

Going head to head

By Sarah E. Reynolds *WBS 4 AUG 97*

As almost everyone in Central Massachusetts knows, the number of major health care systems in Worcester is about to go from three to two, with the anticipated merger of the clinical systems of the UMass Medical Center and those of Memorial Health Care. Among the salient features of this merger so far has been the overwhelming support it has received from most of the community, and the near-absence of questions about how such a deal might affect consumers of health care and the rest of the system that delivers it.

To be sure, there is much to say in favor of joining two of Worcester's most prestigious hospitals to form what will likely be a regional health care powerhouse with an excellent teaching facility and a comprehensive array of services. The would-be partners assert that each of them would've had to look elsewhere for a partner within a very few years if they didn't merge with each other, thus moving control of these institutions out of the area. Because of that, most of those interviewed for this story think, the merger is in the region's interest.

Some add that the clout of the merged entity would probably

enable it to be among the handful of eventual survivors in Massachusetts, as a result of the continuing health care shakeout. That shakeout has come home with a vengeance. In a relatively short 15 years, Worcester has gone from eight acute-care hospitals down to three: UMass, Memorial and Saint Vincent (which is owned by Santa Barbara, California-based for-profit Tenet Healthcare Corp.)

The other issues raised by people interviewed for this story concern the competition that will exist between Tenet-Saint Vincent and UMass-Memorial: whether there will be enough of it; whether it will be fair; and how community hospitals and health care consumers will be affected.

Competing effectively

Although they say they don't oppose the proposed UMass-Memorial merger, officials of Saint Vincent and its affiliated Worcester-based HMO, Fallon Community Health Plan, have expressed concerns about it. This May, in a closed-door meeting with local state legislators, they presented a list of nine "requirements" for the proposed merger "in order for the proposed merger not to negatively impact on either Fallon or Saint Vincent" (see sidebar, page 17).

Continued on page 13

Competition

Continued from cover

Worcester Business Journal contacted both UMass and Memorial about the memo. Both essentially decline to comment, saying the matter is between themselves and Fallon and Saint Vincent.

The memo, says Saint Vincent CEO Robert Maher Jr., was not meant to be a public document, since he had not (and as of this writing still has not) discussed it with the principals of UMass and Memorial. However, the memo raises a number of points, directly and indirectly, concerning competition in health care in the Central Mass. market.

Maher emphasizes that the memo was meant for legislators' information and not for public distribution. He says he asked the legislators in the meeting in which it was handed out not to act on it or make it public, because he plans, over the course of this summer, to talk with the leadership of UMass and Memorial about its contents.

Alan Sager is co-principal of the Access and Affordability Monitoring Project at Boston University's School of Public Health. He suggests the memo is a product of, and symptomatic of, the "inherently unfree market" in health care that Massachusetts now has.

We asked Sager and others outside Fallon and Saint Vincent to look at the memo and comment on it. They remark that it seems, using Sager's word, to be "defensive," and appears aimed at blunting the competition between Fallon and Saint Vincent on one side and UMass-Memorial on the other. Maher says Fallon and Tenet-Saint Vincent feel they have a right to be protected from harm from the UMass-Memorial merger, but only to the extent that the merger may prevent them from "competing effectively."

Sager speculates that Fallon and Saint Vincent may be worried the large managed-care systems to the east, such as Tufts Affiliated Health Plans in Waltham and Harvard Pilgrim Health Care in Boston, will affiliate with UMass-Memorial, making it much harder for Fallon and Saint Vincent to compete for both patients and managed-care contracts. He notes that while Saint Vincent's parent, Tenet, is large, it has no other facilities in New England. UMass-Memorial, on the other hand, will have a network of affiliated hospitals and other facilities covering Worcester County and extending into northeastern Connecticut.

