



COMMONWEALTH OF MASSACHUSETTS  
HEALTH POLICY COMMISSION

COST AND MARKET IMPACT REVIEW OF  
PARTNERS HEALTHCARE SYSTEM'S  
PROPOSED ACQUISITIONS OF  
SOUTH SHORE HOSPITAL (HPC-CMIR-2013-1)  
AND HARBOR MEDICAL ASSOCIATES  
(HPC-CMIR-2013-2)

PURSUANT TO M.G.L. c. 6D, § 13

EXECUTIVE SUMMARY OF PRELIMINARY REPORT  
DECEMBER 18, 2013

## INTRODUCTION

The Health Policy Commission (HPC) was established in 2012 by the Commonwealth's landmark health care cost containment law, Chapter 224 of the Acts of 2012, "An Act Improving the Quality of Health Care and Reducing Costs through Increased Transparency, Efficiency, and Innovation" (Chapter 224). The HPC is an independent state agency governed by an 11-member board with diverse experience in health care. It is charged with developing health policy to reduce overall cost growth while improving the quality of care, and monitoring the health care delivery and payment systems in Massachusetts.

Recognizing that excessive health care costs are crowding out other economic needs for government, households, and businesses, Chapter 224 set a statewide target for a sustainable rate of growth of total health care expenditures. This benchmark is set at 3.6% for 2013. Achieving this ambitious benchmark will require the continued development of a competitive, value-based health care market and a more efficient, accountable health care delivery system.

The HPC is advancing this statewide cost containment goal through a number of initiatives outlined in the law. We are partnering with providers and payers to foster innovative care delivery and payment models to enhance coordination, advance integration of behavioral and physical health services, improve health outcomes, and spend health care dollars more efficiently overall. In addition, we are working to enhance transparency of the health care system and evaluating both challenges and opportunities associated with achieving the health care cost containment goals set forth in Chapter 224.

A significant aspect of the health care system that requires more transparency and accountability is the evolving structure and composition of the provider market. Provider changes, including consolidations and alignments, have been shown to impact health care market functioning, and thus the performance of our health care system in delivering high quality, cost effective care. Due to confidential payer-provider contracts and limited information about provider organizations, the mechanisms by which market changes impact the cost, quality, and availability of health care services have not been apparent to government, consumers, and businesses who ultimately bear the costs of the health care system.

Chapter 224 directs the HPC to monitor this aspect of the Massachusetts health care system. With the newly required filing of notices of material change by provider organizations, the HPC now tracks the frequency, type, and nature of changes in our health care market. The HPC may also engage in a more comprehensive review of particular transactions anticipated to have a significant impact on health care costs or market functioning. The result of such "cost and market impact reviews" (CMIRs) is a public report detailing the HPC's findings. In order to allow for public assessment of the findings, the transactions may not be finalized until the HPC issues its final report. Where appropriate, such reports may identify areas for further review or monitoring, or be referred to other state agencies in support of their work on behalf of health care consumers.

The HPC begins its work during a period of dynamic change among provider organizations, including accelerating consolidation and new contractual and clinical alignments. In particular, hospital acquisition of physicians and the transition from independent or affiliated practices to employment models are significant trends both in Massachusetts and nationally. Through the CMIR process we seek to improve our understanding of these trends and other market developments affecting short and long term health care spending, quality, and consumer access.

In addition, our reviews will enable us to identify particular factors for market participants to consider in proposing and responding to potential future organizational changes. Through this process, we seek to encourage providers and payers alike to evaluate and take steps to minimize negative impacts and enhance positive outcomes of any given material change.

**EMBARGOED UNTIL 12/18/2013 12:00AM**

This document reports on the HPC's first CMIR, examining the proposed acquisitions of South Shore Hospital and Harbor Medical Associates by Partners HealthCare System. Based on criteria articulated in Chapter 224 and informed by the facts of the transactions, we analyzed the likely impact of these acquisitions, relying on the best available data and information. Our work included review of the parties' stated goals for the transactions and the information they provided in support of how and when these alignments would result in efficiencies and care delivery improvements.

