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Assessing Responses to Increased Provider Consolidation

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Case Study Analysis: The Colorado Springs Health Care Market

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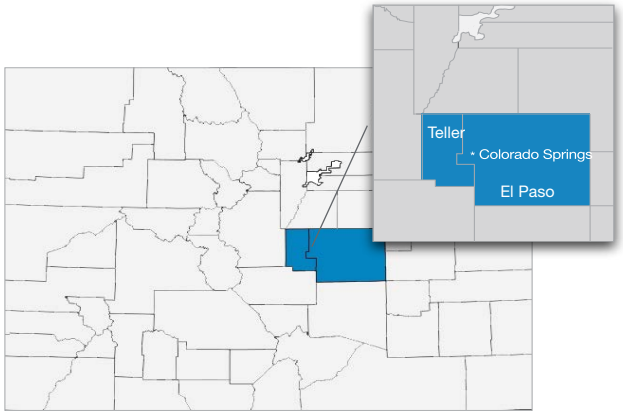
Rising health care prices have increased concerns about hospital and health system consolidation among policymakers, regulators, employers, and other purchasers of health coverage. Although merging hospitals and health systems claim they can achieve greater efficiencies through their consolidation, the economic literature almost universally finds that hospitals that merge have prices above those of surrounding hospitals.[1] And increases in hospital prices have been a key factor driving the growth of commercial health insurance costs over the past decade.[2]

As prices have risen, employers have shifted an ever greater share of the costs to employees. Over the past ten years, the average worker contribution for family coverage has increased faster than the average employer contribution (65 percent vs. 51 percent). Indeed, employee contributions have risen almost 300 percent since 1999.[3] Further, the increased negotiating clout of a concentrated provider sector influences payers' ability to maximize value-improving practices, such as alternative payment models, quality improvement, and transparency efforts.

In a series of six market-level, qualitative case studies, we assess the impact of recent provider consolidations, the ability of market participants (and, where relevant, regulators) to respond to those consolidations, and effective strategies for constraining cost growth while maintaining clinical quality. Our case studies focus on the commercial insurance market, though we recognize that providers and insurers are often operating in multiple markets, including Medicare Advantage, Medicaid managed care, and the Affordable Care Act (ACA) marketplaces. We do not attempt to quantify the effect of provider consolidation in these markets, such as through provider rate or premium changes.

This case study focuses on the Colorado Springs, Colorado health care market. For findings from the other studied health care markets (Detroit, Syracuse, Northern Virginia, Asheville, and Indianapolis), visit https://chir.georgetown.edu/projects-pubs/coverage-affordability/.



Background, History, and Methodology

This study defines the Colorado Springs, Colorado region to include El Paso and Teller Counties. Situated in the Pikes Peak region in the south central part of the state, Colorado Springs is near multiple military bases and experiencing a period of both economic and population growth.

Colorado Springs currently has two major health systems operated by Centura Health (Centura) and the University of Colorado Health System (UCHealth). Both systems operate facilities across the state of Colorado. In addition to these two dominant systems, the Children's Hospital of Colorado (Children's), based in Aurora, opened a new children's hospital in northern Colorado Springs in 2019.[1] Although Children's is not affiliated with either system, it is physically connected to UCHealth's Memorial North Hospital. As of 2017, the Colorado Springs market had the lowest number of hospital beds per 1,000 Coloradans relative to other regions of the state.[2]

Centura—which operates in Colorado and Kansas—was formed in 1996 and operates as a joint venture between the Adventist Health System and the CommonSpirit Health system. CommonSpirit Health resulted from a merger between Dignity Health and Catholic Health Initiatives (CHI) following heavy financial losses by the CHI system in 2017.[3] In Colorado Springs, Centura operates the Penrose-St. Francis Health Services system, which includes Penrose Hospital and the St. Francis Medical Center.

