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This roundtable discussion is sponsored by the Antitrust Practice Group.

Faculty:

Alexis J. Gilman
Assistant Director, Bureau of Competition
Federal Trade Commission
Washington, DC
agilman@ftc.gov

David Marx, Jr.
Partner
McDermott Will & Emery LLP
Chicago, IL
dmarx@mwe.com

Douglas C. Ross
Partner
Davis Wright Tremaine LLP
Seattle, WA
douglasross@dwt.com

Ryan C. Gist (Moderator)
Associate
Davis Wright Tremaine LLP
Seattle, WA
ryangist@dwt.com
Background
Mergers in the news…

The New York Times

The Opinion Pages | EDITORIAL

The Risks of Hospital Mergers

By THE EDITORIAL BOARD  JULY 6, 2014

In retrospect, it looks as if Massachusetts made a serious mistake in 1994 when it let its two most prestigious (and costly) hospitals — Massachusetts General Hospital and Brigham and Women’s Hospital, both affiliated with Harvard — merge into a single system known as Partners HealthCare. Investigations by the state attorney general’s office have documented that the merger gave the hospitals enormous market leverage to drive up health care costs in the Boston area by demanding high reimbursements from insurers that were unrelated to the quality or complexity of care delivered.

Now, belatedly, Attorney General Martha Coakley is trying to rein in the hospitals with a negotiated agreement that would at least slow the increases in Partners’ prices and limit the number of physician practices it can gobble up, albeit only temporarily.

The experience in Massachusetts offers a cautionary tale to other states about the risks of big hospital mergers and the limits of antitrust law as a tool to break up a powerful market-dominating system once it is entrenched.
Growth in Hospital Systems

Figure 2: Number of Independent Hospitals and Hospitals in Health Systems in the US, 1999-2011

Source: AHA TrendWatch Chartbook 2013. Table 2.1: Number of Community Hospitals, 1991 – 2011
Physician acquisitions

Joining Forces
Share of doctors practicing at hospitals who are also employees

- Specialists
- Primary-care physicians

Source: Advisory Board Co.
The Wall Street Journal

Wall Street Journal
September 13, 2012
**COMPETITION**

**ANTITRUST ENFORCEMENT**

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**POLICY INITIATIVES**

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**Enforcement Actions by Sector**

Fiscal Years 2009-2013

- Manufacturing & Chemicals: 29%
- Retail Goods & Services: 11%
- Health Care - General: 32%
- Technology: 8%
- Energy: 5%
- Health Care - Pharmaceuticals: 14%
Relevant Product Market
Figure 3-2: Medicare inpatient discharges per beneficiary declined as outpatient visits per beneficiary increased.

- Outpatient services per FFS Part B beneficiary
- Inpatient discharges per FFS Part A beneficiary

Cumulative percent change vs. Year (2004-2011)

Note: FFS (fee-for-service). Data include general and surgical hospitals, critical access, and children’s hospitals.

Source: Medicare hospital cost reports and Medicare outpatient claims data.
Relevant Geographic Market
Idaho’s Treasure Valley

St. Luke’s Hospitals
St. Luke’s Clinic
Saltzer Medical Group

St. Alphonsus Hospitals
St. Alphonsus MG
ProMedica

- 4-3 hospital merger
- 3-2 OB
Market Share
FTC Trial Exhibit in St. Luke’s

St. Luke’s and Saltzer Account for Nearly 80% of PCP services in Nampa
Entry
Entry?

Projected Supply and Demand, Physicians, 2008-2020

(ALL SPECIALTIES)

Association of American Medical Colleges

Waiting Room | A shortage of doctors could strain health-care services

Number of primary-care physicians per 1,000 people

- Fewer than 1.0
- 1.0-1.2
- 1.21-1.5
- More than 1.5

U.S. average: 1.25

Wall Street Journal

*2008 data
Source: Kaiser Family Foundation
Efficiencies
Health expenditure per capita varies widely across OECD countries. The United States spends two-and-a-half times the OECD average.

1. In the Netherlands, it is not possible to clearly distinguish the public and private share related to investments.
2. Current health expenditure.

