

Healthcare Solutions Partnership Committee September 4, 2008
RE: The Lifespan Care New England Proposed Merger

The committee approved in a quorum vote electronically to discuss the proposed Lifespan and Care New England merger. The committee met without a quorum, but did reach consensus and requested a summary be sent to the BCBSRI executive leadership for information to be shared with the BCBSRI Board in its consideration of the proposed merger. Members of the committee were from different specialties and some were closely affiliated with the two hospital systems whereas others were not. Nonetheless, the agreement was uniform.

The merger proposal necessitates a critical look at the RI healthcare delivery system scorecard on access, quality and efficiency and how a merger would attain improvements.

The primary message from the committee is that the merger creates an important opportunity for the community to look at the RI healthcare system, with special attention to cost/efficiency, quality and access. There is significant regional variation in cost per person and measurable quality. In general cost is inversely related to quality, and low cost/high quality areas characteristically have a strong primary care system. Where does RI fall in the continuum and how can RI improve? The merger applicants should specifically address how a merger would improve access to care, improve measurable quality, create efficiencies and value and improve the health status of the population. The response requires sufficient detail so as to understand the likely validity of the mechanisms proposed to achieve these goals and how these mechanisms would impact the larger system, other than the two entities. The evaluation of the response will require consideration of strong safeguards against unfair competition. It also should consider whether any proposed efficiencies are attainable without a merger and, if so, why they have not been put in place already.

System integration has the potential to create efficiencies and accountability, but more typically results in price distortions due to market power. Value-based purchasing is needed.

System integration has the potential to lead to efficiencies especially when it is associated with accountability and transparency, e.g. through regional budgets or capitation. However, the more common scenario is that increased market power creates increased leverage and increased prices. This is of special concern to physicians who recognize that there is a finite resource. Therefore, diversion of funds to the market dominant provider will be detrimental to their position. Today, it is recognized that not all hospitals and physicians receive the same payment for the same service. Optimally the payment system is balanced and all are paid fairly and equally with variation based upon quality and efficiency. It is recognized that current measures of quality and efficiency are inadequate, but this fact highlights the need to create better measures while involving all segments of the community in creating an improved and transparent system of measurement. There is even concern that such a market dominant entity will divert attention of BCBSRI staff

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from programs in progress to strengthen primary care and other aspects of the delivery system.

The RI healthcare market is the state of RI and not the region.

The physicians do not view the local market as regional even if the Federal Trade Commission does. It was indicated that 95% of the healthcare RI residents receive is delivered in RI. Only 6% of the healthcare in RI is delivered to out of state residents. Local patient culture and behavior is that the care must be very local. Certain services are not reasonably delivered regionally, such as routine maternity care. The perception that a merger would facilitate regional centers of excellence or increase the RI share of the regional New England market is not held by the physicians. For significant change to occur it would require that Providence displace Boston as the regional healthcare center and this is viewed as highly unlikely.

Respectfully submitted on behalf of the committee,

Peter Hollmann MD, Chair
September 4, 2008