

Research BRIEF

What Happens When a Multihospital System Buys an Independent Hospital?

System Acquisitions Increase Prices, Reduce Staffing, and May Affect Quality

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Key Findings

When an independent hospital corporatizes, meaning it is acquired by a multihospital system, it reduces costs, primarily by cutting support staff. This is a one-time gain, though: Hospitals already owned by one system and bought by another do not show similar savings. Regardless of whether they are independent or already system-owned, hospitals increase prices after acquisition, especially if joining a system in the same market, likely due to increased market power. The potential impact on care quality requires further investigation.

THE RESEARCH QUESTION

As of 2020, multihospital systems control 81% of U.S. hospital bed capacity, up from 58% in 2000. This growth is fueled by acquiring stand-alone hospitals. Research on retail chain acquisitions and hospital consolidations suggests that acquired hospitals may reduce costs through access to centralized support and other corporate resources. In addition, corporatization might affect prices through hospitals' increased negotiating power over insurance companies. Whether any financial gains pass to payers is unclear and the impact on care quality is unknown.

FIGURE 1.
Mean Price of Hospital Stay (Charged to Commercial Insurance)
Three years before and three years after corporatization.
Vertical bars show range of likely prices.

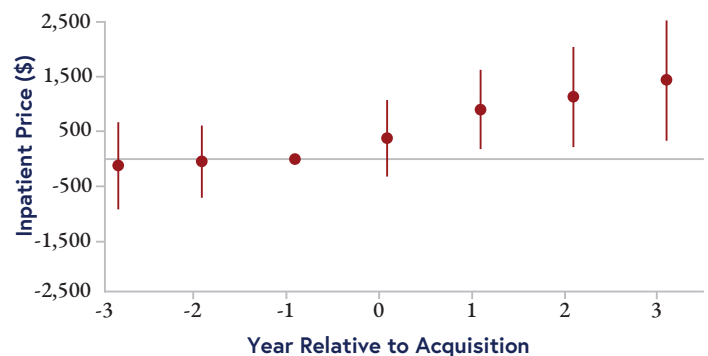


FIGURE 2.
Effect on Inpatient Price

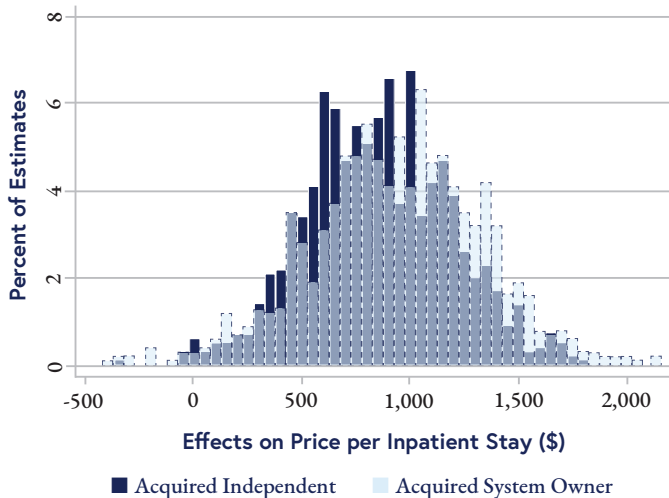


FIGURE 3.
Effect on Total Operating Costs

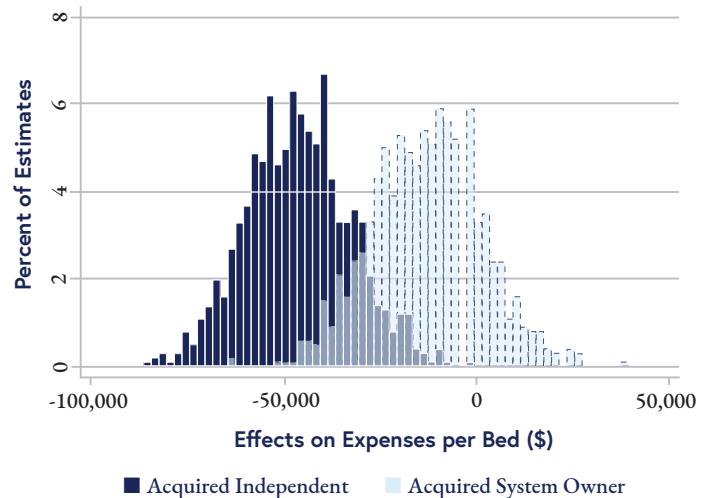


Figure 2 plots show distributions of estimated effects of acquisition on inpatient prices (charged to commercial insurance) and Figure 3 plots show distributions of the estimated effects on total operating costs. For acquired hospitals, navy is independent, light blue is already system owned.

LDI Senior Fellow [Atul Gupta](#), Associate Fellow [Catherine Ishitani](#), and colleagues used patient-level data from insurance claims, state discharge records, and national hospital surveys to ask: **How does corporatization affect operating costs, prices, and patient outcomes of acquired hospitals?**

THE FINDINGS

Effects on profitability

The researchers compared corporatized hospitals to similar hospitals that remained independent. Acquired hospitals raised profitability by about \$14 million per year, partly by increasing prices, but mainly by cutting nonclinical staff in administrative, maintenance and supply, medical records, and pharmacy departments. Of \$11.2 million in annual reduced expenditures, 60% were from cutting jobs.

Efficiency gains occurred only after initial system acquisition. System-owned hospitals moving to different systems did not have similar operating cost

reductions, presumably because they already optimized efficiency and maximized staff cuts.

Effects on prices