UCHealth is a more recent entrant to the Colorado Springs market. UCHealth was formed in 2012 following a joint operating agreement between the University of Colorado Hospital and the Poudre Valley Health System.[4] This resulted in a three-hospital system with facilities in Loveland, Fort Collins, and Aurora. That same year, Colorado Springs voters approved a ballot measure to allow UCHealth to take over operation of the Memorial Health System, Colorado Springs' independent city-owned hospital. Under the agreement, the city retains ownership of Memorial's buildings but leases them to UCHealth.[5]

Since its entrance into Colorado Springs, UCHealth significantly expanded the Memorial Hospital North facility and acquired or built numerous free-standing emergency departments (EDs) across the Front Range. UCHealth also acquired smaller hospitals outside of Colorado Springs, such as Grandview Hospital in El Paso County and Pikes Peak Regional Hospital in Teller County. These hospitals are now part of UCHealth's network of more than 150 facilities across Colorado, Nebraska, and Wyoming.[6]

Both Centura and UCHealth have actively acquired or affiliated with physician practices, both primary care practices and specialty practices. The hospital systems have faced competition from DaVita Medical Group (DaVita) which also actively acquired primary care practices. DaVita, for instance, acquired the area's two largest independent primary care practices—Colorado Springs Health Partners and Mountain View Medical Group—in 2014 and 2016, respectively.[7] Although some physicians remain independent, most have affiliated with one of the two health systems or DaVita.

In 2019, DaVita itself was purchased by Optum (a division of UnitedHealthcare) in a $4.3 billion acquisition that required approval by the Federal Trade Commission.[8] Colorado Attorney General Phil Weiser separately imposed restrictions on Optum and UnitedHealthcare (United) in the insurer's Medicare Advantage market to help mitigate concerns about anti-competitive behavior in Colorado Springs. As a result, United agreed to lift its exclusive Medicare Advantage contract with Centura for at least 3.5 years and DaVita's prior agreement with Humana (United's main Medicare Advantage competitor in Colorado Springs) was extended through at least 2020.

The commercial insurance market in Colorado Springs is relatively competitive and includes major players such as Anthem BlueCross BlueShield (Anthem), United, Aetna, Cigna, Kaiser Permanente (Kaiser), and BrightHealth. Colorado Springs is home to many active and retired military members who receive health care or coverage through the Veterans Administration or TRICARE. Medicare and Medicaid are also significant payers in the Colorado Springs area.

In addition to the military, major Colorado Springs employers include local government, schools, and the hospital systems. However, the city's population is growing, and Colorado Springs is expected to surpass Denver as the state's most populated city over the next 15 years.[9] In part because the region is more affordable than other metropolitan cities, Colorado Springs has seen an influx of smaller employers, especially in the tech industry.[10]

Beyond Colorado Springs, there have been a number of statewide efforts to address health care access and cost. During the 2019 state legislative session, the Colorado legislature adopted a state-based reinsurance program, strengthened its surprise medical bill protections, authorized employer purchasing alliances, and created a new public health insurance option. These changes, many of which have not been fully implemented yet, could have significant future implications for the Colorado Springs market.

To assess the varying ways in which insurers have responded to provider consolidation and market power in Colorado Springs, we conducted an environmental scan, a literature review, and interviews with ten national experts and regulators. Additionally, we interviewed fourteen Colorado Springs-area providers, insurers, large employer purchasers, and expert observers. The latter fourteen interviews occurred between June 4, 2019 and July 30, 2019.

Descriptive Analysis: Three Market Sectors

1. Hospitals, Health Systems, and Physicians

Respondents generally thought that the presence of two major hospital systems in Colorado Springs has helped maintain a competitive provider market. One respondent described the Colorado Springs provider market as "a competitive explosion of two giants trying to compete

with each other in a restricted market." This has helped keep premiums in Colorado Springs lower relative to other areas of the state, such as Fort Collins, where there is less provider competition.

However, it was widely acknowledged that Centura and UCHealth primarily compete based on location, services, physician affiliations, and amenities rather than price. For instance, respondents noted that Centura has been pursuing a Level I trauma center even though UCHealth already has one. As one respondent put it, "everything one does, the other one does too."

This competition has contributed to a "building boom" by providers, particularly in more affluent and growing parts of the city with a higher proportion of commercially insured consumers. UCHealth has also been aggressive in its attempts to purchase or acquire hospitals and facilities statewide, including in the Colorado Springs area. As noted above, UCHealth has acquired nearby rural hospitals and invested heavily in free-standing EDs and "mini-hospitals" in Colorado Springs and surrounding communities in addition to Memorial. These smaller facilities do not provide full hospital services yet charge hospital rates.[11] "It's obscene how many freestanding EDs there are," said one provider representative.

