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Beaumont, Spectrum merger benefits an open question for Southeast Michigan

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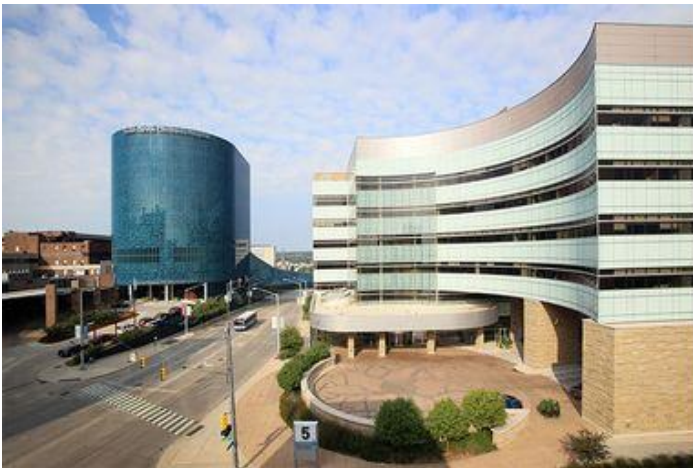
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REPRINTS

- Merger expected to boost Spectrum's rising profile across the state
- Would allow Spectrum's integrated insurer Priority Health to expand rapidly
- How it will achieve promised lower costs, improved care an open question



Spectrum Health/Beaumont Health

A new health system created by a merger between Spectrum, left, and Beaumont would be the state's largest employer.

The health systems hope the merger cuts costs and sutures the wounds between Beaumont executives and staff with new leadership, but the move may just pick at the scab.

The health systems [announced a letter of intent](#) Thursday morning to explore a merger to create a new \$12 billion health system "for Michigan, by Michigan" and the state's largest health system and employer by fall of this year.

The merger is expected to boost Spectrum's rising profile across the state and allow its integrated insurer [Priority Health](#) to expand rapidly through the Beaumont network. Leadership of both systems call the merger an opportunity to improve patient care and reduce costs across the state, but experts remain skeptical on who would see those savings.

The deal, which would require regulatory approval, would also end a multiyear saga for Beaumont in seeking a partner to improve the Southfield system, especially for its unhappy employees.

Last fall, a group of major donors, top doctors and community leaders at the eight-hospital Beaumont Health called for the [firing of CEO John Fox](#) and for the 19-member board of directors to be overhauled. Widespread dissatisfaction culminated in two negative [physician](#) and [nurse](#) surveys last summer.

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Ironically, much of that displeasure stems from Beaumont's mergers and acquisitions aspirations.

When Beaumont announced a plan last year to merge with Downers Grove, Ill.-based Advocate Aurora Health it was quickly met with backlash. A month after announcing the letter of intent, a "no confidence" petition began circulating among Beaumont's physicians, calling for the system's board to fire Fox and Chief Medical Officer David Wood Jr.

"Over the last five years, we the medical staff of Beaumont Health have seen a rapid and progressive deterioration in every aspect of patient care at Beaumont Health. We no longer have confidence in the administration's ability to provide a safe place for us to care for our patients," the petition said.

each entity and dual headquarters in Grand Rapids and Southfield.

However, the board will be rounded out by Spectrum's President and CEO Tina Freese Decker, who will also be the CEO of the new system, and a member to be named later.

Mark Kopson, partner at Bloomfield Hills law firm [Plunkett Cooney](#) PC and chair of its health care practice, said the deal is hardly a merger among equals.

"... The proposed board structure already places Spectrum in majority control of the board even without the currently 'unspecified 16th board member' who is likely to also fall into the column," Kopson said. "That does not enhance the likelihood of a merger of equals. Similarly, dual headquarters tend to last about as long post-merger as duplicative middle-managers do."

On a call with reporters Thursday morning, Beaumont's leadership insisted that Beaumont doctors are on board with the deal and were consulted over the details.

Dr. Robert Welsh, a physician at Beaumont and a member of the system's board, said in the call that the deal was "carefully considered" and "enthusiastically endorsed" by physicians.

It's possible the doctors have greater faith in Spectrum's ability to run Beaumont than the current leadership, Kopson said.

"Spectrum has always had very astute management," Kopson said. "They are fully cognizant of the differences in the marketplace. They really know how to manage a health system."

Alex Calderone, a turnaround adviser and managing director of Calderone Advisory Group LLC in Birmingham, said the merger is another signal that Beaumont's leadership has thrown in "the towel" in trying to correct its operations and culture.

"The health system is laden with inefficiencies and problems," said Calderone, who advises health systems in crisis. "There's been an exodus of specialists and this shows (Beaumont leadership) believes it's beyond their ability to fix."

The deal is being sold as a cost-savings measure and a way to improve care on both sides of the state. However, neither executives from Spectrum nor Beaumont were able to directly answer how those savings would be achieved.

Freese Decker in the call with reporters indicated there would be no wide-ranging layoffs across the new entity, at least right away, which seems counter to the idea of merging and eliminating duplicative operations.

Fox said "we all know that health care has room for improvement," that the merger would allow the new system to save costs on technology buys.

~~"This opportunity is very good for our patients, communities and employees," Fox said~~

But a [2020 study by the New England Journal of Medicine](#) that researched outcomes from 246 hospital acquisitions found that patient experiences actually got modestly worse after integration and readmission and mortality rates did not improve.

"I don't know how they can say a lot of patients that are right now going to either Beaumont or Spectrum are suddenly going to get better care because they merged the two entities," Calderone said. "Judging this merger in the court of public opinion is hard to do but the easiest answer to this merger is cost. Don't ever waste a crisis. And in the aftermath of the pandemic, both institutions suffered."

For Spectrum the math is clear. Its integrated insurer, Priority Health, is a rising star in its portfolio and expanding its scope across the state is a clear benefit to its bottom line.

Priority accounted for more than \$5 billion of Spectrum's \$8 billion in revenue last year. Beaumont does not have an insurance arm.

On a call with Crain's Wednesday night, Freese Decker said the opportunity to expand Priority's scope via a merger with Beaumont is a major selling point. Priority has 1.2 million members.

"We will want to expand Priority Health throughout the system," Freese Decker said. "We can deliver on value with integrated health systems."

The ability to have a thriving health plan is a leading catalyst for hospital mergers, said Ash Shehata, principal and U.S. industry leader for KPMG's health care and life sciences unit.

"Michigan is a rich health care market," Shehata said. "There are adequate opportunities for health systems to play out their insurer strategy without overextending into other states and more complicated multistate operations."

In 2013, Beaumont was on the hunt for an integrated insurer and [sought a merger with Detroit's Henry Ford Health System](#), largely to get access to Henry Ford's Health Alliance Plan portfolio.

That deal, coincidentally, fell apart because the two organizations couldn't agree whether the headquarters should locate in Detroit, where Henry Ford is located, or Royal Oak, where Beaumont was headquartered at the time, among other issues.

*Letter
— to the —
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