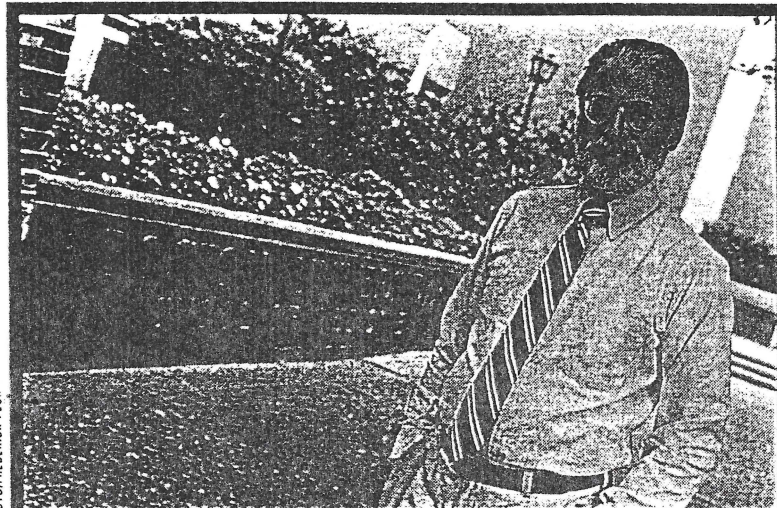


PHOTO: FREDERICK FLECK

Leslie Linson is an attorney with the Worcester-based Legal Assistance Corp. of Central Mass. and a volunteer member of the Worcester-based Central Mass. Health Care Coalition, a group of 49 local health-care and human-service organizations. She shares Sager's concerns. She adds that if achieving economies of scale helps in negotiating managed-care contracts, the concerns expressed in Fallon and Saint Vincent's memo, at least in this regard, seem "quite rational."

One of the "requirements" in Fallon and Saint Vincent's memo is that the merged UMass-Memorial entity should do one of the following: Make a payment in lieu of taxes to the City of Worcester equal to what Saint Vincent is paying to the city as a percentage of net revenue; or increase its contributions to free care and community benefit to be equal to the percentage of net revenue Saint Vincent will be paying in free care, community benefit and taxes.

Sager says he favors non-profit hospitals making a contribution to their communities that is at least equal to their tax subsidy. But he feels such matters should be decided across the board, not on a case-by-case basis to protect Fallon and Saint Vincent, or any other providers.

He and others suggest there is a flavor of special pleading about Fallon and Saint Vincent's memo. But, Sager adds, these are points that might be raised by anyone forced to compete in a market distorted by "the fantasy of price competition" that "eats away the foundations on which it has to rest." The continued downward pressure on prices, he explains, will force smaller hospitals to close, and will eventually elim-

inate the need for the few remaining larger facilities to compete, since they will have a captive market and little room to increase their efficiency.

On the issue of tax policy, Linson notes that for-profit hospitals and managed-care companies think it is unfair that they not only have to pay taxes, but also must adhere to the same free-care requirements that apply to tax-exempt non-profits. (The Massachusetts Attorney General's voluntary community-benefit guidelines apply only to non-profits.) However, she points out that for-profits are making money in the communities in which they operate, and therefore should pay taxes on it.

She adds that while free care provided by hospitals directly affects health care in their communities, the local taxes they pay does not. Further, she says, hospitals get reimbursed by the state for a portion of the free care they provide. Because health care is viewed as a right and not just another commodity in our society, she says, hospitals, whether for-profit or not, have an obligation to make it available to all who need it.

Not alone on the field

John Kingsdale is senior vice president for planning and development at Boston-based Tufts Affiliated Health Plans. The planned UMass-Memorial merger certainly "won't hurt" those two hospitals in negotiating managed-care contracts, he says, indicating that it could actually help. His company will be watching, he says, to see whether the merged entity achieves the improvements in care and lower costs which the partners have promised.

If those benefits come about, Kingsdale

FANTASTIC DISTORTIONS: BOSTON UNIVERSITY'S ALAN SAGER SAYS THE HEALTH CARE MARKET IS DISTORTED BY "THE FANTASY OF PRICE COMPETITION" THAT ERODES THE VERY FOUNDATION ON WHICH IT MUST REST.

says, the merged system would be better able to negotiate for favorable deals with companies like his, as well as to attract the best physicians. To some extent, he observes, doctors are independent of hospitals, and increasingly negotiate in physician groups with insurers.

Kingsdale goes on to note that UMass-Memorial and Tenet-Saint Vincent "will inevitably have other competitors," as systems like Partners Healthcare System Inc. in Boston and

Lahey Clinic in Burlington look to expand their service areas. Likewise, he says, either of the Worcester-based systems may want to expand into territory already claimed by other players. He expects to see four to eight hospital systems in New England by the time the market shakeout ends.

Indeed, Augusto "Augie" Grace, vice president for community relations at HealthAlliance, parent of Burbank Hospital in Fitchburg and Leominster Hospital in Leominster, reports that HealthAlliance has approached Partners, Tenet and UMass about a partnership. He expects a deal to be announced sometime this fall.

Kingsdale adds that he thinks managed-care companies compete on quality as well as price, and will continue to do so. There's "a whole bunch of stuff," he says, that can cut costs and improve care.

