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Assessing Responses to Increased Provider Consolidation

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# Case Study Analysis: The Syracuse Health Care Market

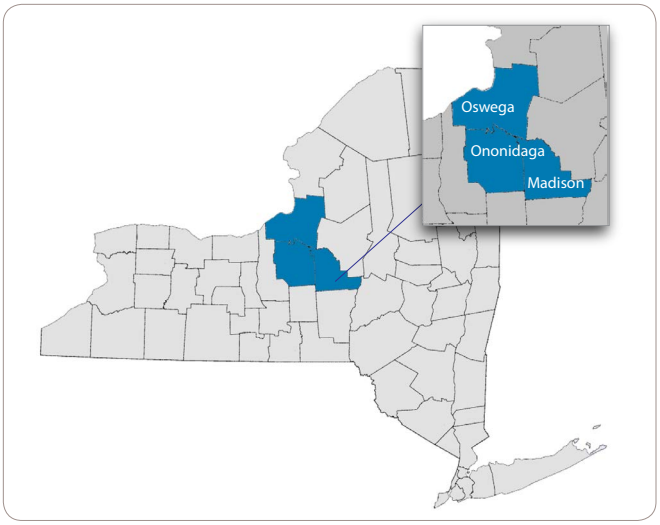
*Katie Keith, Sabrina Corlette, and Olivia Hoppe*

Rising health care prices have increased concerns about hospital and health system consolidation among policymakers, regulators, employers, and other purchasers of health coverage. Although merging hospitals and health systems claim they can achieve greater efficiencies through their consolidation, the economic literature almost universally finds that hospitals that merge have prices above those of surrounding hospitals.[1] And increases in hospital prices have been a key factor driving the growth of commercial health insurance costs over the past decade.[2]

As prices have risen, employers have shifted an ever greater share of the costs to employees. Over the past ten years, the average worker contribution for family coverage has increased faster than the average employer contribution (65 percent vs. 51 percent). Indeed, employee contributions have risen almost 300 percent since 1999.[3] Further, the increased negotiating clout of a concentrated provider sector influences payers' ability to maximize value-improving practices, such as alternative payment models, quality improvement, and transparency efforts.

In a series of six market-level, qualitative case studies, we assess the impact of recent provider consolidations, the ability of market participants (and, where relevant, regulators) to respond to those consolidations, and effective strategies for constraining cost growth while maintaining clinical quality. Our case studies focus on the commercial insurance market, though we recognize that providers and insurers are often operating in multiple markets, including Medicare Advantage, Medicaid managed care, and the Affordable Care Act (ACA) marketplaces. We do not attempt to quantify the effect of provider consolidation in these markets, such as through provider rate or premium changes.

This case study focuses on the Syracuse, New York health care market. For the interim report discussing findings across three health care markets (Detroit, Syracuse and Northern Virginia), visit https://georgetown.box.com/s/cbd5cipawi7dsr9n0jqzz05gvwdnmex8.




## Background, History, and Methodology

The Syracuse metropolitan region, defined in this study to include Onondaga, Oswego, and Madison counties, has three hospital systems. These are: SUNY Upstate University Hospital (SUNY Upstate), Crouse Hospital (Crouse), and St. Joseph's Health (St. Joe's). The three hospitals are physically very close to one another. SUNY Upstate and Crouse are adjacent—and physically connected by a bridge—with St. Joe's located less than a mile away.

These health systems compete in many practice areas. However, not all provide a full array of hospital services, and each health system has developed a somewhat distinct area of expertise. For instance, SUNY Upstate is known for its pediatric and neurology practices and houses the only local burn center. St. Joe's is highly regarded for cardiac surgery and orthopedics, while Crouse provides high-risk obstetrics and gynecological care.

Syracuse was previously a manufacturing hub with major outposts for companies like General Electric and General Motors. By the 1970s, the manufacturing industry had dwindled and the population of Syracuse declined. The city's reduced population led a state commission to call for hospital consolidation due to excess capacity.[4]

Syracuse providers have had a long history of both successful and failed consolidation attempts.[5] There were four major hospital systems in Syracuse as recently as 2011, when then-Upstate University Hospital, a teaching hospital that is part of the State University of New York system, merged with Community General Hospital, which was facing bankruptcy.[6] This merger resulted in SUNY Upstate, which continues to be Syracuse's academic medical center.

