

MICHIGAN

What Henry Ford Health's joint venture with Ascension means for patients



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A proposed joint venture between Henry Ford Health and Ascension Michigan announced Wednesday would make Henry Ford the biggest hospital system in Metro Detroit, one industry analyst said, while other experts said it is unclear if the combination would lower or increase costs for patients.

The venture involves no money but would combine eight Ascension hospitals and related sites of care in southeast and mid-Michigan, as well as one rehabilitation center with all of Henry Ford Health's acute care hospitals and other care facilities, according to a joint press release from the health care systems.

The combination would result in more than 50,000 employees and 550 health care facilities, up from the 33,000 people currently employed by Henry Ford Health at over 250 sites of care, the two health systems said. The combination would result in \$10.5 billion in annual operating revenue, they said.

Ascension is a national Catholic health care system whose local hospitals include Ascension St. John Hospital in Detroit, Ascension Providence Hospital in Southfield and Ascension Providence Rochester Hospital. They would be given Henry Ford Health names, and the combined effort would be based in Detroit and led by Henry Ford Health President and CEO Bob Riney.

The new Henry Ford Health combination would have a board of directors "representative of both organizations," but Ascension and Henry Ford did not reveal a specific breakdown of representation. They said they would submit the proposed deal to state and federal regulators for review, and hope to have the deal take effect by summer 2024.

“Together we can expand health care services and deliver innovations in care — from prevention and early detection through the treatment of complex conditions — to more people and communities across our state, including those who are most vulnerable,” Riney said in a Wednesday statement. “We share a deeply rooted dedication to providing world-class health care that everyone deserves, regardless of geographic, demographic, or socioeconomic status.”

The proposed move came amid other recent hospital system mergers in the past two years, including the combination of Beaumont Health and west Michigan's Spectrum Health into the state's largest health system called Corewell Health in early 2022. Michigan Medicine absorbed Sparrow Health in April after announcing plans for the merger in late 2022.

It also came as Ascension and Henry Ford Health have experienced financial pressure in the past couple of years.

The combination would result in the Henry Ford Health and Ascension health care facilities having 43.8% of the Detroit area's market share by revenue, according to 2021 financial results assembled by Allan Baumgarten, a Minneapolis-based analyst who reviews the Metro Detroit and Michigan hospital markets. The former Beaumont Health, which has all of the southeast Michigan hospitals in the new Corewell Health system, would follow at about 30% and the Detroit Medical Center at 12.7%, according to Baumgarten's report.

“I am struck by the size of the combined system, which would have about 43% of the hospital market (by revenue) in the Detroit area counties,” Baumgarten said in a Wednesday email.

Other Ascension acute-care hospitals included in the joint venture are Ascension River District Hospital in East China Township, Ascension Genesys Hospital in Grand Blanc, Ascension Macomb-Oakland Hospital's Madison Heights and Warren campuses and Ascension Providence Hospital in Novi.

The combination is not a merger because Ascension is continuing to operate its national network of health care facilities, as well as some in Michigan. Ascension's southwest and northern Michigan hospitals will remain “members of the national health ministry,” the hospital systems said, separate from Henry Ford Health.

Experts assess price impact

Industry analysts are uncertain how the cost of care would change as a result of the joint venture. While a larger health system could achieve economies of scale that lead to lower costs, it also creates a bigger grip on the market and a possible incentive to increase prices, experts said. The issue will likely be evaluated by state and federal regulatory agencies, they said.

The new integrated health care delivery network is expected to lower costs for patients in the region, Henry Ford Health and Ascension Michigan argued in their press release. But how the venture will actually affect the cost of care remains to be seen, experts said.

"The prices could go up as a result of less competition or they could go down because hospital systems that now are bigger, have more negotiating power with insurance companies, drug companies and medical device companies," said Erik Gordon, a clinical assistant professor at the University of Michigan Ross School of Business.

"It'll all be focused on, will patients have fewer choices and face higher prices?" Gordon added. "Or will things be about the same or maybe even better?"

Alex Calderone, president of the Birmingham-based consultancy Calderone Advisory Group, agreed that cost advantages obtained by organizations due to an increased scale of operation could potentially reduce costs. But reducing competition in the market may pave the way for price increases, he added.

"In these situations, integration costs can be fairly substantial and those integration costs have to be passed on to someone," Calderone added. "As this transaction proceeds, transparency, regulation and patient advocacy will play a critical role in kind of navigating that balance."