To the HPC's knowledge, this is the first time any state has authorized a policy-oriented, prospective review of the impact of health care transactions that is distinct from an administrative determination of need or law enforcement review of antitrust or consumer protection concerns. This public reporting process, a unique opportunity to enhance the transparency of significant changes to our health care system, is of great interest to all stakeholders – payers, providers, purchasers, and government alike – who have demonstrated a shared commitment to sustaining access to high-quality, affordable care. Our work is intended to complement the many important efforts of other state agencies, such as the Center for Health Information and Analysis (CHIA), the Department of Public Health (DPH), the Division of Insurance (DOI), and the Attorney General's Office (AGO) in monitoring and overseeing our health care market. Consistent with the goals of Chapter 224, we believe that comprehensive and evidence-based reporting of provider organization performance brings important information to the public dialogue about how to develop a more affordable, effective, and accountable health care system.

## EXECUTIVE SUMMARY

On December 21, 2012, Partners HealthCare System (Partners) and South Shore Hospital (SSH) executed an Affiliation Agreement for Partners to acquire SSH, making it a fully integrated, community based member of the Partners system. According to the parties, they seek to develop an integrated physician, acute care, and post-acute care system that will support population health management (PHM) and allow the parties to assume greater risk for the quality and cost of care in southeastern Massachusetts. This vision is premised on new models for aligning physicians with SSH and the Partners hospitals, which the parties have stated is “a key component to successful implementation” of PHM and the SSH acquisition.

Subsequently, on July 19, 2013, the Partners subsidiary Brigham and Women’s Physician Organization (BWPO) executed a Memorandum of Understanding to acquire Harbor Medical Associates (Harbor), the largest local practice group within South Shore Physician Hospital Organization (SSPHO), the managed care contracting organization for SSH and approximately 400 physicians in the South Shore region. Partners intends to integrate the Harbor physicians into a community-based, multispecialty unit of BWPO located on the South Shore, with the stated goals of improving PHM and moderating health care cost growth in southeastern Massachusetts.

Following 30-day initial reviews, the HPC determined that the transactions were likely to have a significant impact on costs and market functioning in southeastern Massachusetts and warranted further review. This preliminary report presents our analysis and the key findings from our review. Following a 30-day opportunity for the parties to respond to these findings, the HPC will issue a final report.

This report is organized into five parts. Part I outlines our analytic approach to conducting CMIRs. Part II describes the parties to this CMIR and their goals and plans for undertaking the transactions. Parts III and IV then present our findings. Part III reports on the parties’ performance leading up to the transactions, and Part IV reports on the projected impact of the transactions on that baseline. We conclude in Part V. Below is a summary of the findings presented in Parts III and IV:

- 1. Cost Profile:** Partners and SSH are financially strong and are the two leading competitors for inpatient services in SSH’s service area. Partners and SSPHO (including Harbor) have high total medical expenses (TME), due in part to high hospital prices. In each region where the parties operate, their hospitals have higher prices than nearly all other area hospitals, and Partners’ physicians have some of the highest prices in the state.
- 2. Quality and Care Delivery Profile:** Partners, SSH, and SSPHO (including Harbor) are strong quality performers, consistently exceeding Massachusetts and national averages across a spectrum of measures; there is very little material variation in quality performance between them.
- 3. Access Profile:** Partners’ hospitals and SSH generally care for higher proportions of commercially insured patients and lower proportions of Medicaid patients than other area hospitals, and SSH generally provides fewer inpatient behavioral health services in its service area than other area hospitals.
- 4. Cost Impact:** Over time, for the three major commercial payers studied, these transactions are anticipated to increase total medical spending by \$23 million to \$26 million each year as a result of increases in Harbor/SSPHO physician prices and increased utilization of Partners and SSH facilities. Total spending will also increase if facility fees are added to Harbor’s clinic or ancillary visits following the transactions. The resulting system is anticipated to have increased ability to leverage higher prices and other favorable contract terms in negotiations with commercial payers. The cost impact of this increased leverage is not included in the above projection, and will be substantial if payers are unable to prevent the exercise of the parties’ leverage in future contract negotiations. Overall, increases in spending are anticipated to far exceed potential cost savings from expanding Partners’ PHM initiatives into the South Shore region.