In addition to the competition for patients from out-of-area hospital systems, Memorial spokesman Robert Ristino points out there is also competition among health insurers themselves and among hospitals within a system for managed-care contracts.

Robert Bradbury, professor of health management at Worcester's Clark University, likes the way competition has operated in the regional health care market. Competition has rewarded those hospitals that are doing the best jobs, he says, with the result that the health system has "benefited greatly from competition and choice."

Given his druthers, Bradbury says he might prefer to keep three hospital systems in Worcester rather than two. But given the

Continued on page 14

Competition

Continued from page 13

amount of money UMass and Memorial would each have to spend to stay competitive without the merger, he adds, it makes much more sense for them to combine forces and get the resulting economies of scale. Also, he says, since health care is a regional, rather than a statewide, market, it is desirable to have the local hospital systems remain locally controlled, which might not be the case if either institution joined with a different partner.

Bradbury expects that both UMass-Memorial and Tenet-Saint Vincent will be "very viable" systems. He thinks the new Tenet-Saint Vincent Medical City project, now under construction in downtown Worcester, will have a national reputation. He anticipates strong and fair competition between the rivals, he says, and hopes each stays a bit worried about the other, to keep that competition keen.

Second string

Community hospitals have metamorphosed from comprehensive treatment facilities into places dispensing primarily acute and outpatient care. As a result, they now rely heavily on larger, more centrally located hospitals for a variety of inpatient, specialty and tertiary care. Such medical hubs are UMass and, to a lesser degree, Memorial.

When we talked to community hospitals in Central Mass. last fall (see "Sticking to their knitting, October 14, 1996 issue), they indicated they were not concerned about Medical City, a medical complex that will



PHOTO/FREDERICK PECK

include a hospital to replace Saint Vincent, as well as medical offices. At the time, the project was slated to be built by Tennessee-based OrNda Healthcorp, which in 1995 bought Saint Vincent and part of the Fallon Clinic group doctors' practice. OrNda was bought by Tenet in 1996. Now, at press time, Tenet reportedly is in merger talks with Tennessee-based Columbia/HCA Healthcare Corp., the largest for-profit hospital chain in the nation (see News Briefs, page 5).

COMPETITIVE BENEFITS: CLARK UNIVERSITY'S ROBERT BRADBURY SAYS HEALTH CARE COMPETITION HAS REWARDED THOSE HOSPITALS THAT ARE DOING THE BEST JOBS, WITH THE RESULT THAT THE HEALTH SYSTEM HAS "BENEFITED GREATLY FROM COMPETITION AND CHOICE."

Last fall, most of the hospital officials with whom we spoke said their institutions had relationships, of varying degrees of formality, with UMass, and two — Marlborough and Clinton — had merged with the medical center. Community hospitals were developing niche services, such as asthma clinics, and reducing their number of medical/surgical beds to respond to the requirements of managed care.

HealthAlliance's Grace says he expects Massachusetts will have four or five hospital systems within a few years. He says he is concerned about whether there will be enough competition and choice in Central Mass. if the region has only one or two such systems operating here.

Grace adds that it's important to look beyond the short term in considering the future viability of community hospitals. For now, he says, it seems to make sense for

these facilities to affiliate with larger hospitals and hospital systems, but no one knows where this practice will lead in 10 or 20 years.

Presently, he says, HealthAlliance has relationships with both UMass and Memorial, and he is optimistic that their merger will make both stronger. His own institution is considering a merger with UMass or another hospital system, he says, in order to get the capital it needs for its planned construction and renovation program, as well as to gain access to more sophisticated treatments and technologies.

Clark's Bradbury observes that linkages with facilities like UMass, Memorial and Saint Vincent are very important to community hospitals — especially the smaller ones. He feels the changes in the way the delivery of health care services is structured has been good for community hospitals, saying they are doing better now than they were 20 years ago. He thinks these institutions will have enough choice of high-quality larger hospitals with which to affiliate even after UMass and Memorial merge.

Sager disagrees. He thinks the merger, with its resulting reduction in the number of competitors in the marketplace, could mean Central Mass. will have only one hospital early in the next century. He predicts that Medical City will not get built, and that if it does, it may not survive. Even if two hospitals were to survive, he says, price-based competition would wane, as greater efficiencies would become harder and harder to obtain. Without some empty hospital beds chasing patients, he says, competition would continue to decline.

Sager goes on to say that the current trend toward de-hospitalization could force the closure of the region's community hospitals.

