

The Issue

Modern hospital care is increasingly specialized, technology-enabled and delivered across more settings. At the same time, patients present with more complex needs, and we continue to raise the bar for safety, digital access, cyber-security and 24/7 readiness. Keeping pace in this environment requires significant investment in clinical technology, specialized staff, data systems and facilities — often amid substantial administrative burden and in markets with highly consolidated insurers. Hospitals, therefore, need flexibility to pursue a range of strategic partnerships, including service-line collaborations, clinical integration, joint ventures, joint operating arrangements, and, where appropriate, mergers and acquisitions, to strengthen care delivery and manage risk. These arrangements can preserve and expand access, connect patients to specialist expertise, support consistent quality across a broader community footprint, and help hospitals build the scale needed to invest in modernization.

Background

Mergers, acquisitions and other forms of affiliation are common strategies hospitals use to maintain and strengthen access to care — particularly to help communities access a broader range of services, specialist support and additional clinical infrastructure to deliver complex care. Research has **shown** that these arrangements can help hospitals add or sustain service lines, expand access to specialty expertise (including through telehealth and clinical integration), and improve care coordination across settings. They can also provide a pathway for financially vulnerable hospitals to stabilize operations and continue serving patients. This is an important consideration when closure would reduce access for an entire community. Affiliation can also help hospitals recruit and retain specialized clinicians, strengthen on-call and coverage models, and support workforce pipelines that are more difficult to sustain outside of a system.

This context is especially relevant in rural areas, where hospitals often operate with thin margins, inconsistent patient volumes, and limited access to capital and workforce. AHA **analysis** of UNC Sheps Center rural hospital closure data found that closures have disproportionately affected independent hospitals, and research has **found** that rural hospitals are less likely to close after joining a system than if they remain independent. In many cases, affiliation supports rural hospitals by connecting them to clinical networks, specialist coverage and operational support that can be difficult to sustain on a standalone basis.

AHA Take

- Acquisitions and mergers help reduce health care costs and create a fiscally sustainable environment for health care delivery for patients and communities. Research **has found** that acquisitions are associated with a 3.3% reduction in annual operating expenses per adjusted admission at acquired hospitals. **Additional research** finds operating expenses fell by roughly 5-6% on a per-bed basis following acquisition, with an associated increase in operating profit of about \$60,000 per bed per year. At the same time, hospitals face a major — and **growing** — layer of administrative complexity driven by commercial insurer policies (e.g., expanding prior authorization, denials and post-payment audits), which require costly billing and appeals processes and systems and delay payment. Mergers and acquisitions can help hospitals manage this burden through efficiencies of scale to centralize and standardize revenue-cycle and compliance operations, spread fixed administrative investments (IT, contracting, denial management) across more volume, and stabilize cash flow — helping keep resources focused on patient care.
- Acquisitions and mergers can improve quality — particularly through meaningful integration and investment. Large national studies often find little change in readmissions or mortality on average, in part because meaningful quality change is notoriously difficult to capture in a handful of standard metrics and may take time to demonstrate. However, more **targeted and longitudinal research** suggests acquisitions can improve outcomes, like mortality and hospital-acquired infections, when they enable real clinical and operational integration — shared clinical leadership, common care pathways, integrated data/EHR and dashboards, and disciplined performance management.

- Partnerships, mergers or acquisitions help improve access to care for patients in rural and underserved communities. Research **has shown** that rural mergers are associated with quality improvement, including a reduction in mortality risk for certain conditions. Partnerships, mergers or acquisitions can support more cohesive care and enable patients to access specialists or services within an integrated clinical network, which in turn helps to keep essential services available locally. Rural independent hospitals are often under-resourced compared to the growing commercial insurer-driven administrative complexity.
- Federal payment policy shapes hospital consolidation by influencing financial viability and market structure. Research **suggests** that hospitals with a higher share of Medicare patients experience lower and more rapidly declining margins and face a higher likelihood of closure or acquisition — evidence consistent with the idea that reductions in public payment can, over time, contribute to consolidation pressures by changing the number and type of hospitals that can remain independent. Studies **have found** that these pressures are especially visible in rural markets among hospitals that were unprofitable at baseline, underscoring how mergers can function as a pathway to preserve access and secure resources. And because payment shortfalls compress cash flow, they can also limit hospitals' ability to invest; **related work** links lower capital investment to loss of market share and financial decline, which can make system affiliation an attractive way to secure the resources needed to maintain and modernize care.
- Local hospitals and health systems often negotiate with national insurers that have substantial market power in many markets. Commercial insurance markets are frequently highly concentrated. GAO **finds** that three or fewer insurers held at least 80% market share in the individual and employer group markets in at least 35 states over 2011-2022. Research **finds** that rural hospitals, which otherwise lack the leverage to negotiate, can be particularly vulnerable to lower rates from commercial insurers. Peer-reviewed **evidence** also links insurer consolidation and concentration to higher premiums in employer coverage. And even when insurer bargaining power contributes to lower prices, research **cautions** that there is no automatic market mechanism to ensure those savings are passed through to consumers in the form of lower premiums or any other benefit (and even suggests that they hardly do at all).

In this ever-changing environment, hospitals need continued flexibility to pursue strategic opportunities and partners as they overcome massive increases in the cost of caring, adjust to changing patient and community demographics, adopt new care delivery and payment models, and innovate for the future.