In addition to this merger, the provider landscape in Syracuse has been altered by the entry of large out-of-market hospital systems. In 2015, St. Joe's was acquired by Trinity Health (Trinity), a large national system operating 94 hospitals in 22 states.[7] In 2017, Crouse—the last independent hospital in Syracuse—entered into a partnership with Northwell Health (Northwell), the state's largest health care system with 22 hospitals but no presence in upstate New York.[8] Crouse entered into this partnership after a series of failed merger attempts.[9]

Syracuse's insurance market is highly concentrated. Excellus BlueCross BlueShield (Excellus) has long been, and remains, the dominant insurer in the Syracuse market. Excellus has a significant market share across all lines but particularly in the employer market. MVP Health Care, a regional plan based in Schenectady, competes with Excellus but runs a distant second in terms of market share. Other major carriers, such as UnitedHealthcare and Aetna, sometimes compete for large employer accounts in Syracuse but have not commanded significant market share.

To assess the varying ways in which insurers respond to provider consolidation, we conducted an environmental scan, a literature review, and interviews with ten national experts and regulators. Additionally, we interviewed ten Syracuse-area providers, insurers, large employer purchasers, and expert observers. Syracuse-based interviews occurred between April 4, 2018 and June 5, 2018.

## Descriptive Analysis: Three Market Sectors

### 1. Hospitals, Health Systems, and Physicians

As noted above, Syracuse's provider market has become increasingly concentrated over the last several years. Each of the three large hospital systems is owned by or aligned with a larger entity. SUNY Upstate is owned by the state, St. Joe's is owned by Trinity, and Crouse is in a new partnership with Northwell. Observers note that while Northwell's affiliation with Crouse is not a formal merger, it could be a "trial run" for Northwell as it considers expanding its footprint to the upstate region. While some respondents were uncertain about the future for Crouse and Northwell, others predict that Northwell will ultimately purchase Crouse.

More recently, the hospital systems have looked beyond Syracuse to pursue affiliation or partnership arrangements with smaller, more rural hospitals in contiguous counties.[10] To date, these partnerships have resulted in alignment, clinical affiliation, and, in some cases, referrals but not formal programs. One observer noted that there is not one "independent hospital that isn't either recently affiliated or about to affiliate." Respondents noted that these affiliations could allow for an expanded clinically integrated network across the broader geographic region and, with it, the potential to increase negotiating clout with insurers. Others thought it was primarily financially struggling rural hospitals that sought these affiliations in order to survive (rather than a competitive move by a health system). Regardless of the motivation, observers were unanimous in finding these affiliations to be, so far, limited in their effect. "Partnership without commitment seems to be the model," said one expert.

One partnership that respondents felt could have a bigger impact on market dynamics is a relatively new arrangement between St. Joe's and the University of Rochester Medical Center (URMC). This partnership with another academic medical center, albeit in Rochester, could pose a threat to SUNY Upstate. Respondents reported that St. Joe's has begun referring certain specialty cases, such as oncology cases, to URMC, which has a designated cancer center. St. Joe's has also brought in neurologists from URMC to see patients (presumably to compete with SUNY Upstate's dominance in neurology). St. Joe's and URMC also announced a partnership with Auburn Community Hospital, which is about halfway between Syracuse and Rochester, in late 2017.[11] As one respondent put it, "there's potential for this arrangement to have an impact on the balance of power in Syracuse."

Syracuse is also experiencing considerable vertical integration as the three hospital systems accelerate their efforts to purchase physician practices, particularly primary care groups. Specialty care practices are less consolidated, although not completely. For example, St. Joe's has been rapidly "buying up specialists" following the acquisition by Trinity and reportedly acquired the last private cardiology practice in the area. Respondents believed these trends are being driven by 1) the desire for greater leverage in price negotiations with payers; and 2) the transition to risk-based payment arrangements that incentivize keeping patients within a hospital system.

In spite of considerable consolidation and distinct market niches, respondents report that those niches are eroding to some degree, and the three hospital systems do compete. Observers noted the high degree of advertising done by the three health systems, ranging from billboard advertising to St. Joe's recent purchase of naming rights for an amphitheater.[12] "They spend a ton of money advertising at each other," one observer commented. However, respondents agreed that the fact that each system has its own distinct clinical niche, even with increased competition over time, limits payers' ability to exclude any single system from its network without significant backlash from customers.

## 2. Insurers

Excellus is estimated to control up to 80 percent of the commercial employer market and an estimated 50 percent of the individual health insurance market. Excellus also competes in the Medicare Advantage program, although the Medicare market in Syracuse remains primarily fee-for-service. "Excellus has been the 800-pound gorilla for as long as I can remember," observed one expert.