Aligning Provider Incentives Does Not Require Employment

Defendants’ Claim:
- Provider incentives to provide quality care are more effectively aligned through employment

My Key Conclusions:
- The St. Luke’s/Saltzer PSA does not align physician incentives to provide quality care
- Employment of physicians does not a priori align incentives
- Alternative payment structures, including risk-based contracting and pay-for-performance, can be accomplished without employment

Better cost is a worthy goal and I totally back that. I also understand market forces involved. But—let’s be realistic. Employing physicians is not achieving better cost; it’s achieving better profit.

Dr. Thomas Huntington, St. Luke’s Treasure Valley Board Member
Vertical Issues
Not as new an issue as we think...

“There has been a dramatic increase in vertical integration in other areas of the health care industry. For example, many hospitals and/or health plans are affiliating with medical clinics and physician practices.”

Christine Varney, “New Directions at the FTC: Efficiency Justifications in Hospital Mergers and Vertical Integration Concerns (May 1995)
Not as new an issue as we think...

“Provider networks are expected to achieve significant economies of scale and scope resulting in lower costs of providing care ... 

“However, competitive harm may result from some types of vertical mergers.”

Christine Varney, “New Directions at the FTC: Efficiency Justifications in Hospital Mergers and Vertical Integration Concerns (May 1995)
While the private plaintiffs challenged the transaction under a vertical theory ... the Commission’s challenge was based strictly on a horizontal theory. Indeed, antitrust challenges by the federal antitrust agencies based on vertical theories of harm are rare.”

*Deborah L. Feinstein, Antitrust Enforcement in Health Care: Proscription, not Prescription, Fifth National Accountable Care Organization Summit (June 19, 2014)*
“a vertical provider transaction could raise concerns, e.g., if a hospital acquired so many physicians in a particular specialty that a competing hospital would be unable to provide that service because it lacks access to the needed physicians ...”

*Deborah L. Feinstein, Antitrust Enforcement in Health Care: Proscription, not Prescription, Fifth National Accountable Care Organization Summit (June 19, 2014)*
“While we are attentive to the possibility of a transaction leading to vertical foreclosure, we have not yet challenged a purely vertical merger involving a hospital and a physician practice.”

*Deborah L. Feinstein, Antitrust Enforcement in Health Care: Proscription, not Prescription, Fifth National Accountable Care Organization Summit (June 19, 2014)*
Flailing Firm
ProMedica ... flailing firm?

ProMedica slide
ProMedica ... flailing firm?

St. Luke’s Finances Were *Improving*

- Mr. Den Uyl admitted financial condition “improved” in eight months leading up to Acquisition (Den Uyl, Tr. 6562)
- Undisputed volume growth up to Acquisition:
  - Revenues
  - Market share
  - Inpatient admissions
  - Outpatient visits
  - Patient days
  - Occupancy rate

(see Resp’t Reply Br. at 64-65)

*FTC slide*
Documents
Saltzer is Dominant in the “Nampa Market”

“This begins to show the dominance of Saltzer in the Nampa market. . . . Out of roughly 80 physicians in Nampa, Saltzer represents 47. If you add the Mercy Group, we have the opportunity to work exclusively with 54 of the 80.”

Ed Castledine, Director of Business Development
St Luke’s
Record evidence confirms that the acquisition will likely result in anticompetitive effects

- Dr. Randell Page, Chair of Saltzer’s Contracting Committee, wrote:
  - If Saltzer closed its pending deal with St. Luke’s, it may be able to re-open contract negotiations with Blue Cross, “as there would be the clout of the entire network”
Toledo merger: FTC presentation

Acquisition Leads to Increased Leverage and Higher Rates

- St. Luke’s viewed increased bargaining leverage and access to higher rates as principal benefits of Acquisition:

  ProMedica:
  - An SLH affiliation with ProMedica has the greatest potential for higher hospital rates. A ProMedica-SLH partnership would have a lot of negotiating clout.

“An SLH affiliation with ProMedica has the greatest potential for higher hospital rates. … a lot of negotiating clout.”

“… ProMedica brings to the table … incredible access to outstanding pricing on managed care agreements. Taking advantage of these strengths may not be the best thing for the community in the long run. Sure would make life much easier right now though.”

Presentation to St. Luke’s Board of Directors, 10/30/09 (PX01030 at 20, l/c)
The Aftermath of the FTC’s Wins in ProMedica and St. Luke’s: What is the Future of Provider Mergers? © 2014 is published by the American Health Lawyers Association. All rights reserved. No part of this publication may be reproduced in any form except by prior written permission from the publisher. Printed in the United States of America.

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