Hospital Merger Benefits: An Econometric Analysis Revisited

Acquisitions benefit patients with higher-quality care at a lower cost

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Executive Summary

This is the third analysis by Charles River Associates (CRA) showing that recent hospital acquisitions reduce costs and lead to improved performance on important quality indicators without an increase in revenue that may signal enhanced market power. CRA's previous research, released in 2017 and 2019, analyzed the effects of hospital acquisitions on hospitals' costs and several indicators of quality of care following probative interviews with hospital leaders. All three analyses found that hospital acquisitions can generate substantial benefits.

This new analysis revisits the previous econometric analyses and includes two additional years of data for 2018 and 2019 on cost, quality and revenue outcomes from hospital transactions. The addition of these data allowed CRA to measure the effects of 144 additional hospital acquisitions and also to measure the effects of the hospital acquisitions previously included in the studies over a longer period of time. In total, this most recent analysis expands the data to include approximately 6,000 additional hospital-year observations. Using these new data, the updated results reinforce the conclusions of previous reports: hospital acquisitions benefit patients by providing access to higher-quality care at a lower cost.

New data reinforce conclusion that hospital acquistions benefit patients by providing access to higher-quality care at a lower cost.

- Updated results indicate that acquisitions were associated with a statistically significant 3.3 percent reduction in annual operating expense per adjusted admission at the acquired hospitals. These estimates are larger in magnitude than previous estimates and provide additional evidence that the reductions in operating expenses at acquired hospitals are long-term rather than transitory.

- At the same time, hospital acquistions lead to improvements on key indicators of quality. Empirical analysis continues to show a statistically significant reduction in inpatient readmission rates and a composite readmission/mortality outcome measure.

- Revenue per admission at acquired hospitals also declines relative to non-merging hospitals by a statistically significant 3.7 percent. These results suggest that savings that accrue to merging hospitals are passed on to health plans.

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These results demonstrate that the potential benefits identified by hospital leaders are evident in the actual effects of hospital acquisitions on hospitals' costs, revenues and mortality and readmission quality indicators. Changes in the operating expenses per adjusted admission of acquired hospitals were lower than those of comparable non-acquired hospitals and these decreases in expenses were accompanied by commensurate declines in revenue per adjusted admission.

Finally, the additional data used in this update allow for several extensions of the original analyses and follow the approaches used in peer-reviewed studies of hospital acquisitions. The results of these extensions are consistent with the original analysis and provide support for the primary results.

The authors are economists at Charles River Associates (CRA). CRA consultants are experts in the area of hospital antitrust analysis and health care policy, having been retained by federal and state agencies and hospital systems to evaluate the effects of hospital transacitons.

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