Will consolidation in Chicago force more risk-sharing in the future?

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By Heather Johnston Johnson

Chicago health systems traditionally align with one of the city's famous neighborhoods: University of Chicago Medicine in Hyde Park on the South Side, Northwestern Memorial HealthCare in Lincoln Park on the North Side, NorthShore University HealthSystem in Highland Park, on the, you guessed it, North Shore.

But these geographic barriers are melting away as consolidation fever infects the city. The largest and second-largest health systems were part of massive mergers in 2018 and more major health systems plan mergers in 2019 to grow more competitive and capture more patients. Patient revenues are declining in many areas as health systems struggle with payment reforms that lower reimbursement; Chicago was particularly hard hit by 2017's state budget standoff that left providers and payers without Medicaid payments for months.

Blockbuster mergers

Amita Health, once Chicagoland's fourth-largest integrated delivery network, leveraged the power of its parent, St. Louis-based Ascension, to buy the second-largest IDN, Presence Health, in 2018. Taking on Presence's $1 billion in debt was apparently worth it to build a massive IDN with 15 percent of the market's inpatient discharges. Amita Health now uses its combined negotiating power to win better contracts with insurers, including Chicago's powerful Blue Cross Blue Shield of Illinois.

Advocate Aurora Health, meanwhile, now stretches from Chicago to Milwaukee, a super IDN that leverages the purchasing power of combined capital, while avoiding the service area overlaps that worry regulators. Former Advocate Health abandoned its 2017 bid to acquire NorthShore after the Federal Trade Commission argued the resulting IDN would have more than 50 percent of business on the North Shore and consumers would pay more for healthcare.

Bigger, better, and more efficient?

Health systems sell their mergers to federal and state regulators by touting the benefits of increased efficiency and lower costs for consumers. The fallout from large scale mergers is much more insidious, says David Johnson, CEO of 4sight Health. Yes, it's true that larger, important health systems and prestigious academic medical centers get 25 percent better pricing from insurers than other systems, but the savings don't translate well to patients, he says. Chicago

depends more on fee-for-service payments than similar markets, and providers are still focused on generating higher patient volume to build their revenue streams.

Johnson calls the process of healthcare costs eating up a larger and larger share of the economy the “Healthcare Industrial Complex.” His new book (*The Customer Revolution in Healthcare: Delivering Kinder, Smarter, Affordable Care for All*, to be released in late June 2019) puts the blame of higher costs on the perverse incentives in healthcare that pay providers more for more services and calls for true risk sharing to help level the playing field between payers and providers.

Employers poised to push back

Employers and consumers are stuck in the middle, paying more each year for healthcare. In Chicago, where many national and international companies have offices, it’s difficult for companies to justify the premium differences between cities. Many large employers know they’re paying more in Chicago compared to similarly-sized cities, and they’re starting to demand lower prices, says Cheryl Larson, president and CEO of the Midwest Business Group on Health. Employers could save money through direct contracts with health systems or powerful physician groups like DuPage Medical Group, but direct contracting is hampered in Illinois due to the power of BCBS of Illinois.

The power of big payers

Decision Resources Group data show BCBS of Illinois has roughly 50 percent of Chicago’s insurance business, giving the Blues significant control of pricing across the market and immense power during contract negotiations. Still, the powerful insurer is an important driver of payment reforms designed to lower costs. Its widespread Intensive Medical Homes program operates accountable care organizations that pay physicians incentives for meeting benchmarks, many of them unique to complex conditions, such as Crohn’s disease. Plus, the Illinois Blues is taking small steps toward full risk sharing by piloting bundled payment models with key specialty groups.

Johnson believes Chicago’s transition from FFS payments to full risk-sharing contracts is moving too slow. “I worry about substantial market failure,” he says. Johnson is particularly concerned about the rapid rise of specialty drug costs, an area named a top concern for Chicago employers by the Midwest Business Group on Health.

Impacting price with vertical integration

While Chicago IDNs have adopted a merger strategy to become bigger and geographically diverse to compete against each other, disruption isn’t far away. Aetna, which has around 7 percent of Chicago’s insurance market, according to DRG, is using vertical integration to become more competitive. Now that CVS Health has merged with Aetna, the insurer will align with Chicago’s numerous CVS MinuteClinics, making them part of an affordable narrow network plan. Aetna could also form a risk-based relationship with providers at CVS locations, like the contract it has with Oak

Street Health, a chain of physician offices which specifically care for Medicare recipients, says Suzanne Hall, Aetna's Vice President of Network Management in the insurer's Great Lakes region.

True alignment between providers and payers could force a major market like Chicago to depend less on patient volume and focus more on efficiency and quality. There's no doubt Chicago IDNs are preparing for the challenge, the question is which payer will emerge as the most powerful catalyst for true risk sharing?