

## BUSINESS

# What does Beaumont-Spectrum merger mean for Michigan consumers?

**Karen Bouffard and Hayley Harding** The Detroit News

Published 11:01 p.m. ET Jan. 31, 2022 | Updated 9:03 a.m. ET Feb. 1, 2022

The megamerger of Beaumont Health, Michigan's largest health system, with a 14-hospital chain in west Michigan should be a smooth transition for patients but could ultimately raise health care prices in much of the state, experts warn.

The health systems contend their partnership, which officially begins Tuesday, will improve health care access, affordability and quality.

The merger between Southfield-based Beaumont Health and Grand Rapids-based Spectrum Health is moving forward after federal regulators didn't contest the proposed tie-up. It also includes Spectrum's Michigan-based health insurance plan, Priority Health, which enrolls 1.2 million customers.

The merged entity will be temporarily named BSHS System, but Beaumont and Spectrum keep their respective names in the locations they serve for now. The expanded system will include 305 outpatient locations with 64,000 employees — 33,000 at Beaumont's eight hospitals in Metro Detroit and 31,000 at Spectrum's 14 hospitals on the west side of the state, making it one of the largest employers in the state.

Last year, the phrase "For Michigan, By Michigan" was trademarked as the slogan for the new system, which will operate dual headquarters in Grand Rapids and

Southfield, the systems have said. Executive leadership teams would spend time on both sides of the state. The systems also don't expect to see job consolidation in the immediate future.

The quality of care at the combined system's 22 hospitals is likely to improve, said Erik Gordon, an assistant professor at the University of Michigan Ross School of Business. "There is very little chance the quality of patient care is going to go down," he said. "I think care will stay as good or possibly get a little better."

Spectrum is considered to be a well-run operation, and it is the one in charge, Gordon noted.

"Any time Beaumont has a better practice, that will probably be adopted by what used to be Spectrum, and any time Spectrum has a better one, that will be adopted by Beaumont. It will probably be that Beaumont will adopt more Spectrum practices, but care will likely be at least as good as it is now."

Research has shown, however, that health care prices typically increase when hospital systems merge because they have greater clout in the marketplace, said Minneapolis-based health care market analyst Allan Baumgarten, who analyzes Michigan's health care industry.

"Even in cases where the merging systems don't have overlapping geography, mergers within a state often result in higher prices to employer groups or individuals," Baumgarten said.

"They can go to Health Alliance Plan or Blue Cross and Blue Shield of Michigan and say 'We've got this top-flight, best-performing doctors and hospitals in the state, and (we have to charge) these kinds of prices for services,'" he said.

If a new combined health system succeeds in raising the reimbursement rates paid to the hospitals by health insurers, the costs could be passed along to consumers in the form of higher deductibles or premiums, Baumgarten explained.

Asked at a press conference Monday if the health systems' increased market strength will be used to seek increased reimbursements from health insurers or raise prices for consumers, incoming BSHS Systems President and CEO Tina Freese Decker said pricing will be "competitive."

"Our focus for health care is to be affordable, but we also need to make sure we're competitive, and that's how we look at our pricing," Freese Decker said. "We're also very focused on transparency, and ensuring that information is on our website."

## **Advantages for consumers**

But at first glance, consumers aren't likely to notice any changes. The transition to a merged system is likely to appear seamless to patients, Gordon said.

"For the most part, patients won't notice a difference," he said. "What patients notice is: How long does it take to check me in? Do I like the room? How's the food? Are people paying attention to me as a person or am I just a medical chart?"

"That's all people know or notice. They aren't in a position to actually judge the quality of care, so they use simple cues."

For example, patient portals, which allow patients to log into their health system to check medical records, test results and other information, will remain the same, officials noted.

The merger could lead to long-term improvements in care, one industry analyst said, especially at Beaumont locations where CEO John Fox generated controversy and unhappiness with doctors and nurses over prior proposed tie-ups with out-of-state health systems.

The combined system will serve patients better because the Beaumont doctors and nurses are likely to be happier in the new environment, said Alex Calderone, a Birmingham-based consultant who worked Pontiac General Hospital through its bankruptcy reorganization a few years ago.

