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Obama's health care plan, cost savings drive merger of Beaumont, Henry Ford

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Gene Michalski, president and CEO of Beaumont Health System, and Nancy Schlichting, CEO of Henry Ford Health System, applaud each other after exchanging gifts during a news conference Wednesday, Oct. 31, 2012, to announce that Beaumont and Henry Ford have signed a letter of intent to combine their operations into a new \$6.4-billion organization. / KIMBERLY P. MITCHELL/Detroit Free Press

By John Gallagher
Detroit Free Press
Business Writer

Several long-term trends help explain why the merger of the Henry Ford and Beaumont health systems makes sense.

One is the coming implementation of the nation's new affordable care act. The law, and particularly the individual mandate to obtain health care coverage in 2014, is expected to swell the number of people seeking health care.

To deal with that onslaught, hospital systems need to run as efficiently as possible, and a larger system could enjoy more efficiencies.

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Another trend is the gradual aging of the American population. Aging adults require more care than younger people, so the aging population will lead to more people seeking out doctors and clinics.

The financial stresses facing the nation's Medicare and Medicaid systems have hospitals that provide care facing shortfalls on reimbursement for their services. For hospital systems that treat a lot of poor people in places such as Detroit, cutbacks on Medicare and Medicaid reimbursement can be particularly worrisome.

For these reasons and others, Wall Street tends to look at Henry Ford and Beaumont as good risks but ones facing challenges that might make them riskier investments if their costs rise. A united system with a vast service network would likely wield more borrowing clout and keep borrowing costs down.

Gail Jensen, a professor of health economics at Wayne State University, said the merged hospitals would enjoy a stronger bargaining position as they negotiate with health insurance plans over what they can charge for services.

That means that the merged hospitals could be able to exact higher payments from insurance plans, which is good for the hospitals' bottom line. But insurers' higher payments to hospitals eventually would get passed back to employers paying for the insurance for their employees, and ultimately, passed along to consumers in the form of higher health care premiums.

Jensen also speculated that Beaumont may be exploring a merger because it wants to get in on Henry Ford's Health Alliance Plan (HAP) health insurance, which is likely to be a major player once the health care act's health insurance exchanges kick in in early 2014. One potential benefit is that suburban consumers who want HAP coverage but don't want to come into Detroit for treatment would be able to get coverage at Beaumont facilities in the suburbs, Jensen said.

"As an economist looking at this, I can see reasonable reasons why they would want to merge," Jensen said. "I think it helps to lower their costs. It helps to strengthen their negotiating position with health insurance plans. And thirdly, it will give them a nice position

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in the health insurance exchange which is due to start up in January 2014.”

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