Centura is also participating in the "building boom" in Colorado Springs. Many respondents pointed to Centura's plans to build a new hospital in the growing northern part of the city, rather than the western part as previously planned. Some raised concerns that the new facility will lead to over-bedding. As further evidence of the building boom, respondents pointed to the new Children's hospital (although they conceded that there are some pediatric specialty services only available at that facility).

The health systems, along with DaVita/Optum, have also actively acquired or affiliated with primary care and specialty physician practices. Few independent physician practices remain. Physicians are motivated to join these systems by the ability to negotiate better payment rates, improved capacity to take on risk-sharing arrangements, and greater efficiencies from consolidating back office functions and IT systems. "I think the majority of physicians in Colorado Springs feel like [joining a medical group is] inevitable," said one provider respondent.

UCHealth and Centura pursued physician practices, in part, in response to Medicare's Accountable Care Organization initiatives, in which entities only qualify for additional federal dollars if they have a primary care partner. But many respondents noted more anti-competitive motivations. Physician acquisitions were seen as a "gateway" to patients and "very much playing into the rivalry between the two hospital systems." Another respondent noted that "it's an arms race of who can amass the largest number of access points in Colorado Springs." Beyond increased market share, the systems benefit from the use of "facility fees" that can be charged when patients are seen by hospital-owned physicians.

Respondents also reported an increase in what they call the "1099 strategy" for physicians. With this strategy, insurers are asked to reimburse physicians at the elevated rates negotiated for those employed by the hospital, only to discover the physician is not a salaried employee but rather a "1099" contractor.[12] "It is never disclosed that these are 1099s and not employees," said one insurer respondent. "They're just doing it for rates."

2. Insurers

Most respondents indicated that the commercial insurer market is fairly competitive. Anthem is acknowledged as the payer with the largest market share, but only by a slim margin. Competitors include Aetna, United, Humana, and Kaiser, with newcomer BrightHealth competing in the individual and Medicare Advantage markets. Except for Kaiser and BrightHealth, commercial insurers primarily sell products with a broad choice of providers, including both Colorado Springs hospital systems. Kaiser has an exclusive relationship with UCHealth, while BrightHealth contracts exclusively with Centura.

Payers have experimented with narrow network products. While the lower price point for a narrow network product has been attractive for some purchasers, respondents suggested that take-up of narrow network products has been limited. Indeed, one employer respondent recently switched from a closed network plan to a preferred provider organization (PPO) plan to broaden their network offerings.

Insurers reportedly pay in-network providers a percentage of billed charges, rather than, say, a percentage of Medicare. Both UCHealth and Centura also rely on

statewide contracting, meaning insurers must negotiate a rate for all of the hospitals in the system. As one respondent put it, "you either take all of them or none of them." Some insurer respondents indicated they have implemented risk-sharing arrangements with providers, particularly among physician groups, but these arrangements did not appear to be generating significant cost savings.

Respondents also pointed to the unique payer mix in Colorado Springs, which has more public payers than commercial payers relative to other parts of the state. Public payers—including Medicaid, Medicare, and TRICARE—typically reimburse providers less for services than commercial payers. One respondent reported that TRICARE, which covers a large portion of Colorado Springs residents, reimburses providers at a rate that is lower than Colorado's Medicaid program. A higher proportion of public payers may give providers an incentive to extract the highest possible compensation from commercial payers.

3. Employer Purchasers

Colorado Springs is home to several large companies, which tend to self-fund their plans, as well as many smaller, fully insured businesses. Anthem, United, Aetna, and Kaiser are among the companies competing to serve as third-party administrators for these companies.

To date, employers have attempted to keep costs in check by increasing deductibles and cost-sharing for employees. As one broker respondent put it, "the burden has been placed on the employee to try to balance the books." An employer respondent confirmed this strategy, while also noting that employers have adopted transparency tools or imposed lower cost-sharing for employees that use lower-cost providers (such as a free-standing facility for imaging). Sometimes called network tiering, this strategy involves offering lower copayments or deductibles to employees who choose lower cost providers.

