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## ***Correspondence Memorandum***

**Date:** July 18, 2024

**To:** Group Insurance Board

**From:** Luis Caracas, Health Policy Advisor  
 Office of Strategic Health Policy

**Subject:** Mergers and Acquisitions in the Healthcare Market

**This memo is for informational purposes only. No Board action is required.**

### **Background**

Over the past several years, there has been an increase in hospital and health system mergers within the United States market. The main drivers forming these local and regional health systems are generating higher revenue, lowering operational costs, providing competitive advantage, and expanding services within existing and new markets. This results in the ability to bargain for higher rates, which are often passed down to the consumer.

Healthcare consolidation often refers to scenarios where hospitals and other healthcare entities join under common ownership through either a merger or acquisition. There are three main types of mergers: horizontal mergers, vertical mergers, and cross-market mergers.<sup>1</sup>

### Horizontal Mergers

Horizontal mergers occur when there is consolidation between entities that offer the same or similar services. Mergers can enable peer hospitals and/or health systems to reduce expenses by sharing services, staff members, and other resources.

### Vertical Mergers

Vertical mergers occur when one healthcare organization purchases another offering different health care services to access new patients and sources of revenue. An example of a vertical merger is a hospital acquiring physician practices. These practices are highly sought after acquisition targets.

<sup>1</sup> Levinson, Z., Godwin, j. Hulver, S. and Neuman, T. KFF. April 2024. [Ten Things to Know About Consolidation in Health Care Provider Markets.](#)

Reviewed and approved by Renee Walk, Director, Office of Strategic Health Policy  
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Board	Mtg Date	Item #
GIB	08.14.24	3

### Cross-market Mergers

Cross-market mergers occur when there is consolidation between two providers that offer patient care in different geographic markets. This type of merger can occur when two health systems operating in different markets merge or when a healthcare system acquires an independent hospital in a market in which it does not currently operate.

Private equity investment in healthcare, such as hospitals, medical device manufacturers, biotechnology firms, and pharmaceutical companies is a for-profit ownership that involves private parties investing in healthcare facilities. The goal is to grow the companies and sell their stakes within three to seven years to make a return on the investment.

Healthcare entities can also form affiliations without changing ownership. This may include groups of doctors, hospitals, or other providers forming partnerships to collaborate and share accountability for cost and quality of patient care or agreements to collaborate on a joint venture, such as a new ambulatory surgery center. This is often referred to as a soft consolidation.

### **Why Do Mergers and Acquisitions Occur?**

Mergers and acquisitions are seen by some in the healthcare market as an important tool to enable hospitals and health systems to improve quality, broaden provider networks, and improve access to services. This is particularly important for rural health systems that can benefit from reducing operational expenses and costs and co-investing in technology innovation.

Advocates for this argument assert the following points:

- Mergers and acquisitions reduce health care costs and create financial stability for healthcare delivery. Hospital acquisitions are associated with a 3.3% reduction in annual operating expense per admission at acquired hospitals.<sup>2</sup> Marshfield Clinic Health System Chief Executive Officer (CEO), Susan Turney, discussed how the health system landscape in Wisconsin is changing and driving consolidation, specifically “financial pressures and the ability to really drive cost out of a system by coming together with another health system.”<sup>3</sup>
- Mergers and acquisitions drive quality. Bellin Health and Gundersen Health System CEOs discussed<sup>4</sup> their commitment to improve affordability while working toward better quality by learning best practices from each other and ensuring access to care in the regions they serve.
- Partnerships, mergers, or acquisitions improve access to care for patients in rural and underserved communities. Per research published by the American Medical

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<sup>2</sup> May, S., Noether, M., and Stearns, B. American Hospital Association. August 2021. [Hospital Merger Benefits: An Econometric Analysis Revisited Executive Summary.](#)

<sup>3</sup> Wisconsin Health News. December 16, 2022. [Health System CEOs Talk Merger Impacts.](#)

<sup>4</sup> Wisconsin Health News. June 3, 2022. [Bellin, Gundersen CEOs Weigh in on Proposed Merger.](#)

Association, rural mergers are associated with a reduction in the risk of mortality from certain conditions.<sup>5</sup> Creating more cohesive care makes it easier for patients to access specialists or services in the acquiring system. Children's Wisconsin CEO, Peggy Troy, highlighted having "some of the best specialists in the country and a primary care network"<sup>6</sup> and looking for partnerships that will allow communities access to their network.