**5. Care Delivery Impact:** Partners' work on PHM demonstrates potential for improving care delivery and health outcomes. However, given SSH and SSPHO's historically strong quality performance, and their own experience managing populations through risk-based payments, it is unclear how corporate integration of the parties is instrumental to raising quality performance in the South Shore region.

**6. Access Impact:** Partners and SSH have not proposed specific changes in services that would cause the HPC to anticipate changes to their existing hospital service mix and payer mix trends. Combining providers with similar profiles of high commercial payer mix may reinforce the resulting system's financial strength vis-à-vis area competitors.

In summary, we find that the proposed transactions between Partners, SSH, and Harbor will increase health care spending, likely reduce market competition, and result in increased premiums for employers and consumers. We find the projected benefits from care delivery efficiencies and quality improvement to be limited in comparison to known spending increases. Based on these findings, the HPC concludes that the transactions warrant further review and refers our report to the AGO pursuant to MASS. GEN. LAWS c. 6D, § 13(f).

## CONCLUSIONS

We estimate the impact of these transactions on total medical spending, based solely on increases in physician prices and anticipated changes in referral practices, will be \$23 million to \$26 million annually for the top 3 commercial payers. Based on our modeling, the possible savings in the South Shore region based on expanding Partners' historic performance in the CMS high risk Medicare beneficiary demonstration and Pioneer ACO are in the range of costs increasing by \$1.4 million to cost savings of \$6.6 million annually. Below, we summarize our findings.

- **Cost Impact:** Over time, for the three major commercial payers studied, these transactions are anticipated to increase total medical spending by \$23 million to \$26 million each year as a result of increases in Harbor/SSPHO physician prices and redirection of care to Partners and SSH facilities. Total spending will also increase if facility fees are added to Harbor's clinic or ancillary visits following the transactions. The resulting system will also have increased ability to leverage higher prices and other favorable contract terms in negotiations with commercial payers. The cost impact of this increased leverage is not included in the above projection, and will be substantial if payers are unable to prevent the exercise of the parties' leverage in future contract negotiations. Overall, increases in spending are anticipated to far exceed potential cost savings from expanding Partners' PHM initiatives into the South Shore region.
- **Care Delivery Impact:** Partners' work on PHM demonstrates potential for improving care delivery and health outcomes. However, given SSH and SSPHO's historically strong quality performance, and their own experience managing populations through risk-based payments, it is unclear how corporate ownership of the parties is instrumental to raising quality performance in the South Shore region.
- **Access Impact:** Partners and SSH have not proposed specific changes in services that would cause the HPC to anticipate changes to their existing hospital service mix and payer mix trends. Combining providers with similar profiles of high commercial payer mix may reinforce the resulting system's financial strength vis-à-vis area competitors.

## RECOMMENDATION FOR FURTHER REVIEW

Section 13 of Chapter 6D provides that the Health Policy Commission "shall identify any provider or provider organization that...has a dominant market share for the services it provides...charges prices for services that are materially higher than the median prices charged by all other providers for the same services in the same market... [and that] has a health status adjusted total medical expense that is materially higher than the median total medical expense for all other providers for the same service in the same market."

As described in Section III.A.4, the HPC found that SSH and Partners respectively have the first and second largest market shares for commercial inpatient services provided in SSH's PSA. Combined, these two systems command a 50% commercial inpatient market share in SSH's PSA. The HPC also found that both Partners and SSH are paid hospital prices that are well above median in each market in which they operate, and that PCHI is generally paid physician prices that are in the 80th to 95th percentile of the 30 largest Massachusetts providers reported by CHIA. Finally, the HPC found that PCHI and SSPHO have health status adjusted TME that is well above the median TME for area providers.

In summary, we find that the proposed transactions between Partners, SSH, and Harbor will increase health care spending, likely reduce market competition, and result in increased premiums for employers and consumers. We find the projected benefits from care delivery efficiencies and quality improvement to be limited in comparison to known spending increases.

The HPC therefore concludes that the transactions warrant further review and refers our report to the AGO pursuant to MASS. GEN. LAWS c. 6D, § 13(f).