Average inpatient prices rose after corporatization by up to 11%, depending on the reason for hospitalization. On average, prices per hospital stay increased by \$856. Prices also increased for system-owned hospitals acquired by other systems.

Effects on quality

The researchers investigated common quality measures of hospital readmissions, mortality, and patient satisfaction. Corporatized hospitals had higher 90-day readmission for commercially insured cardiac care patients than independent-remaining hospitals. Readmission increased linearly with hospital staff reduction. Although only one measure, readmission results suggest potentially poorer short-term quality after initial acquisition. Other measures did not significantly change.

THE IMPLICATIONS

Initial corporatization offers efficiency and revenue gains to the acquired hospital through staffing reductions and price increases. This study found no increased efficiency from the acquisition of already system-owned hospitals or from system mergers, presumably because efficiency is already optimized. All acquired hospitals, regardless of previous ownership, increased inpatient prices.

Increases in 90-day readmissions after corporatization signal the potential for reduced quality. A possible mechanism is staff reductions, which could affect support services known to reduce readmissions such as coordinating, tracking, and following up on post-discharge patients.

The growth in multihospital systems could theoretically curb health care costs and increase affordability if gains pass to payers and then to consumers through lower insurance premiums. This issue, and the impact of hospital corporatization on quality of care, need further detailed investigation so antitrust regulators can ensure that hospital ownership changes do not negatively impact patients' costs and care.

THE STUDY

Data on hospital characteristics including ownership, finances, and personnel were from the American Hospital Association. Patient-level data on payments and outcomes were from Elevance claims for people with employer-sponsored insurance, and from Medicare Advantage plans in 20 states. Additional data on quality were from New York state all-payer hospital discharge data and the Centers for Medicare and Medicaid Services. The median acquiring system in the sample already owned six hospitals and had a total bed capacity more than 10 times the target hospital.

Methods allowing causal estimates analyzed 101 hospital acquisitions from 2013-2017 in a matched comparison of acquired versus independent-remaining hospitals. Additional analyses compared system-owned hospitals acquired by another system to similar hospitals with no ownership change.

Andreyeva, E., Gupta, A., Ishitani, C., Sylwestrzak, Ukert, B. (2024). [The Corporatization of Independent Hospitals](#). *Journal of Political Economy Microeconomics*, 2 (3).



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This work is part of an ongoing research partnership with Elevance.

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