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Merging for Value: 4 Key Benefits from the Beth Israel Lahey Health Merger

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Healthcare megamergers are picking up steam, with the merger of Aurora Health Care and Advocate Health Care completed in 2018 and the merger of Catholic Health Initiatives and Dignity Health (now CommonSpirit Health) finalized earlier this year. Optum also completed their acquisition of DaVita Medical Group in June of this year.

It's a trend that saw tremendous activity in 2017, a year of record merger and acquisition (M&A) transactions, and which continues into 2018 and 2019. But as these transactions receive a lot of attention from regulators, the media, and the public, there is little certainty regarding the potential impact of megamergers on the healthcare landscape.

While it may take several years to fully articulate the merits or drawbacks of healthcare megamergers—typically defined as the consolidation of two organizations with $1 billion or more in revenue—the merger of Beth Israel Deaconess Medical Center, Lahey Health, and several Boston-area hospitals this year points to the value one newly formed entity hopes to achieve through merger.

TAKING AN INSIDE LOOK

The process that led to the formation of Beth Israel Lahey Health ("BILH") is unique in that the merger occurred in Massachusetts, a state with a rigorous regulatory review process. As a result, much of the information regarding the organizations' intentions and plans is publicly available.

A review of public documents points to several key strategic goals the founding organizations hoped to achieve through partnership. Four of these strategic goals are described below.

Create impactful population health management capabilities. Prior to merging, the individual organizations that comprise BILH did not have the level of scale, geographic reach, or continuum of services necessary to make a significant difference in health outcomes for the populations they serve. This limited not only their impact in the communities they served, but also their ability to enter into value-based contracts across broad geographies.

Today, with 13 hospitals, more than 2,000 beds, 1,000 primary care physicians, and 3,600 specialists, the newly merged entity serves approximately 1.3 million patients. Clinicians gain the ability to leverage best-of-breed population health infrastructure, expert insight, and best practices to increase efficiency, reduce redundancy, and improve health outcomes for complex populations.

This geographic scope will also allow the organizations to provide a high-value network for insurance products that have the potential to reduce premiums for consumers and employers.

Shift care to the most cost-appropriate setting. Beth Israel Deaconess Medical Center, Lahey Health, and other merged hospitals include both large academic medical centers and community hospitals. It is well known that AMCs have a higher cost profile than the average community hospital. Additionally, a portion of the patients who came to the AMCs for care could have been treated just as effectively in a community hospital setting. With the merger of these organizations under a single bottom line, BILH can redirect appropriate cases to community hospital settings. Such settings offer the benefits of being closer to home and lower cost. Absent a tight, integrated form of affiliation, and value-based payment arrangements, organizations would not have the financial incentives to make this shift in care setting possible.

Make resources available for vulnerable services and populations. Before the merger, Lahey Health operated a robust behavioral health services program, but like many behavioral health services, the program struggled with long-term sustainability. By combining Lahey Health's assets and expertise with those of Beth Israel Deaconess Medical Center and the other parties of the merger, Lahey Health not only gained additional resources to sustain the provision of behavioral health services for patients in need, but also will share best practices with its partners to improve access to behavioral health services across the network.

Improve competition, not hinder it. Partners HealthCare remains the largest health system in Eastern Massachusetts, yet BILH holds a distinct advantage over Partners: Its facilities provide lower-cost care at comparable or better quality. Leaders for BILH hope the combination of lower costs and expanded scale might increase competition. It's a potential win not only for BILH, but also those who rely on Boston-area healthcare facilities for care, as they may soon gain expanded options for service at a comparable price.

In the years ahead, the transparency of Massachusetts' cost and quality reporting requirements will empower regulators and stakeholders to hold the health system accountable for performance and results. It also will offer healthcare leaders a detailed look into how organizations think about complex care delivery challenges and achieve results.

Note: In 2017 and 2018, Veralon assisted the parties forming Beth Israel Lahey Health by coordinating their response to the Massachusetts regulatory review process. All information cited above regarding the organizations' intentions and plans related to the transaction can be found in public documents on the Massachusetts Health Policy Commission's website.

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