Several respondents agreed that a cost-containment strategy that relies primarily on shifting costs to enrollees has likely "run its course." Some noted that there has been more willingness among stakeholders in Colorado Springs to discuss narrow network approaches, although take-up rates in the employer market have been "marginal."

Findings

A Continuing Provider "Arms Race"

Some respondents thought that UCHealth's aggressive expansion—by acquiring physician practices, free-standing EDs, and smaller hospitals outside the city—helped put "a check" on Centura. An insurer respondent referred to UCHealth as "the last of the consolidators," suggesting that their aggressive push was driven by a desire to gain market share in an area of the state where there had already been consolidation. Another respondent pointed to the fact that UCHealth seemed to be targeting "points of entry" within the system—ranging from physician groups to free-standing EDs to micro hospitals—as a way to maximize patient referrals.

While UCHealth and Centura reportedly compete, this competition does not extend to prices. Both hospital systems use their market power and leverage to pursue higher reimbursement from commercial payers. As an insurer respondent put it, "Centura buys a hospital and the next thing I know, I see a 100 percent increase." The systems also ask to be reimbursed at the same rates as their counterparts in Denver, arguing that this is appropriate because they offer the same services at the same level of complexity as the facilities in Denver.

Given current market dynamics, respondents raised questions about the potential impact of recent acquisitions, including Optum's acquisition of DaVita and CommonSpirit's partial acquisition of Centura. Although most thought it was too early to know, some respondents believe that Optum's acquisition of DaVita will put even more pressure on the remaining independent physician practices to join forces with a hospital system or Optum. If this happens, respondents suggested it could have "a domino effect" in the market that would lead to even more widespread consolidation and market power for United.

Respondents also suggested that Centura could become more aggressive in its negotiations with payers. So far, respondents noted few effects from CommonSpirit's partial acquisition of Centura in 2017. But others suggested that Centura may become more aggressive over time, especially under new leadership. These respondents pointed to recent decisions to change course by building a new facility in the northern part of Colorado Springs, close to UCHealth's Memorial North, after

already purchasing land on the west side of the city. At the same time, the leadership closed certain low-margin services in a facility in the Park View area and has laid off staff.

These shifts could exacerbate the "arms race" in Colorado Springs if health systems, other providers, and payers respond by acquiring even more physician practices or facilities to increase their market power. As one respondent put it, "I'm not sure how we're going to stop [ongoing consolidation] because the horse is way out of the barn."

Consolidation Could Drive Payers to Align with Specific Partners

Colorado Springs has a competitive insurance market, especially given the relatively small size of its commercially insured market. In response to the challenges of negotiating in an increasingly consolidated market, payers report openness to strategic alignment—including exclusive arrangements—with the hospital systems.

The potential for strategic alignment between payers, physician practices, and health systems appears to be primarily about the potential for cost savings, market power, and competitive advantage (rather than a shift to, say, value-based payment models). For instance, both health systems are reportedly courting Children's to be their exclusive pediatric partner; if agreed to, this exclusivity would be "a big market differentiator" for the winning system.

Strategic alignment with a health system is not entirely unusual in Colorado Springs. As noted above, BrightHealth has an exclusive care partnership with Centura, and Kaiser is solely affiliated with UCHealth. And the health systems previously offered group health products with narrow or tiered networks for their employees. However, take-up of this type of product in the group market beyond these systems has reportedly been low.

As payers explore various network strategies, respondents were mixed on whether value-based payment models had been effective in Colorado Springs. Some noted very little activity among providers and payers in pursuing value-based reimbursement. Others pointed to value-based efforts being driven through hospitals' physician networks. Still others suggested that value-based efforts are driven largely by public, rather than commercial, payers. This may be particularly true in Colorado Springs given the larger presence of public payers. Most respondents discussed value-based payment models as statewide initiatives or efforts, rather than specific to the Colorado Springs region.

