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Costly care

Great Falls hospital merger holds lessons for Missoula

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Community Medical Center, one of Missoula's two nonprofit hospitals, is expected to announce soon a new partnership with a larger regional health care organization. While officials cannot speak publicly about ongoing negotiations due to nondisclosure agreements, other health care providers have advocated strongly for a partnership with Providence Health & Services, owner of Missoula's St. Patrick Hospital.

Experts warn that a merger with St. Pat's could result in major changes for Missoula patients.

"Mergers and acquisitions of hospitals nationwide, where they have been approved by the anti-trust division of the U.S. Department of Justice, have resulted in price increases in the United States in those markets," says Larry White, a professor at the University of Montana and the former CEO of St. Patrick Hospital.

Courtesy Benefis Health System

Benefis Health System is a product of the 1996 merger of two competing hospitals in Great Falls.

Bryce Ward, the associate director of UM's Bureau of Business and Economic Research, puts it another way. "The big drawback is that when you create a monopolist, you've created a monopolist," he says. "And monopolists have market power and they exercise that market power to raise prices."

One of the most prominent Montana hospital mergers in recent years took place in 1996 in Great Falls when Montana Deaconess Medical Center and Columbus Hospital joined forces to become the nonprofit Benefis Healthcare, which later became Benefis Health System. The merger, which created a de facto health care monopoly in Great Falls, offers some insight into the possible future of medical service in Missoula should Community Medical Center and St. Pat's combine.

During the first decade after the Benefis merger, the Montana Department of Justice tightly regulated the new hospital using a legal agreement known as a Certificate of Public Advantage, or COPA. The COPA allowed the Montana DOJ to "severely restrict the new entity, Benefis, from revenue increases that were outside of a fairly narrow window," according to White.

White calls the state's use of the COPA a "very unique" and "highly creative" solution to regulate the new hospital. He notes that the Federal Trade Commission, rather than state government, often provides oversight in such deals.

"The COPA was the first one I knew of in America," he says. "... Benefis actually had some of the very lowest unit costs in the sate of Montana for various kinds of medical services."

In 2007, however, the Montana Legislature, at Benefis' urging, passed a law that effectively rescinded the hospital's COPA agreement despite then-Attorney General Mike McGrath's desire to keep the agreement in place. McGrath had argued in a 2006 Montana DOJ ruling that, though Benefis faced some competition from smaller health care providers like Central Montana Hospital and the Great Falls Clinic, "there is not sufficient evidence to conclude that increases in competition have eliminated the need for regulation over inhospital services." The legislature's action released Benefis from strict state oversight in 2009, and that's when trouble began, according to the hospital's critics.

Eric Schindler, CEO of the Montana School Services Foundation, a trust that provides health-benefit plans to 136 school districts in the state, appeared before the 2011 Montana Legislature to denounce a wave of cost increases initiated by Benefis after COPA was revoked.

"Since the COPA was rescinded the Great Falls Clinic is a shadow of its former self and there is no effective hospital competition to Benefis in the Great Falls market," he said in his testimony. Schindler went on to argue that Benefis had increased costs for his organization's members by 38 percent in the three years since the COPA bit the dust, calling the increase "monopolistic, predatory price behavior."

There are other indications of how Benefis' monopoly affected customers. The annual Montana attorney general reports on state hospitals show prices rapidly rising at Benefis over the years. For example, in 2008 Benefis boasted the lowest unit costs among major hospitals in four of nine common medical services. Two years later, Benefis dropped to the middle of the pack and didn't offer the most affordable service in any of the nine listed categories.

Specifically, the reports show that from 2008 to 2010 average prices at Benefis for esophagitis treatment increased from $6,564 to $9,230. A simple pneumonia procedure jumped from $7,722 to $13,076. The average price of a vaginal birth rose from $3,475 to $4,832.

Karen Ogden, a spokeswoman for Benefis, confirms that prices have risen at the state's second-largest hospital with 2,800 employees.

"Our prices have, of course, increased at Benefis since the COPA was revoked almost eight years ago. There was a price spike in 2008 because some of our charges were too low and were adjusted to be more in line with our peer hospitals," she wrote in an email. "... However, on average, Benefis' charges are 16 percent lower than our Montana peers for inpatient and outpatient care combined, according to the most recent data from the Montana Hospital Association."

Ward, with UM's Bureau of Business and Economic Research, says hospital mergers do offer some potential benefits, including a reduction of duplicated services and the efficiencies that come from economies of scale. These can lead to lower prices and higher quality, he says, but without regulation the benefits do not always trickle down to patients.

"Frequently what happens is you may find some cost savings [from mergers], but those cost savings basically go to the provider, they do not end up lowering the price," he says. "... It is fine to create monopolies, but if you are going to create monopolies just in general, the standard advice would be they need to be monitored and/or regulated."

In the case of the potential Missoula merger, White offers this outlook.

"I think the pattern around the United States is the only thing you can look at to try to come up with a prediction of what would happen in Missoula," he says. "And I think it seems to indicate that the prices would go up."

A decision about Community Medical Center's future could be made as early as March 27, when the hospital's board of directors next meets. In a letter to the community, Board Chair Scott Stearns and CEO Steve Carlson assured that their decision "must be made in the best interest of those that we serve, you."

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