- Federal policies and programs drive consolidation. Financial pressures can prompt mergers and acquisitions as providers struggle to access resources. One source of financial pressure is reimbursement rates by the Medicare and Medicaid programs. Hospitals often struggle to make up these financial losses.

It should be noted that mergers and acquisitions have evolved over time, particularly driven by the COVID-19 pandemic. Hospitals facing financial struggles and potential closure have sought out acquisition by health systems. The shift from acute to non-acute patient care has also driven health systems and hospitals to engage in acquisitions that broaden services into new care facilities and markets.

### **Challenges and Risks – What the National Data Shows**

Merger and acquisition deals can lead to significant growth and creation of value; however, they also come with their share of challenges. There are consequences for hospitals, providers, patients, insurers, and other stakeholders.

Articles published by Yale News<sup>7</sup> and The Wall Street Journal<sup>8</sup> estimated that the 53 hospital mergers that occurred on average annually from 2010 to 2015 led to price increases of 5% or more and raised health spending on the privately insured by \$204 million in 2016 alone. The study also found that mergers in rural regions and areas with lower incomes and higher rates of poverty generated larger average price increases, often in outpatient services. Researchers cited in these articles suggest this occurred because those regions, compared with higher income urban settings, have fewer free-standing clinics that offer surgical and imaging services that compete against hospitals in the outpatient market.

Another study<sup>9</sup> found hospital acquisitions led to increased readmissions and higher costs for patients. This study analyzed hospital admission data in 20 states and found that acquisitions resulted in a 6% reduction in operating costs on average, however, average inpatient prices for commercially insured patients rose 5% and readmission rates for cardiac care patients increased up to 12% and remained elevated for three years post-merger.

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<sup>5</sup> Jiang, H.J., PhD, Fingar, K.R., PhD, MPH, Liang, L., PhD, et al. JAMA Network Open. September 2021. [Quality of Care Before and After Mergers and Acquisitions of Rural Hospitals.](#)

<sup>6</sup> Wisconsin Health News. December 16, 2022. [Health System CEOs Talk Merger Impacts.](#)

<sup>7</sup> Cummings, M. April 2024. Yale News. [Lax antitrust enforcement linked to rising hospital prices.](#)

<sup>8</sup> Evans, M. April 2024. The Wall Street Journal. [The true cost of megamergers in healthcare: Higher prices.](#)

<sup>9</sup> Elevance Health Public Policy Institute. August 2023. [Costs and quality after independent hospitals are acquired by health systems.](#)

Healthcare industry consolidation can also catch the critical eyes of regulators, raising concerns about the violation of antitrust laws within a specific market. A Request for Information (RFI) was launched by the Federal Trade Commission, the Department of Justice, and the Department of Health and Human Services. This inquiry seeks to understand and collect data on how private equity investments within the healthcare market may increase consolidation and generate profits for firms.<sup>10</sup> The increase of private equity firms and other corporations in the healthcare system may lead to a maximizing of profits at the expense of patients' health, workers' safety, quality of care, and affordable health care for patients and taxpayers.

Overall, the research has shown that in some cases mergers and acquisitions in healthcare lead to higher prices for healthcare services, less market access to critical services after closures of hospitals in a rural or underserved areas, and lower care quality.

### **Mergers and Acquisitions in Wisconsin (last 5 years)**

Since 2019, there has been one merger and 14 acquisitions or proposed acquisitions by health systems within the State of Wisconsin. The information in Table 1 comes from the Wisconsin Office of the Commissioner of Insurance (OCI), which is responsible for ensuring the insurance industry responsibly and adequately meets the insurance needs of Wisconsin citizens<sup>11</sup>.