Federal antitrust regulators in the U.S. Department of Justice or the Federal Trade Commission, as well as state regulators, can analyze the potential for competition, or lack thereof, to harm patients, Gordon said.

Michigan Attorney General Dana Nessel's office did not respond to a request for comment on whether her office plans to review the joint venture proposal.

Will patient services improve?

The venture is expected to "dramatically expand and enhance" health care in the area, Henry Ford Health and Ascension said.

"Together, we will make significant strides in improving the health of Michigan communities through unparalleled investments in critical community health initiatives, as well as contributing secure, high-paying jobs and other related employment," said Carol Schmidt, senior vice president of Ascension and ministry market executive for Ascension Michigan.

Henry Ford Health is planning a \$2.5 billion development over the next decade with Michigan State University that would create a new hospital and a medical research facility near its New Center neighborhood headquarters.

Experts were unsure if patient care would be guaranteed to improve. Calderone doesn't anticipate any significant changes in terms of access to patient care in Metro Detroit as a result of the combined operation.

"Without kind of employing more patient care providers, or building more facilities, or creating some sort of a new delivery method, it's challenging for me ... to understand how this transaction does anything outside of potentially cut shared cost across the system and create economies of scale," Calderone said.

Ascension patients will likely have to get used to a new health care system but could benefit from more seamless access to a larger network of specialists, Calderone and Gordon agreed.

But the "future state of the Catholic identity" of the Ascension Michigan hospitals and care facilities remains a topic of ongoing discussions, the two health system said.

"Both organizations are committed to working to maintain the Catholic identity of the Ascension Michigan facilities included in the partnership," according to the joint Henry Ford and Ascension Michigan statement.

Increased merger activity

The proposed joint ventures came as hospital merger activity has picked up this year, according to Chicago-based health industry consultant Kaufman Hall. There were 18 hospital transactions across the country in the third quarter that ended in September, far more than the 10 transactions done at the same time a year ago and seven deals announced in 2021.

“Hospitals and health systems have been under extreme financial pressure since 2022, when median operating margins remained in negative territory for the full year,” Kaufman Hall said in an Oct. 12 press release. Although the situation has improved this year, year-to-date operating margins are only slightly above 1%. That is “well below the 3% or higher operating margin that is necessary for long-term financial sustainability,” the consultants said.

Kaufman Hall predicted last year that mergers and other joint ventures would increase, meaning they would return to pre-pandemic levels.

Baumgarten agreed that the venture is the next stage in "a steady march of hospital consolidation not just in Michigan, but in the other Great Lakes states."

It's difficult to tell if the joint venture is a direct reaction to the recent merger moves in Michigan, Calderone said.

"These types of collaborations, they're often inspired by things like the pursuit of enhanced operational efficiency, expanded service offerings, improved patient outcomes, economies of scale," Calderone said. "(It) looks and feels and smells very similar to those other deals, and particularly the Michigan Medicine deal."

The UM health system absorbed Sparrow Health without paying any money.

Sometimes joint ventures are a "trial run" that precedes a merger since they are easier and cheaper to undo than mergers, UM's Gordon said. It is unclear if this is the case for Henry Ford Health and Ascension, he added.

Government antitrust regulators may be the only thing that will stop the trend of health systems joining and merging, Gordon said.

Are finances driving the deal?

Representatives for Henry Ford Health and Ascension Michigan declined to provide additional information about why they pursued the joint venture and they did not mention their finances in the joint statement.

But almost 40% of announced hospital transactions nationwide in the third quarter involved financial distress as a driver of the deal, whether announced publicly or inferred by Kaufman Hall based on publicly available information.

Both Henry Ford Health and Ascension lost money in 2021, according to Baumgarten's report, with Henry Ford experiencing a \$218.5 million loss in revenue and Ascension Michigan seeing a \$16.3 million reduction.

But Henry Ford Health squeaked out a \$138,000 operating margin in 2022, the health system announced earlier this year. This was an improvement from the year before, but it barely registered in the black.

"We know health care systems are facing continued financial challenges, many of which stem from the effects of the pandemic, but we are encouraged by some of the trends we are seeing," Riney said in a March statement.

By contrast, the national St. Louis-based Ascension health system reported in September a \$3 billion operating loss in fiscal year 2023, struggling with high costs and continuing revenue problems, according to Becker's Hospital CFO Report. Ascension has been selling off assets, including labs and a hospital in Mobile, Alabama.

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