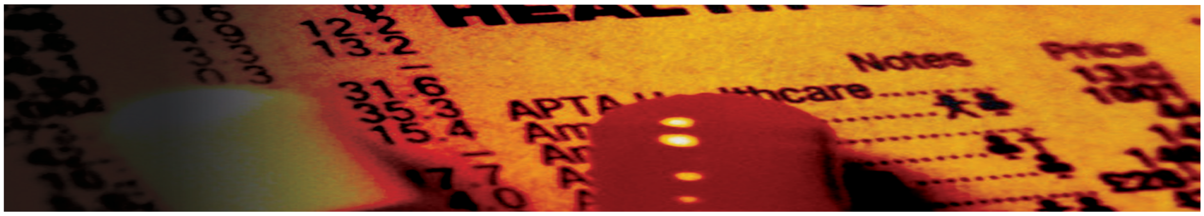
Vo.3
Issue 1



HEALTH POLICY research

James A. Baker III Institute for Public Policy-Baylor College of Medicine
Joint Program in Health Policy Research

MARCH 2008

IN THIS ISSUE

The study, "Patient admission patterns and acquisitions of 'feeder' hospitals," appeared in the Winter 2007 issue of the *Journal of Economics & Management Strategy*. The authors are Sayaka Nakamura, Ph.D., Baker Institute, Rice University; Cory Capps, Ph.D., Bates White LLC; and David Dranove, Ph.D., Kellogg School of Management, Northwestern University.

Are patient admission patterns influenced by hospital acquisitions?

"Yes, in some cases," says Sayaka Nakamura, Sid Richardson Scholar in Health Economics at the Baker Institute. "Roughly 30 percent of the acquisitions involving the purchase of a community hospital by a large, tertiary care hospital lead to a significant increase in referrals. Moreover, the referrals are concentrated among patients undergoing more profitable procedures and with more generous insurance."

Nakamura and her colleagues analyzed data from 26 hospital acquisitions in Florida and New York that occurred between the mid-1990s and the early 2000s, and for which pre- and post-acquisition data were available. They examined hospital records for all patients who received coronary artery bypass graft surgery (CABG), percutaneous transluminal coronary angioplasty (PTCA), or who were admitted for a set of medical conditions which are more commonly treated in tertiary care hospitals. In five out of 13 cases where admissions for CABG and PTCA were examined, acquirers increased their share of patients from the target hospital's service area. In two cases, simulations suggest that the acquisition increased profits for the acquiring hospital by roughly $500,000. In seven out of 15 cases where a select set of tertiary treatments were examined, acquisition also led to an increase in patient referrals from the target hospital's market.

"During the 1990s, hospitals consolidated at an unprecedented pace," says Nakamura. "We don't know whether the prime motivation for acquisitions was an attempt to improve productive efficiency, to improve quality at the hospital being acquired, or to increase patient referrals to the acquiring hospital. Our analysis suggests that a significant portion of tertiary hospitals acquired community hospitals in order to increase patient referrals. These sophisticated acquirers also experienced greater referrals of CABG and PTCA patients, which yield higher profit margins, as well as Medicare and privately insured patients, which provide more generous insurance payments."

The increase in referrals could improve social welfare if acquisition improves patient outcomes or leads to savings through economies of scale. However, researchers have been unable to identify evidence of either of these two factors after hospital consolidation. "The evidence of selective referrals raises potential concerns," says Nakamura. "The fact that some acquiring hospitals can increase profits through selective referrals implies that others will suffer losses. Hospitals with a worsening payer mix may have to reduce staffing and make other choices that threaten quality. They may also feel obliged to find their own targets for acquisition, leading to market consolidation that limits patients' choices for advanced hospital care."

Journal of Economics & Management Strategy Winter 2007; 16 (4): 995-1030. doi:10.1111/j.1530-9134.2007.00165.x

The James A. Baker III Institute for Public Policy

BCM
Baylor College *of* Medicine

HEALTH POLICY research presents a summary of findings on current health policy issues. It is provided by the James A. Baker III Institute for Public Policy's Health Economics Program in collaboration with the Baylor College of Medicine's Health Policy and Quality Division.

This publication is provided to make research results accessible to regional and national health policymakers. The views expressed herein are those of the study authors and do not necessarily represent those of the Baker Institute or of the Baylor College of Medicine.

The Baker Institute and the Baylor College of Medicine's Health Policy and Quality Division work with scholars from across Rice University and the Baylor College of Medicine to address issues of health care — access, financing, organization, delivery, and outcomes. Special emphasis is given to issues of health care quality and cost.

For further information about the program, please contact:

Vivian Ho, PhD
James A. Baker III Institute Chair in Health Economics
James A. Baker III Institute for Public Policy
Rice University MS-40
P.O. Box 1892
Houston, Texas 77251-1892
phone: 713.348.2195
e-mail: vho@rice.edu

Laura Petersen, MD, MPH
Associate Director and Chief
Health Policy and Quality Division
Baylor College of Medicine
Veterans Affairs Medical Center (152)
2002 Holcombe Boulevard
Houston, Texas 77030
phone: 713.794.8623
e-mail: laura.petersen@va.gov

Rice University
James A. Baker III Institute for Public Policy MS-40
Program in Health Economics
P.O. Box 1892
Houston, Texas 77251-1892

ACCESS FINANCING ORGANIZATION DELIVERY OUTCOMES

HEALTH POLICY research

James A. Baker III Institute for Public Policy-Baylor College of Medicine
Joint Program in Health Policy Research

Visit our website at:
http://www.bakerinstitute.org/programs/health-economics

BCM
Baylor College of Medicine

The James A. Baker III Institute for Public Policy

Volume 3, Issue 1, March 2008