Excellus is particularly dominant in the fully insured small- and mid-sized group market, while UnitedHealthcare and Aetna appear to compete primarily for large business accounts and to serve as TPAs for large, self-funded employers. In the individual market, consumers have a choice of Excellus, MVP Health, and Fidelis Care (a nonprofit insurer primarily in New York's Medicaid market that was recently acquired by for-profit Centene Corporation).

When asked why the Syracuse area is so heavily concentrated, one expert noted that the area "hasn't been an attractive market for other insurers to come into." This is due in large part to the need for a network that is spread across a large geographic area, making the cost of entry significant. Others assert that new market entrants or smaller insurers are at a disadvantage in the bidding process for employer business. As one observer put it, local employers offer the incumbent insurer the "last look." Thus, even if an insurer comes in with a competitive bid, the incumbent insurer—typically Excellus—is given an opportunity to re-bid with lower prices.

## 3. Employer Purchasers

Syracuse has experienced a decline of large, multi-national companies, and now has an economy dominated by the public sector, universities, and health care employers. The market is supported primarily by fully insured small- and mid-sized businesses. Respondents emphasized that the health care sector itself is a key economic lynchpin for the region, with many residents employed by one of the three health systems.

Respondents describe local employers as generally conservative in their approach to health plan purchasing, with little appetite for reducing employee choice of doctors or hospitals. While there were some efforts to shift towards managed care in the 1990s, employer plans today predominantly offer generous out-of-network benefits and broad choice through preferred provider organization (PPO) products.

Employer purchasers further noted little differentiation among insurers in network design, with many respondents noting that employers would simply not accept a plan that excluded any of Syracuse's three hospital systems. This proved true in practice for at least one employer respondent that tried to create a limited network product but abandoned the idea after receiving negative feedback from employees. That employer now uses Excellus as a TPA in large part due to Excellus' ability to guarantee discounts with local providers and offer a national provider network through Blue Cross Blue Shield.

While respondents noted concerns about high health care costs, they emphasized that Syracuse is a low-cost area relative to other regions in New York and nationwide. Perhaps as a result, employers have not pushed back aggressively against annual rate increases. As one respondent put it, "we don't have employers showing up to meetings with pitchforks." Nor have employers been catalysts for alternative, risk-based payment models designed to reduce cost growth. Instead, the primary employer strategy for managing costs to date seems to have been to increase employee cost-sharing, largely through higher deductibles. Some experts estimate that high-deductible health plans have grown to 30 percent of the commercial market. Additional examples of innovation in the employer market, reportedly prompted by Excellus, include telemedicine services, tobacco cessation programs, and real-time data analytics.

## Findings

The Syracuse market lags the rest of the country with respect to a number of health industry trends. Although the provider market went through a recent wave of consolidation in 2011, observers believe additional consolidation is inevitable given the relatively small population and declining utilization. As one respondent put it, "Syracuse is just way behind in a lot of areas."

Narrow or tiered provider networks, high-deductible health plans, and alternative payment models that shift risk to providers have been relatively slow to take off in Syracuse compared to other major health care markets. This appears to be driven by both employer preference for broad networks (resulting in sustained demand for PPO products) and the different clinical niches of each health system (resulting in all three systems being considered a "must have" in-network provider).

Syracuse is also a relatively small market and the health care community is tight-knit. This has resulted in significant overlap among key players, many of whom have worked together in the past, have long-standing personal relationships, serve on boards together, or even live next door to one another. As one respondent put it, "everyone knows each other in this region and we all go to the same meetings." Given this culture, respondents raised concerns about the degree to which the entry of large non-local providers—such as Northwell and Trinity—will disrupt the current health care ecosystem.

- **Excellus Largely Perceived as Not Leveraging Its Market Dominance**

  Respondents were united in their views that Excellus is, and is likely to remain, the dominant insurer in Syracuse. However, respondents also emphasized the importance of maintaining at least some competition in the insurance market, whether through MVP Health or encouraging the entry of more national insurers like UnitedHealthcare. For instance, respondents noted at least one instance where an insurer with smaller market share was approached by one of Syracuse's provider systems. The provider system was concerned about the lack of competition in the insurer market, particularly the employer market, and "asked how they could help." The smaller insurer was able to negotiate a more modest cost increase than expected.