**Table 1. Insurer/System Mergers and Acquisitions by Date**

<b>Date</b>	<b>Description</b>
<b>May 2024</b>	Acquisition of control of Common Ground Healthcare Cooperative by CareSource.
<b>December 2023</b>	Acquisition of control of MercyCare Insurance Company and MercyCare HMO, Inc. by MercyCare Merger Sub, Inc.
<b>November 2023</b>	Acquisition of control of Aspirus Health Plan, Inc. by St. Luke's Hospital of Duluth.  Acquisition of control of Wisconsin Collaborative Insurance Company by Blue Cross Blue Shield of Wisconsin.

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<sup>10</sup> Federal Trade Commission. March 2024. [Federal Trade Commission, the Department of Justice and the Department of Health and Human Services Launch Cross-Government Inquiry on Impact of Corporate Greed in Health Care.](#)

<sup>11</sup> Wisconsin Office of the Commissioner of Insurance. June 2024. [Mergers, Acquisitions, Conversions, Redomestications, and Restructuring.](#)

<b>Date</b>	<b>Description</b>
<b>September 2023</b>	Internal restructuring of Wisconsin Physicians Service Insurance Corporation (WPSIC), the EPIC Life Insurance Company and WPS Health Plan, Inc. by WPS Holdings, Inc.  Acquisition of control of Network Health Insurance Company and Network Health Plan by ThedaCare, Inc.
<b>January 2022</b>	Acquisition of control of Quartz Health Plan Corporation, Quartz Health Insurance Corporation, and Quartz Health Benefit Plans Corporation by Bellin Gundersen Health System, Inc.
<b>October 2021</b>	Proposed acquisition of control of Wisconsin Collaborative Insurance Company by Anthem, Inc. and its subsidiary Crossroads Acquisition Corp.
<b>September 2021</b>	Proposed acquisition of control of Quartz Health Insurance Corporation and Quartz Health Benefit Plans Corporation, by Advocate Aurora Health, Inc. and Aurora Health Care, Inc.
<b>August 2021</b>	Proposed acquisition of control of Dean Health Insurance, Inc., and Dean Health Plan, Inc. by Medica Holding Company – joint venture between SSM Health Care Corporation and Medica related to Dean Health Insurance Inc. and Dean Health Plan, Inc.
<b>May 2020</b>	Proposed acquisition of control of Quartz Health Plan Corporation by Advocate Aurora Health, Inc. and Aurora Health Care, Inc.
<b>November 2019</b>	Merger of Care Wisconsin First, Inc. with and into My Choice Family Care, Inc. and of Trilogy Health Insurance, Inc. with and into Care Wisconsin Health Plan, Inc.
<b>May 2019</b>	Proposed acquisition of control of WellCare Health Insurance Company of Wisconsin, Inc. and WellCare Health Plans of Wisconsin, Inc. by Centene Corporation.
<b>February 2019</b>	Proposed acquisition of control of Trilogy Health Insurance, Inc. by My Choice Family Care, Inc.
<b>January 2019</b>	Proposed acquisition of control of Aspirus Arise Health Plan of Wisconsin by Aspirus, Inc.

## Conclusion

Over the past several years, we have seen a steady increase in rates in the Group Health Insurance Program. Wisconsin groups, such as The Alliance, the Wisconsin Hospital Association, and the Wisconsin Board for People with Developmental Disabilities, have expressed the lack of transparency in data and that an increase in consolidation among health systems has had an impact on their ability to pursue strategies to control costs.<sup>12</sup>

<sup>12</sup> Wisconsin Health News. June 27, 2024. [Wisconsin groups tell feds their concerns about consolidation, private equity involvement in healthcare.](#)

As ETF and the Board navigate through the current trend in the healthcare market, we have remained focused on managing the impact on members. The main way we have done this is through the Board's rate-setting process. The rate-setting process consists of analyzing each health plan's preliminary bid and utilization data to provide tiering recommendations. Tier placement and changes needed are then discussed, and the health plans submit their best and final offers. This negotiation process uses competition as a key strategy to control costs. Also, there is language within the Program Agreement to protect against loss of quality by addressing customer service expectations and data protection. Awareness of the consolidation trend and the various impacts it has on the Group Health Insurance Program will make ETF and the Board better able to consider the best options moving forward.

Staff will be at the Board meeting to answer any questions.