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# Combined Beaumont, Henry Ford hospital system could enjoy greater efficiency

November 1, 2012 | Comments

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Beaumont and Henry Ford Hospital Talk Merger: Beaumont and Henry Ford Health System have signed a letter of intent to combine operations into a new \$6.4 billion organization announced during a press conference held at Beaumont Hospital in Royal Oak, Mich. on Wednesday, Oct. 31, 2012.



By John Gallagher  
Detroit Free Press  
Business Writer

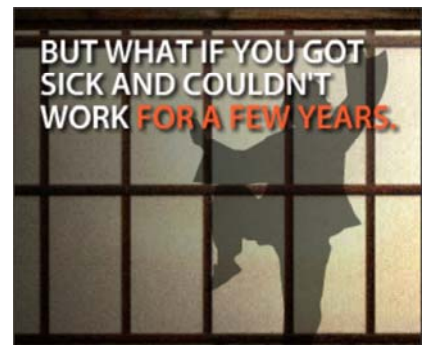
Several long-term trends help explain why the merger of Henry Ford Health System and Beaumont makes sense.

One is the coming implementation of the nation's new health care law, known informally as Obamacare. The law, and particularly the individual mandate to obtain health coverage in 2014, will swell the number of people seeking health care.

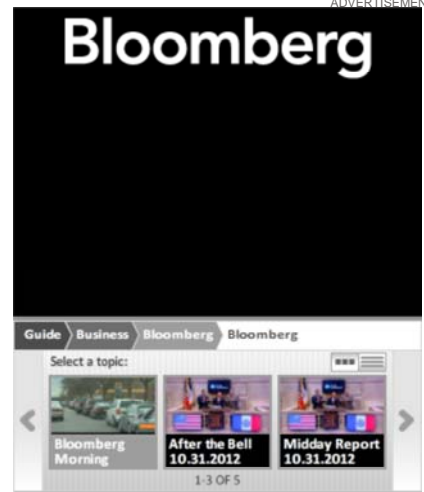
Many of these new patients may be carrying insurance coverage for the first time, which is good for hospitals that up to now have been struggling to get paid for treating uninsured people.

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But the influx of new patients will also put pressure on hospitals to either expand facilities or streamline services



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Gene Michalski, President and CEO of Beaumont Health System and Nancy Schlichting, CEO of Henry Ford Health System speak during a press conference to announce that Beaumont Health System and and Henry Ford Health System have signed a letter of intent to combine their operations into a new organization at Beaumont Hospital in Royal Oak.

to the extent possible. A larger system could enjoy greater efficiency, or what economists call economies of scale, more than two smaller, separate systems.

Another trend, the gradual aging of the American population, also will reinforce the ranks of new people seeking health care. Aging adults require more health care than younger, healthier people, so the aging of the population will lead to more people seeking doctors and clinics.

At the same time, the financial stresses facing the nation's Medicare and Medicaid systems means hospitals that provide care are facing shortfalls on reimbursement for their services. For hospital systems that treat a lot of low-income people in places like Detroit, cutbacks on Medicare and Medicaid reimbursement can be particularly worrisome.

For all these reasons and more, Wall Street tends to look at Henry Ford and Beaumont as good risks but facing challenges that might make them riskier investments in the future if their costs rise.

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Among other benefits of a merger, Gail Jensen, a professor of health economics at Wayne State University, says the merged hospitals will 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 those higher payments to hospitals by insurers eventually would get passed back to employers paying for the insurance for their employees, and ultimately those costs will get passed along to consumers in 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 insurance, which is likely to be a major player once Obamacare's health 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

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able to get HAP 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 in the health insurance exchange, which is due to start up in January 2014."

Bret Jackson, president of the Economic Alliance of Michigan, a nonprofit business-labor coalition, said the merger will be positive "as long as southeast Michigan has a number of competitive hospitals and health systems."

"... Bringing together the medical advancements and best practices of these two health systems should have a positive impact on patient care," Jackson said.

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