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NEWS RELEASE

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NEW REPORT REJECTS HOSPITAL MERGER ACTIVITY AS KEY HEALTH COST DRIVER

WASHINGTON (February 25, 2003) -- Hospital merger activity is not driving up the cost of health care premiums as some health insurers are claiming, according to a report issued today by Economist Margaret Guerin-Calvert and Economists Inc. in Washington, DC.

Commissioned by the American Hospital Association, the report concluded that past hospital mergers have not resulted in price increases or created the need for greater antitrust enforcement.

This new research comes on the heels of a PricewaterhouseCoopers (PwC) study that demonstrated the primary drivers of increases of spending on hospital care were increased utilization -- more people needing hospital services -- and higher labor costs resulting from shortages for nurses and other key hospitals workers.

"These studies confirm what hospitals across the country are experiencing – increased spending on hospital care is the result of more people needing services and the cost of that caring increasing," said AHA President Dick Davidson.

(more)

The authors of today's study based their conclusions on careful examination of the following evidence:

- The number of hospital mergers has been falling steadily since 1998; in both 2000 and 2001, fewer than six percent of hospital facilities were involved in a transaction;
- During that same time, the overall financial health of hospitals has worsened, with aggregate total margins for hospitals declining; this trend is consistent with findings that increased expenses and not revenues have driven spending on hospital services;
- As the antitrust agencies themselves have acknowledged, only a small fraction of hospital mergers have raised any competitive issues; and
- Mergers that took place over the last decade did so during a complex period when hospitals faced significant financial pressures. At the same time, other trends, such as increases in utilization due to consumer demand for less restrictive PPOs in lieu of tightly controlled HMOs, influenced hospital performance and spending on hospital care.

In addition, the report refutes research on which the Blue Cross and Blue Shield Association (BCBSA) rested it claims that hospital "consolidation" is a key driver in health care cost increases.

Today's report demonstrates that there is "no valid empirical basis for the conclusion reached in the BCBSA studies that changes in market structure or 'consolidation' have accounted for increases in spending on hospital services." The report finds that the claims made in the BCBSA studies were further undercut by a review of recent trends showing that both the number of mergers and aggregate total margins have declined over the period BCBSA studied.