

LOCAL

Experts: Sparrow, U-M deal good for patients but could lead to cost increases, job cuts



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Lansing State Journal

Published 9:30 p.m. ET Dec. 13, 2022

LANSING – Quality of care is likely to improve for Lansing area patients as a result of the acquisition of Sparrow Health System by Michigan Medicine, but costs increases and job cuts are also possible from the deal, healthcare industry experts told the State Journal.

The two health systems announced the deal late last week, expanding one of the most prestigious hospital networks in the region into Greater Lansing.

Bret Jackson, president of the nonprofit Economic Alliance for Michigan that focuses on healthcare cost containment, said that care quality, which generally takes a hit in healthcare deals, may be spared in this transaction.

“Normally, hospital mergers are not necessarily positive for quality,” he said. “I do think that this will be an exception.”

Jackson cited Michigan Medicine’s prestige and culture of putting “safety and quality first, above everything else.”

“If they're going to do that for their Ann Arbor hospital, there's really no reason that they would change that focus for any other facility that they manage,” he said.

Jackson said that in all likelihood, patients will see costs increase to some degree.

“These things rarely, if ever, end up meaning efficiencies that trickle down to what a patient will pay out of their pocket over those hospital services,” he said.

Dr. Denny Martin, interim president of E.W. Sparrow Hospital in Lansing, declined to address possible cost increases. Dr. David Miller, president of the U-M Health system, said while it's difficult to predict the future, the two organizations have outlined plans to provide high-quality care while aiming to keep costs low.

Miller emphasized the mentality of “right care, right place at the right time” – getting individuals the correct care that they need, made easier by a well-coordinated system, can help patients by treating health issues before they progress. This mentality, Miller said, is likely to save patients money by reducing the severity of treatments and frequency of care in the long run.

Benchmarking prices vs. Medicare

Jackson cited the Employer Hospital Price Transparency Project, which tracks how much hospitals charge for services compared to their Medicare prices. Medicare prices are tailored for each hospital depending on factors such as the type of hospital, as well as economic and social health factors of surrounding communities – therefore, its prices can be used as a solid benchmark for cost comparisons, Jackson said.

Michigan Medicine pursued a similar deal in 2016 with the Grand Rapids-area Metro Health Hospital, now University of Michigan Health-West.

Before its late 2016 announcement of its acquisition, Metro Health Hospital had overall prices at 141% of Medicare, below the statewide average of 156%, according to data from 2015-2017.

Using data from 2018-2020, Metro Health's total facility cost increased to 184% of Medicare. The statewide average increased to 203% in 2020.

This means that Metro Health prices saw a relative increase of 30.4%, while the state saw an increase of 30.1%. Jackson said it's possible that Metro Health's price increases had something to do with the merger, but it's impossible to say for sure.

Jackson also pointed out the current differences in price between the Sparrow Health system and Michigan Medicine.

E.W. Sparrow Hospital, the largest in the system, charged 181% above Medicare prices, according to data from 2018-2020. The Michigan Medicine system overall charged 255% above Medicare. Jackson said that patients should watch out for Michigan's higher prices

“Hospital mergers almost always end up costing us more, and this is a metric that we can use to actually measure that over time,” Jackson said.

Miller partially attributed the current difference in costs between Sparrow and Michigan Medicine to a difference in the type of care generally performed – Sparrow often addresses lower complexity and local issues, which usually prove less costly than the complex procedures that Michigan Medicine is known for.

Can deal create economies of scale?

Alex Calderone, a consultant who helped Pontiac General Hospital with its bankruptcy reorganization, agreed that care quality would likely increase but said cost increases weren't a given.

“I do think that there is an opportunity to develop a sizable economy of scale here, and specifically to drive down the cost of patient care,” Calderone said. “Unfortunately, a lot of those cost reductions will come at the expense of job losses.”

He said administrative jobs are those most likely to be involved in any cuts.

Neither Michigan Medicine nor Sparrow Health have announced any plans for layoffs, and Miller declined to share any possible future plans. Calderone referenced Beaumont Health's merger with Spectrum Health earlier this year, which resulted in about 400 layoffs out of the 64,000 person workforce.

Sparrow's Martin said Sparrow's integration into the Michigan Medicine system would enable greater access to initial care.

“There are some things that patients will always have to go to quaternary academic medical center, like University of Michigan, for – like heart transplant, lung transplant, liver transplant,” he said. “Things like that that we won't get into doing, but we could potentially provide the entry point for those services here in our community.”

Martin also said he hopes that Michigan Medicine's investment will help recruit specialized doctors to the Lansing community, but emphasized the “best part of the relationship” as the ease of patients to receive more complex care at already established facilities in the Michigan Medicine network.

The two hospital systems, however, don't necessarily gain capacity because of the acquisition, Calderone said.

“If the number one neurosurgeon at the University of Michigan has a six-month waiting list to get in for an appointment, I am scratching my head trying to figure out how this transaction would result in that individual reducing his wait time.” Calderone said. “Unless you can duplicate those people, in my opinion it's very, very hard to understand how this would free up capacity for the Michigan system.”

Calderone said that the greatest potential for increasing specialized care capabilities would come with the implementation of robust training programs that would create more specialists on specific issues, rather than simply funneling more patients to the same amount of physicians.

Miller called that “one of the most exciting opportunities” to come out of the partnership. He said that bidirectional learning programs have been in place and proven beneficial for Michigan Medicine and Sparrow’s current collaborations in pediatrics and plastic surgery.

Miller said that these initiatives, including site visits, sharing of protocols and new technologies, “will represent significant opportunities for building new programs and expertise in Lansing and in the surrounding communities.”

He also emphasized the capacity for Sparrow physicians to extend their knowledge to the current Michigan Medicine system to better understand and serve mid-Michigan communities.

“I don't see physicians from Ann Arbor traveling here to do clinical care, and that's really not what we want – we really want to embed this care as a part of our communities and have those physicians live here, work here, and again, provide that care here locally as part of a bigger network,” Martin said.