“There is an opportunity here to take the defeated employee base at Beaumont and resurrect that morale,” Calderone said. “It comes down to how will they execute, how will they proceed?”

“This is creating an opportunity for more efficient health care, more cost-effective health care, which they can provide to their patients.”

The Beaumont-Spectrum tie-up would help strengthen the new firm in a pandemic-changed health care landscape, experts say, 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, Gordon said.

“Part of the consolidation will allow the new hospital system to control costs because you don’t need two legal departments or two finance departments,” he said. “They can take those savings and put them into patient care.”

Calderone agreed. “They’re going to have economies of scale. ... They’ll likely have greater access to capital, better equipment and more resources, and probably more specialties,” he said. “Two or three hours is a short distance in context of finding good specialists.”

Michigan's largest health insurer welcomed the merger in a Monday statement.

“Blue Cross and Blue Care Network members have received quality, leading-edge medical care at nonprofit community hospitals operated today by Beaumont Health and Spectrum Health,” Blue Cross and Blue Shield of Michigan President and CEO Daniel Loepp said.

“These two health systems are among the nation’s leaders recognized for their hospital facilities, capabilities and committed staff. Blue Cross has enjoyed strong

relationships with Beaumont and Spectrum for many years. ... Blue Cross looks forward to strengthening our relationship and advancing our common commitment to the health of the people we serve."

## **FTC doesn't object**

The two health systems signed a letter of intent last June to explore creating a new health system. In September, the systems announced their proposed merger was being delayed by a backlog of filings at the Federal Trade Commission, which needs to review the partnership.

Despite potential worries about whether there would be antitrust concerns, the FTC didn't file an objection to the Beaumont-Spectrum combination or launch a full investigation. The FTC doesn't comment on proposed mergers unless it files a complaint, and "the agency has not filed a complaint in this matter," FTC spokeswoman Betsy Lordan said Monday.

Federal law prohibits disclosing information about the FTC review process, including information about the timeline or when the merger passed any final hurdles with the federal agency, said Beaumont Health Board Chair Julie Fream, who is the incoming BSHS System board chair.

"The Beaumont board and the Spectrum Health boards each voted to reaffirm our position to join the organizations together last week," Fream said at the Monday afternoon press conference.

Contracts with employee unions will remain in force under the merged system, officials said.

The tie-up also did not require approval by Michigan Attorney General Dana Nessel.

"The department reviewed the Beaumont Health and Spectrum Health transaction and determined it did not require approval as a merger under Public (Act) 169 of

1965 because, as a membership substitution, they will remain separate legal entities," said Lynsey Mukomel, a spokeswoman for the Michigan Department of Attorney General.

In a Monday press release, Beaumont Health and Spectrum Health announced the board of directors and system leadership team for the new combined health system. The BSHS System board of directors includes seven members appointed from Beaumont Health and seven members appointed from Spectrum Health.

Freese Decker, the incoming president and CEO of BSHS System, will also serve on the board, as well as an additional board member who will be named later this year.

"As we launch our new health system, we have a bold goal to transform health and are thrilled to unite our two great organizations," Freese Decker said in a statement. "Together, we will leverage our complementary strengths to innovate and make a positive impact for our communities and their health."

Sean Welsh, current Spectrum Health System board chair and incoming BSHS System board vice chair, added: "The tremendous talent within these two organizations will be a beacon for others who share this vision for a new health system and the positive change it will create."

The merger ends a longtime effort by Beaumont to expand its footprint in Michigan after it engaged in merger talks with two out-of-state health systems in the past two years that were not finalized.

Beaumont in May 2020 ended partnership talks with Akron, Ohio-based Summa Health. Beaumont later entered talks with an Illinois- and Wisconsin-based system, Advocate Aurora Health, but those talks ended in October 2020 after the potential deal was widely contested by a broad coalition of physicians, nurses, hospital staff, community members and lawmakers.

A tie-up with Advocate Aurora Health, based in Milwaukee and Downers Grove, Illinois, would have made the nonprofit Beaumont Health part of a 28-hospital

health system across Wisconsin, Illinois and Michigan. Critics argued the merger would result in a loss of local control over the health system.

*kbouffard@detroitnews.com*

*hharding@detroitnews.com*