The New York Times

July 16, 2013

# 2 Hospital Networks Agree to Merge, Raising Specter of Costlier Care

By ANEMONA HARTOCOLLIS

Two major New York City hospital networks have agreed to merge, creating the largest private hospital system in the city, raising the prospect of higher prices for consumers, and positioning the new system to take advantage of coming changes under the federal health care law.

The boards of the two hospital systems, Mount Sinai Medical Center and Continuum Health Partners, a network of community-oriented hospitals that includes Beth Israel and the two St. Luke's-Roosevelt campuses, approved the merger in consecutive votes on Monday and Tuesday. The decision came after a year of courtship and after Mount Sinai, with a last-minute offer, scuttled a deal between Continuum and a competitor, NYU Langone Medical Center, that would have threatened its position.

The new enterprise would have more than 3,300 beds at seven campuses spread through Manhattan, Brooklyn and Queens, making it the largest hospital system in New York City outside of the public hospital system. It would eclipse the reigning giant, NewYork-Presbyterian Hospital, with 2,600 beds, and would become one of the country's largest nonprofit systems.

Mount Sinai and Continuum would join a trend of consolidation among hospitals nationwide, according to a new report from PricewaterhouseCoopers, which noted that higher prices for consumers often follow.

Dr. Kenneth L. Davis, chief executive of Mount Sinai, said after the final vote on Tuesday that the merger would allow the hospitals to "be more efficient at what they do" and to make up for "the inability of the federal government or the state governments to be able to pay for the health care that people in the past have demanded."

The combination of Mount Sinai's specialty care and medical school and Continuum's primary care would, he said, create "an integrated system that can take care of the patient for the whole life cycle for all degrees of problems."

Dr. Davis said the regional office of the Federal Trade Commission, which reviews antitrust issues, had already approved the merger, and that the only regulatory hurdles remaining were reviews by the State Health Department and the federal Department of Housing and Urban

Development, concerning some hospital debt.

If all goes as expected, the merger would be complete by fall, Dr. Davis said.

Other hospital officials said that the two hospital systems had been pushed together by anticipated changes in the way health care is delivered as the federal health care law takes hold over the coming year.

“The fee-for-service system is going to be history shortly,” said Richard Ravitch, who is a member of Mount Sinai’s board.

It will be replaced with a system of bundled payments for the overall care needed by each patient, perhaps eventually as a single payment. “To be successful with that, you need a population that’s larger than what any one of these institutions has itself today,” Mr. Ravitch said.

While the merger could be a boon for the hospitals, hospital mergers often lead to higher prices for consumers, many studies have shown. Larger hospital systems can have more clout to negotiate higher prices from insurance companies, resulting in higher insurance premiums, according to these studies.

“The real question is whether, after the merger, the new system is what’s called a must-have, a hospital system that every insurance company must have in their network,” said Martin S. Gaynor, professor of economics and health policy at Carnegie Mellon University in Pittsburgh.

“The strong evidence is that these kind of mergers raise prices anywhere from 20, 30, 40 percent up to 50 percent, if a merger strongly enhances a hospital system’s negotiating power,” Professor Gaynor said.

Karen Ignagni, chief executive of America’s Health Insurance Plans, a national trade association, called hospital consolidation “one of the most important health policy issues today.” “There’s a mismatch between the promise and the reality,” Ms. Ignagni added. “The promise is usually greater efficiency. The reality is higher prices for consumers.”

Dr. Davis said insurance payments had not been a consideration, adding, “In all our financial models, we have not included an increase in any commercial rates.”

If the merger survives the regulatory process, New York City, and especially Manhattan, would be dominated by a handful of highly competitive networks.

“We live in an environment of five excellent hospitals — Memorial Sloan-Kettering and Special

Surgery, NYU, NewYork-Presbyterian and Mount Sinai," Dr. Davis said. "I don't know of five such good facilities within a few minutes of each other any other place on the planet. So we don't worry about any single competitor. We're not motivated by that."

The union between Mount Sinai and Continuum would result in a new company, the Mount Sinai Health System, and Continuum Health Partners would cease to exist, officials said. Stanley Brezenoff, Continuum's chief executive, is expected to retire but remain as a consultant for the transition, with Dr. Davis leading the new entity.

Dr. Davis said that it was too early to talk about the possibility of reductions in staff, adding that financially, Mount Sinai was in "robust health" and Continuum had "been doing well in recent years."

Officials said that Continuum could benefit in the long run from capital improvements to its physical plant, which Mount Sinai has the resources to finance. Officials at the two main competitors, NewYork-Presbyterian and NYU Langone, declined to comment on the merger.

Mount Sinai went through a merger with NYU in the late 1990s, which fell apart a few years later, mainly because of a rivalry between the medical schools at the two institutions. That will not be a problem at Continuum, which does not have its own medical school. Continuum's current affiliation with other medical schools will be ended.

The boards of Continuum and NYU had voted a year ago to explore a merger, but those talks collapsed two weeks later, after Continuum began considering an offer from Mount Sinai, which was seeing an opportunity.

James Tallon, president of the United Hospital Fund, said the merger could prompt NYU Langone to seek a partner as well. "I suspect the consolidation of systems in New York will still continue to move forward," he said.