

The Detroit News

Friday, June 18, 2021 | detroitnews.com

Beaumont-Spectrum tie-up faces hurdles as mega-merger's impact weighed

Karen Bouffard and Breana Noble

The Detroit News

June 21, 2021

Beaumont Health and Spectrum Health on Thursday proposed creating a supersized health system covering the southeast and western parts of Michigan in a move experts say would solidify Southfield-based Beaumont's finances but possibly lead to increased prices for consumers.

The temporarily named BSHS System would have a combined 22 hospitals, 305 outpatient locations and 64,000 employees, according to the health systems, which said Thursday they have signed a letter of intent to explore the tie-up. Beaumont has eight hospitals and 33,000 employees in Metro Detroit, while Spectrum dominates the west Michigan market with 14 hospitals and 31,000 workers.

Priority Health, Spectrum's Michigan-based health insurance plan with 1.2 million insurance customers, would be part of the new entity. No money would exchange hands in the deal, Beaumont and Spectrum said.



Southfield-based Beaumont Health is entering talks with Grand Rapids-based Spectrum Health about merging their health systems, but maintaining dual headquarters in Metro Detroit and west Michigan. *Beaumont Health*

The merged nonprofit system would be led by Tina Freese Decker, president and CEO of Spectrum Health, while its board would be chaired by Julie Fream, who now heads the board at Beaumont Health. There would be dual headquarters in Grand Rapids and Southfield.

But experts believe over time Grand Rapids-based Spectrum officials would likely gain the upper hand in running the system.

"Given that Spectrum and Priority are the bigger of the two partners," said Allan Baumgarten, an independent health care analyst based in Minnesota who follows the Michigan health care market. "I would expect to see if there is growth in headquarters, headcount or different operations, most of that will take place in Grand Rapids.

Most research finds that such mergers, even if the health systems don't overlap geographically, give the new larger health system "more market power that they use to raise prices — which mostly falls on employers and their group plans," Baumgarten said.

But the Beaumont-Spectrum tie-up would help strengthen the new firm in a pandemic-changed health care landscape, experts said, and provide some advantages to customers.

The distinct footprints with Spectrum on the state's west side and Beaumont in southeast Michigan likely will avoid consolidations in service lines while creating purchasing clout for the new health system, said Erik Gordon, a professor at the University of Michigan's Ross Business School.

"It isn't going to be that your beloved local hospital is decimated by a bloodthirsty, profiteering company," Gordon said.

If done properly, a Beaumont-Spectrum deal would have a good chance "of lowering costs while simultaneously enhancing the quality of patient care," said Alex Calderone, managing director of the Calderone Advisory Group in Birmingham who worked Pontiac General Hospital through its bankruptcy reorganization a few years ago.

The merger, however, could cause antitrust concerns, Baumgarten said. Although the health system's footprints do not overlap, research suggests a larger health system in Michigan could lead to increased prices, he said. Larger health systems have greater negotiating power with insurers, and those costs could get passed along to employers, he said.

"There is a distinct possibility this would face a challenge from anti-trust regulators," Baumgarten said.

Spectrum's Decker told The Detroit News in an interview that she doesn't anticipate any regulatory hurdles.

"We believe the new organization will benefit patients, our team members and the state of Michigan, and we have confidence that the regulators respect the fact that our organization is mission-driven," Decker said. "And I also should point out that Spectrum Health and Beaumont Health operate in distinct markets with no market overlap.

"So as a result I do not anticipate any regulatory concerns, but if any are raised we will address them."

Spectrum's reputation as a leader in integrated health management may benefit Beaumont in getting the deal approved, UM's Gordon said, especially considering the criticism targeted at Beaumont's Fox. It also helps keep the system's leader in-state, he said.

"I think folks here in Detroit Metro land have nothing to fear from this," Gordon said. "Spectrum has been progressive about implementing a holistic view of how to implement care," including an emphasis on behavioral, mental and preventative health care to decrease emergency room visits.

Can deal get support?

But a finalized deal between Beaumont, Michigan's largest health system, and Spectrum Health is not a sure bet.

Beaumont Health has had at least three proposed mergers fizzle in the past nine years, and the last one drew opposition from a coalition of the hospital system's doctors, community members and elected officials. Other proposed hospital system mergers across the country also have fallen apart or failed to win the approval of the Federal Trade Commission, which reviews deals for antitrust issues, health care industry experts said.



Spectrum Health President and CEO Tina Freese Decker, who would be the chief executive of the proposed BSHS System, said she doesn't anticipate any problems getting federal regulatory approval of the proposed merger with Southfield-based Beaumont Health. *Chris DuMond, Chris DuMond, Special To The Detroit News*

The key for this proposed merger is to make sure both Spectrum's and Beaumont's physicians support it, Calderone said.

"If top doctors that patients know and trust leave because they are against the transaction, that could be devastating," he said. "People patronize health systems because of the relationships they develop with their physicians — so keeping the doctors happy is key to keeping the health system intact."