  There was less unanimity regarding whether Excellus effectively uses its market share to aggressively negotiate with providers. A number of respondents thought that Excellus could do much more, given its market position. As one noted, "Excellus does have market power because it has dominance, but I've never seen them successfully use their dominance relative to the providers." Another observed that Excellus, which is based in Rochester, seems to have been much more aggressive in negotiating with providers there than in Syracuse. Still another suggested that Excellus' dominance made it less aggressive, noting that Excellus might "play harder ball with the providers" if it faced more competition from other insurers.

  Respondents did not report particularly contentious or public disputes between insurers—Excellus or otherwise—and providers over reimbursement rates, although this may change over time given the entry of Trinity and Northwell into the market. Instead, it appears that Excellus exerts its influence more through "soft power" and its long-standing relationships with key market players. Some respondents noted times when Excellus weighed in informally on provider developments by, for instance, discouraging all three provider systems from developing a heart center. As

one respondent put it, "Excellus isn't saying you do heart and you do hip, but you start to see [Excellus' influence] from not having three heart centers."

Some respondents thought that Excellus has taken steps to innovate. Excellus has prioritized longer term contracts with providers; invested in primary care, quality improvement, and population health; secured more heavily discounted provider rates for employers relative to other insurers; and developed an accountable care organization model called the Accountable Cost and Quality Arrangement (ACQA). As St. Joe's and Crouse acquired or partnered with various primary care and family medicine physician groups, Excellus developed a virtual clinically integrated network and pays facilities based on historical physician performance, using quality metrics such as HEDIS®. This arrangement initially started with offering payment incentives to systems that meet specific budget goals and quality metrics, with plans to shift to providers assuming some downside financial risk, within limits.

With similar ACQA arrangements in areas such as Rochester and Utica, one potential long-term Excellus goal could be to weave together these high-performing networks into a tiered product. Excellus experimented with a tiered network offering in the individual market through a product called CNY Preferred. The lowest-cost tier includes St. Joe's and Crouse, with other Excellus network providers and non-preferred providers on higher tiers. Both St. Joe's and Crouse reportedly reduced their reimbursement level to below the full network product level to enable the product's development.

Given employer hesitancy to move towards narrow or tiered network products, one respondent noted that Excellus is experimenting in the individual market because it is "the least threatening and lowest risk environment." So far, enrollment in this product has been low, but respondents believed it is being used as a "proof of concept" for a tiered network offering that may be offered to employers in the future.

Because SUNY Upstate is not a primary care facility, it is limited in its ability to participate in the ACQA model noted above. However, Excellus is reportedly experimenting with risk-based arrangements in areas such as oncology to "give SUNY an opportunity to play in the population health space but to do it specific to specialty conditions." According to respondents, SUNY Upstate is the most expensive provider system in Syracuse. However, payers may be willing to pay higher prices due to its unique specialty areas and the medical school. As an insurer respondent noted, "we believe SUNY has an important place in the market—to have a future workforce pipeline, you need a good medical school."

- **In Spite of Its Dominance, Excellus Faces Some Limits on Its Ability to Negotiate**

  Despite its dominant market position, Excellus' ability to dictate price and contract terms is not unfettered, and the provider systems have leverage due to the nature of the Syracuse health care market. First, the three health systems' distinct market niches limit opportunities for narrow network products. This differentiation of services and specialties across three different provider systems (including the physician groups they have acquired) has meant that Excellus needs all three providers in its networks. As one respondent observed, "if I were an insurer and I had to pick which hospital to exclude, I don't know how I'd do it and still have employers be accepting of it. You'd have quite a backlash."

  All three systems are considered "must have" providers for reasons that include: 1) employer demand for broad networks, 2) state regulatory requirements, such as network adequacy standards, and 3) the complexity of developing a service line-only product (where a network would not include an entire facility but would, for instance, use Crouse for neonatal services, SUNY Upstate for pediatric care, and St. Joe's for cardiac care). On network adequacy, one respondent noted that "a St. Joe's-only limited network HMO product won't provide the volume of services needed to meet [New York's] network adequacy standards." Another noted that "it would be too risky to have a narrow network here because it would basically invite competition into the market." Further, respondents thought that Excellus would face negative publicity if they dropped a major system from their network: an attempt to limit network access by Excellus "would get

into newspapers that they're trying to push people out of hospitals."

