

Southwest Virginia Health Authority Public Hearing Testimony

October 3, 2016

Good Evening. I'm Mark Seidman, the Deputy Assistant Director for the Mergers IV Division at the Federal Trade Commission. These remarks reflect the views of FTC staff regarding the proposed cooperative agreement between Mountain States Health Alliance and Wellmont Health System, and while they do not necessarily represent the views of the Commission, I note that the Commission has authorized me to appear before you today. FTC staff has submitted a lengthy public comment discussing our analysis of the proposed merger and our view that the cooperative agreement should not be approved. My remarks tonight highlight only a few key points from that comment.

As part of its mission to preserve competition and protect consumers, the FTC regularly evaluates hospital mergers, assessing the likely impact on competition and whether any benefits from the merger would outweigh the harm to consumers. The FTC only challenges mergers when a thorough economic and legal analysis, along with real world evidence, demonstrate that the merger would substantially lessen competition.

FTC staff has spent more than a year analyzing the proposed merger between Mountain States and Wellmont. Thus far, our investigation has led us to have significant concerns about the negative effects this merger of vigorous competitors is likely to have on hospital pricing and quality of care for residents in Southwest Virginia. Together, the hospitals would have a dominant market share of inpatient services and a significant market share in several outpatient and physician-specialty service lines in the 21-county area they propose to serve.

When hospital mergers substantially reduce competition, prices for health care services increase significantly and the incentive to maintain or improve the quality of care decreases. Price increases are borne by members of the local community. Public and private employers, as well as patients, pay for these price increases in the form of higher premiums, higher co-pays, higher deductibles, and reduced insurance coverage. Decreases in quality affect all patients—the commercially insured, those covered by Medicare or Medicaid, and the uninsured. Given the significance of the competition between Mountain States and Wellmont, we would expect these adverse effects to occur in Southwest Virginia as a result of the proposed merger.

The hospitals have proposed commitments they claim would control and mitigate any anticompetitive effects, but these commitments are insufficient and unlikely to achieve this result. In particular, the price commitments described in the application are ambiguous and appear to leave the hospitals with the opportunity and incentive to obtain higher prices from health insurers. And even if prices were successfully constrained, it would do nothing to prevent harm to quality of care, and in fact would make that harm more likely. In turn, the proposed commitments relating to quality raise serious questions about how their compliance would be monitored and enforced.

We have also examined the cost savings and quality benefits that the hospitals claim will result from the merger, which would have to be extraordinary to outweigh the harm. In short, Mountain States and Wellmont have failed to provide sufficient detail to evaluate whether these benefits will be achieved. Moreover, the hospitals have not sufficiently justified why this highly anticompetitive merger is *necessary* to achieve the benefits they describe. Today, both Mountain States and Wellmont are large, integrated health systems with sufficient scale, capability, and resources to achieve many of the claimed benefits on their own. In addition, we are aware of no analysis comparing the impact this merger would have on residents of Southwest Virginia to other possible mergers or affiliations that likely are available.

Finally, it is important to understand that once a merger is consummated—whether under a cooperative agreement or otherwise—it is extremely difficult to unwind. The Plan of Separation submitted by the hospitals does little to alleviate the significant challenges of “unscrambling the eggs” following a hospital merger, particularly one of this size. Approving the cooperative agreement means risking that it will become permanent. Thus, we recommend that the Authority and the Virginia Department of Health deny the hospitals’ cooperative agreement application.

We appreciate the opportunity to be here today. We take our role of protecting consumers in this region seriously. This includes working with state and local regulators and enforcers and, as we have indicated on prior occasions, we remain available as a resource to the Authority, the Department of Health, and the community. Thank you again for your consideration.