Beaumont Health's John Fox, president and chief executive officer since March 2015, has been a lightning rod for opponents of the health system's past merger talks. But Fox plans to leave the organization after the transition to the new health system, according to a press release from Beaumont and Spectrum.

There wasn't immediate opposition to the deal. U.S. Rep. Andy Levin — the Bloomfield Township Democrat whose district includes Beaumont Health's flagship hospital in Royal Oak — called Fox's departure from Beaumont an end to speculation that Beaumont would be purchased by a larger out-of-state partner "welcome news." He said he's "cautiously optimistic about certain aspects of this new partnership."

"As our communities and health systems continue to recover from what we hope is a once-in-a-century pandemic, I will evaluate this proposed merger with great care," Levin said in a Thursday statement. "I am committed to preventing spikes in health care costs and worse patient outcomes, as evidence indicates can happen following mergers."

Oakland County Executive David Coulter also wasn't initially opposed.

“The long-term financial health of Beaumont is crucial, not only to the people who seek health care at the hospitals but for more than 18,000 employees of the health system,” Coulter said in a statement. “I appreciate that concerns about a previously proposed Beaumont alliance were considered, and I look forward to hearing more details about the new partnership.”



Aerial view of Beaumont Hospital in Royal Oak Detroit News File

How prior deals fizzled

Beaumont has been looking to expand for at least a decade, but separate talks to merge with Detroit-based Henry Ford Health System, Ohio-based Summa Health, and Advocate Aurora Health, based in Milwaukee and Downers Grove, Illinois, failed to materialize. The controversial proposed tie-up last year with Advocate Aurora Health would have created a 28-hospital health system across Wisconsin, Illinois and Michigan, but critics argued the merger would result in a loss of local control over the health system.

Beaumont did have one success. In 2015, Beaumont Health became Michigan's largest hospital system when it absorbed Botsford Health Care in Farmington Hills and Oakwood Healthcare in Dearborn.

The merger happened after Beaumont's proposed tie-up with the then-larger Henry Ford Health System was aborted in 2013. It would have created a single \$6.4 billion nonprofit health system, but both health systems concluded the risks of melding vastly different cultures and business models outweighed the benefits.

In December 2019, the Southfield-based health system wanted to partner with Akron, Ohio-based Summa Health. The partnership agreement was approved by state and federal regulatory agencies, but Beaumont and Summa ended the plan in late May 2020 during the COVID-19 pandemic.

The outbreak resulted in a "hemorrhaging" of cash, Beaumont officials said, because of canceled elective surgeries due to state restrictions, other revenue losses and increased costs for personal protection equipment.

The next proposed deal with Advocate Aurora Health fell apart under opposition from a broad coalition of physicians, nurses, hospital staff, community members and state lawmakers, as well as a proposed investigation by Michigan Attorney General Dana Nessel.

"Over the past few months," Fox said in an October media call, "we've listened to the perspectives of many physicians, nurses, staff, donors, elected officials and community members about a variety of topics and their concerns about a potential partnership with Advocate Aurora and Beaumont, and we very much appreciate their candid feedback."

But Fox insisted "all of that, frankly, was overshadowed by both COVID issues and non-COVID issues," noting the eight-hospital health system was gearing up for a possible second wave of infections while preparing to administer COVID vaccines in early 2021.



Spectrum Health has been running COVID-19 vaccine clinics in the Grand Rapids area. Experts said they expect Spectrum will likely gain the upper hand in decisions in a merged BSHS System and move away from dual headquarters to having operations based in Grand Rapids. *Courtesy Of Chris Clark/ Spectrum Health*

Dissecting the deal

The COVID-19 pandemic has been a major disruption for the health care industry, leading to a slew of merger-and-acquisition activity, especially around insurance programs, said J.B. Silvers, a professor of health care finance at Case Western Reserve University.

"COVID had revealed a major important difference here," Silvers said. Insurance companies were receiving their fixed revenues, but costs were sinking as nonessential procedures were canceled last year to avoid overwhelming hospitals. Health systems, meanwhile, had plenty of fixed expenses, but their revenues were declining because of the canceled procedures.

"The COVID experience shined a bright spotlight on that," Silvers said. "If you owned your own insurance company, you could level some of that out."

The deal makes sense for Beaumont, which doesn't own a health insurance firm, because starting one from scratch is difficult in a competitive marketplace and regulated landscape, analyst Baumgarten said. Priority Health's status as the second-largest insurance provider in the state behind Blue Cross Blue Shield of Michigan demonstrates significant capability, he said.

"Spectrum has expanded Priority Health's reach, network, marketing and products across all of the Lower Peninsula," Baumgarten said. "It doesn't have as strong of a position in southeast Michigan. Having a Beaumont provider as a distinct part of their network strengthens Priority Health's market share."

kbouffard@detroitnews.com