Finally, employers have not been particularly active in advocating for lower-cost products and continue to demand broad, fully-inclusive provider networks. Although there is interest from employers in these models, respondents felt that employees would not accept coverage limitations. At least one employer respondent noted that their coverage had become more, not less, generous over time. That employer broadened its national network, eliminated its deductible, and moved from a coinsurance model to a copay model. Relative to other markets, there do not appear to be as many large businesses with market clout who are invested in pushing for change or more aggressive negotiations.

- **Recent Consolidation Has Not Had an Impact—Yet**

  Most respondents expect some change as a result of the recent acquisitions and partnerships in the Syracuse market, but these effects have not yet been felt. As of now, respondents observed that the provider systems remain fairly competitive and have not engaged in price gouging.

  This could, however, change. Excellus appears to have spent much time and attention on achieving an appropriate balance with Syracuse's health care systems. As one respondent put it, "Excellus has played a major role here and has been good at maintaining balance and not advantaging hospitals." Respondents noted that this balance could be—but has not yet been—upset by the recent entry of Trinity and Northwell into the Syracuse market.

  To date, St. Joe's merger with Trinity and Crouse's affiliation with Northwell have primarily enabled shared services and back office support—and in St. Joe's case, the acquisition of their debt—rather than increased purchasing power. However, respondents widely expect this to change. Trinity and Northwell are believed to be using their acquisition and partnerships as a way to get a foot in the door to upstate New York, beginning with the Syracuse area. As one respondent put it, "Trinity's idea for St. Joe's is for it to be a hub in New York and then affiliate around it, and Northwell has the same expectation of Crouse."

  Respondents raised concerns that larger national or non-local providers like Trinity and Northwell may not share the same priorities as local leaders. One insurer noted that their current models "are based on a mutually trusting partnership agreement" whereas Trinity may prefer a relationship based more on "leverage of who can get a better deal as opposed to working in a partnership together." Trinity is reportedly interested in increasing its market share through product innovation, such as a narrow network product designed around St. Joe's. Crouse is similarly approaching employers about a narrow network product focused on its clinically integrated network. Some respondents thought employers would not be interested in such products and thus take-up would be quite low. Others thought that such these products could yield significant savings, which would make such a product attractive to employers while also incentivizing high-quality care.

  There is precedent for respondents' concerns. SUNY Upstate was reportedly aggressive after its 2011 merger with Community General in increasing prices and refusing, for instance, to phase in cost increases over time. As one insurer respondent noted, "my most expensive hospital took over my cheapest hospital so the pricing of my cheapest hospital is now the same as my most expensive hospital." Trinity has reportedly been aggressive in other markets where they have acquired local hospitals, such as St. Peter's Hospital in Schenectady, where "Trinity tried to jack up the prices at St. Peter's and rates were much higher."

  If prices do rise, insurers are expected to push back but recognize some of their limitations. One insurer respondent expected the company to approach negotiations the same way they always had: "we do our homework knowing what we've paid and what our budget is, and we try to find out what they're focusing on." For example, noting falling inpatient utilization, insurers suggested a willingness to concede to higher inpatient rates in order to preserve reasonable outpatient rates.

  Overall, respondents were mixed on whether Trinity or Northwell should be viewed as a bigger threat in upsetting the balance of power in Syracuse. Trinity

has not yet begun aggressively negotiating alongside leaders at St. Joe's, but respondents expect this to happen eventually. As an insurer respondent put it, "we're preparing for St. Joe's to be much more aggressive since they have the backing of Trinity." Others thought that Northwell's partnership with Crouse could be more significant—described as "the one to keep our eye on"—because of Northwell's history of "keeping things in network to the extent they can."

## Expectations for the Future

Respondents shared a wide range of views on how the Syracuse market is likely to evolve. Further consolidation among providers is expected. Northwell may formally acquire Crouse, and it is worth watching for additional formal partnerships or mergers between Syracuse-based providers and smaller, more rural hospitals in contiguous counties.

Additionally, representatives from Trinity are expected to become more active participants at the negotiating table with Syracuse insurers, including asking for higher reimbursement than St. Joe's has to date. Trinity's increased engagement could significantly change the dynamics among what have long been local conversations among local stakeholders.

Observers believe there is the potential to see more product experimentation that uses tiered provider networks and higher deductibles. Although Excellus has used this type of product design in its individual market offerings, it remains to be seen whether employers will be willing to purchase a product with a more limited network. If there is no market for this type of product, respondents believe that this will lead payers to continue to focus on population health, primary care models, and more value-based and risk-sharing payment arrangements.

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