Employers: Taking a Wait-and-See Approach

To date, employers in Colorado Springs have been far less aggressive at demanding lower health care prices than in other regions of the state. But some observers predicted a greater willingness to take action. "It won't be the insurance companies that do this," said one respondent. "It's going to have to be one of the larger self-funded employers down there that serves as the catalyst—that's what happened in Summit County."

To address high costs in Summit County, local leaders formed the Peak Health Alliance, a new local nonprofit group purchasing collaborative.[13] The Alliance negotiates directly with providers and hospitals on behalf of its members, which include large and small employers and individuals in that area of the state. The Alliance then invites insurers to compete for the opportunity to cover its members using a defined set of benefits and the provider rates negotiated by the Alliance.[14] For 2020, rates will decrease by 39 to 47 percent relevant to 2019 due to Peak Health Alliance and Colorado's new reinsurance program.[15] Given these results, this model is being watched closely by employers, policymakers, and other health care stakeholders across the state, including in Colorado Springs.

There does not, however, appear to be similar urgency among employers in Colorado Springs. Some respondents expected little change in the absence of more significant premium increases or more robust quality data to allow employers to better compare the health systems. Respondents suggested that employers will be reluctant to make changes to their networks until there is sufficient data to justify an exclusive relationship with one hospital over another.

Others thought the market was "past the tipping point or close to it" and that employers and employees would be encouraged to accept narrower networks. Many respondents noted concern for employees, especially members of the public workforce like teachers, whose wages have stagnated while premiums and deductibles have increased.

The State to the Rescue?

Respondents seemed less intent on developing Colorado Springs-specific solutions and are instead closely monitoring developments at the state level and in higher-cost regions of the state. As one respondent put it, "whatever goes on in Denver will trickle down."

Some noted that Governor Polis' administration has taken an aggressive stance towards affordability, with an emphasis on extracting cost savings from providers. The state explored, for instance, adopting a state-based reinsurance program that paid providers using Medicare reference-based pricing.[16] The state legislature also authorized the development of a new public option health insurance plan; recommendations on the design of the public option will be presented to the legislature later this fall.[17] Others noted the administration's intent to extend the Peak Health Alliance on a statewide basis.[18]

Respondents in Colorado Springs raised a number of concerns, albeit different concerns, about many of these potential changes. Generally speaking, providers object to the potential for rate setting, which will lead to cuts in reimbursement rates. Employers are concerned that lower provider reimbursement rates could lead to cost-shifting to the commercial market. And insurers are concerned that group purchasing or direct contracting by employers could usurp their role in providing these services.

A number of respondents also questioned whether a group purchasing strategy like Peak Health Alliance could "scale" to be successful in other communities. Some suggested that the Alliance has been successful so far because of the unique market dynamics in that area, the fact that Summit County is close-knit community, and the belief that insurers (rather than a collective group of employers and individuals) will continue to be better at negotiating provider reimbursement rates in other communities. Unlike their counterparts in Summit County, employers in Colorado Springs do not appear to have a coordinated or common strategy to combat the rise in health care costs. "Colorado Springs is home to a lot of very independent organizations," said one observer. "There's not a single strategy."

Looking Forward

Respondents raised varying degrees of concern about the level of provider consolidation within Colorado Springs. Current market dynamics—characterized as an "arms race" between the two major health systems to maximize market share and patient referrals—show no signs of slowing or reversing. It remains to be seen how Optum's acquisition of DaVita will affect this dynamic and what it could mean for the broader market.

Concerns about the Colorado Springs market may also be temporarily masked by the city's continued population growth. As one respondent put it, "the only thing holding it all together in Colorado Springs is that they continue to grow." If that growth slows, the respondent warned, the negative consequences of over-bedding and high provider costs will be felt far more acutely.

Despite concerns in Colorado Springs, much more attention is being paid to more dire affordability crises in other parts of the state and the potential for more aggressive statewide action in Denver. This has led many Colorado Springs stakeholders to brace themselves for new and future statewide changes. "There will be downward pressure on rates both from the regulatory and policy side," noted a provider respondent. Although unlikely to gain traction in the near-term, respondents noted the possibility of a certificate of need law to curb the growth of free-standing EDs and changes to providers' tax-exempt status based on how they deploy surplus revenue.

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