UMass Deputy Chancellor Richard Stanton says while community hospitals will have a choice of two large health systems in Worcester with which to affiliate, UMass-Memorial will have the local advantage. He thinks the high-quality care offered by UMass-Memorial and the fact that its board will have a majority of local members, as required by the enabling legislation for the proposed merger (at press time, in the state Senate Committee on Ways and Means), will make UMass-Memorial an attractive partner.

Memorial's Ristino says relationships with community hospitals will be maintained and strengthened following the merger. This, he says, will enable the

resulting system to serve a large slice of the Central Mass. population with everything from neonatal services to hospice care.

Don't forget the fans

Some of the people we talked to for this story say health care consumers seem somewhat sidelined in all this, because they don't really comparison-shop for a hospital, but tend to use the most convenient hospital that contracts with their health plan. In that sense, the network built by UMass probably serves consumers well, because it allows them to receive acute-care and outpatient services closer to home, and only come into the city for specialty and tertiary care.

Grace thinks the UMass-Memorial merger will accentuate the trend toward replacing inpatient treatment with outpatient care whenever possible. This move,

Continued on page 16

Competition

Continued from page 15

he adds, will benefit consumers.

Linson of the Central Mass. Health Care Coalition and Lauren Stiller-Rikleen, an attorney in the Framingham office of the Worcester-based law firm of Bowditch & Dewey, both observe that consumers are left out of the process of determining the shape of the health care system they have to use. Hospitals don't have to "win the hearts and minds of patients," Linson says, just the managed-care contract. Rikleen adds that managed-care companies have not adequately educated patients regarding the cost of medicine, to make them wiser consumers. (Rikleen recently resigned from the board of Columbia MetroWest Medical Center in Framingham and Natick, expressing concerns about Columbia/HCA's management methods [see News Briefs, page 5].)

Memorial's Ristino says the joining of UMass and Memorial will create "the not-for-profit provider of choice" in Central Mass., so managed-care companies will be willing to negotiate with it about both prices and services to be offered. He thinks the size and comprehensiveness of the merged system will enable it to advocate for quality care on behalf of patients.

However, Bruce Karlin, MD, a physician in private practice in Worcester who sees patients at Memorial Hospital, is skeptical, to say the least. Karlin, who is critical of Memorial's dealings with doctors who

practice there, says he is concerned about the possibility that Saint Vincent and the merged UMass-Memorial might try to dictate terms to doctors, effectively shutting out those who refuse to play ball.

Doctors could be required to meet certain criteria for membership in the hospitals' physician-hospital organizations (PHOs), normally the entity through which a hospital's doctors negotiate with health insurers, Karlin says. If they don't meet the criteria, he explains, they would be denied membership in the PHO, which would mean they couldn't receive insurance payments.

In addition, Karlin abhors the "loss of the community hospital" which he says the proposed UMass-Memorial merger represents. He says he fears patient care will get depersonalized as a result.

State Rep. Harriette Chandler (D-Worcester) is House chair of the Legislature's Joint Committee on Health Care. She says any agreement between hospitals as to restrictions to be placed on doctors' practices would probably be an anti-trust matter, but she does not think it's likely to happen. She adds that takeover of the merged UMass-Memorial by a for-profit is forbidden in the merger's enabling legislation, which her committee has approved. (For information about other bills now being considered on Beacon Hill, which deal with conversions of non-profits hospitals and HMOs to for-profit status, see the sidebar on page 15).

Knowing the score

As the number of health systems continues to shrink, UMass-Memorial and Tenet-Saint Vincent are positioning themselves to be among the survivors once the dust settles. Depending on whom you believe, it may or may not be possible for both to thrive. Officials of both systems say they want to collaborate as well as compete, and that community benefit is paramount in determining whether to maintain a joint project.

Most observers we spoke to, including officials of UMass, Memorial and Tenet-Saint Vincent, expect strong competition between the two remaining players in Worcester. And they seem to feel that's a good thing.

For now, it appears UMass-Memorial has a slight edge, assuming the merger takes place without any major problems. Its size and existing network of affiliations will likely help it expand its relationships with community hospitals and draw outpatient facilities into its orbit. And all of that will

make affiliations with even larger, out-of-area systems easier to do, as well as provide leverage in negotiations with managed-care companies.

On the other hand, Saint Vincent is backed by some very deep pockets at Tenet, and has community-hospital affiliations of its own. UMass' Stanton says he

thinks the system comprised of the Fallon HMO and Tenet-Saint Vincent's Medical City could "dominate" the regional health care market.

If other health systems decide to enter the fray, the whole picture could change dramatically. This contest is shaping up to be a real fight. ■