



News Release
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Detroit: Motor City to Medical Mecca?

Specter of Higher Costs Looms as Health Care Expansion Embraced to Jumpstart Economy

WASHINGTON, D.C.—Despite a weak economic outlook, Detroit area hospital systems plan to spend more than \$1.3 billion in the coming years on capital improvements, leading some to hope that medical care can help revitalize the area’s economy, according to a new Community Report released today by the Center for Studying Health System Change (HSC) and the nonpartisan, nonprofit National Institute for Health Care Reform (NIHCR).

Overlooked in the enthusiasm is the possibility that significant expansion of the community’s health care infrastructure may lead to higher health care costs if the hospital systems can’t attract new patients from outside the Detroit metropolitan area, according to the report.

“If all the spending on capital improvements leads to increased use of high-tech services or additional costs from excess capacity, the end result might be higher private health insurance premiums, which could negatively impact employers and employees,” said Paul B. Ginsburg, Ph.D., HSC president and NIHCR director of research.

The challenges facing the Detroit metropolitan area’s health care system are intertwined with the challenges facing the community as a whole, including a declining and aging population; major suburban/urban differences in income, employment, health insurance coverage, and health status; and a shrinking industrial base, according to the report.

In February 2010, a team of HSC researchers visited the Detroit metropolitan area—Lapeer, Livingston, Macomb, Oakland, St. Clair and Wayne counties—to study how health care is organized, financed and delivered in the community. Researchers interviewed more than 55 health care leaders, including representatives of major hospital systems, physician groups, insurers, employers, benefits consultants, community health centers, state and local health agencies, and others. Other key findings of the report, *Detroit: Motor City to Medical Mecca?*, which is available online at www.nihcr.org, include:

- Increasing cooperation between physicians and hospitals, at the same time competition among hospitals intensifies amid major investments in health care infrastructure.
- A growing focus by health plans, providers and employers on quality improvement and increased accountability for patient care outcomes.
- Community willingness to work collaboratively to address difficult issues relating to care for the poor and uninsured.

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Following earlier hospital consolidation, there are several major nonprofit hospital systems in metro Detroit, with each capturing from 11 percent to 18 percent of inpatient admissions across the market. In contrast, the health insurance market is heavily concentrated, with the dominant nonprofit Blue Cross Blue Shield of Michigan competing with two smaller, nonprofit provider-owned health plans—Health Alliance Plan (HAP) and Priority Health—for enrollment.

The major hospital systems include the Henry Ford Health System, which operates five acute care hospitals, owns a medical group and operates HAP; Detroit Medical Center (DMC), which operates nine hospitals, including the Children’s Hospital of Michigan and five other acute care hospitals; St. John Providence Health System, with seven acute care hospitals; and Beaumont Hospitals, with four acute care hospitals, including Beaumont Children’s Hospital.

Hospital systems have expanded their presence in the Detroit suburbs over the past decade, a strategy intended to improve access to privately insured patients. At the same time, hospital systems reduced their inner-city capacity in response to the declining population and falling margins. At least five hospitals in the city of Detroit, totaling about 1,500 inpatient beds, have closed since 1998.

The Henry Ford Health System recently opened a new suburban hospital in Oakland County, St. John Providence Hospital System closed Detroit Riverview Hospital near downtown Detroit in 2007, converting it to an urgent care center, and opened Providence Hospital in Novi in suburban Oakland County.

The state health department turned down certificate of need requests from both Henry Ford and St. John to build the new suburban hospitals. Despite significant employer concern that the facilities were unneeded and would increase costs, both hospital systems appealed successfully to the state Legislature to gain exemptions from certificate-of-need requirements designed to control the growth of health care facilities and services.

In March 2010, Detroit Medical Center, the city’s major safety net provider, announced that Vanguard Health Systems, a national for-profit hospital chain, would acquire the system and invest \$850 million in capital improvements over the next five years. DMC’s hospitals are in the city of Detroit, with the exception of one hospital in suburban Oakland County.

Two weeks after the proposed DMC purchase by Vanguard was announced, Henry Ford announced a plan to invest \$500 million in its flagship downtown Detroit hospital, including housing, retail and other commercial activities near the hospital. The investment plans outlined by Vanguard and Henry Ford have been enthusiastically received by city leaders, who see them as an important part of a hoped-for economic turnaround for the city.

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The National Institute for Health Care Reform contracts with the Washington, D.C.-based Center for Studying Health System Change to conduct high-quality, objective research and policy analyses of the organization, financing and delivery of health care in the United States. The nonprofit, nonpartisan Institute was created by the International Union, UAW; Chrysler Group LLC; Ford Motor Company; and General Motors to help inform policy makers and other decision-makers about options to expand access to high-quality, affordable health care to all Americans.

The Center for Studying Health System Change is a nonpartisan policy research organization committed to providing objective and timely research on the nation’s changing health system to help inform policy makers and contribute to better health care policy. HSC, based in Washington, D.C., is funded in part by the Robert Wood Johnson Foundation and is affiliated with Mathematica Policy Research.