburban Health Organization.

Despite the unraveling of these deals, Indiana is ripe for additional consolidation. Transformational changes in the health care environment are needed to reduce the fragmented way care is delivered.

Health systems must coordinate across the continuum of care to reduce costs and improve health outcomes.

The opportunity for a large-scale merger between Indiana hospitals might be limited. The top four health systems in Indianapolis account for 84 percent of the market’s inpatient discharges. The Federal Trade Commission’s recent winning streak in blocking large-scale hospital deals throughout the country has placed a chilling effect on mergers. This increased scrutiny would be a significant hurdle given the high level of integration already present in this market.

Organizations will need to pursue alternative arrangements that are less integrated than a full merger, yet effective in managing population health.

To achieve the population health goal, convergence between health plans and providers is increasingly popular. This was recently demonstrated by the creation of the integrated health care network in California, called Anthem Blue Cross Vivity.

The alignment of financial incentives between payers and providers will enable cost-effective, high-quality care. Many Indiana hospitals already have stakes in local health plans, and are aggressively expanding their footprint.

We also expect to see large medical groups enter into the payer space, on a larger scale than the Medicare Shared Savings Program ACOs of American Health Network.

While these types of collaborations will be politically challenging to pull off, they are necessary for future success in this volatile market. Conversations now, while the future landscape is unsettled, allow providers to protect their interests and better shape the market. If coordinated networks of care are not created, disruptive forces—such as retail clinics, employer-sponsored clinics and concierge medicine—will increasingly step in to take care of these patients.

Walker is a senior manager at ECG Management Consultants focusing on health care strategy. Views expressed here are the writer’s.