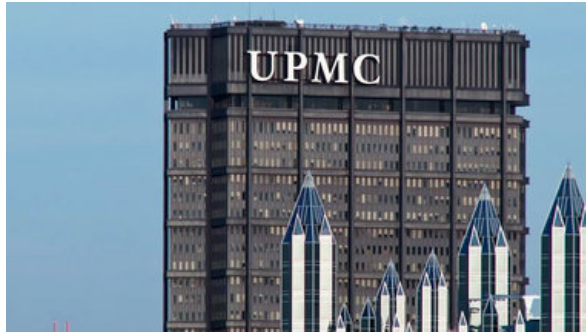


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UPMC's long and sometimes controversial road to Harrisburg



It's the largest non-governmental employer in Pennsylvania and one of the nation's largest health systems. And now, after weeks of coy denials, UPMC has confirmed that its footprint is about to grow.

The Pittsburgh-based health care conglomerate announced last week that it plans to pursue a partnership or affiliation with Harrisburg's PinnacleHealth in a move promising an expansion of Pinnacle's services and UPMC's brand, and one giving UPMC control over seven central Pennsylvania hospitals, potentially.

The move also caps nearly two decades of UPMC's aggressive and sometimes controversial expansion across western Pennsylvania and into neighboring states.

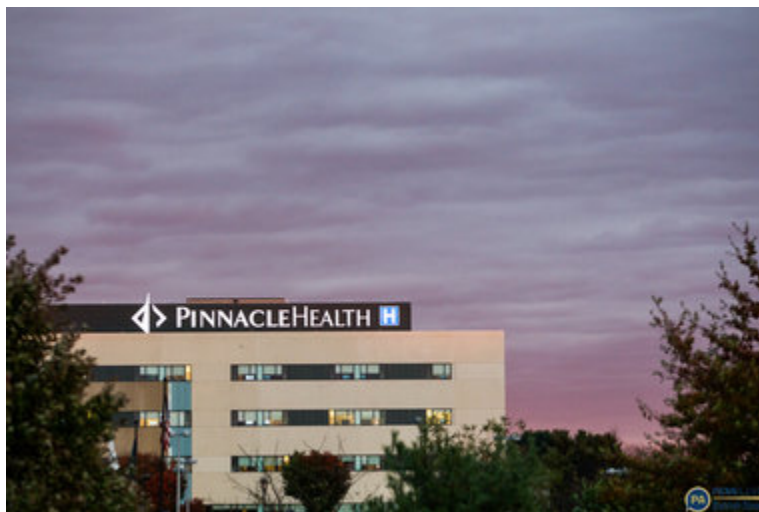
That growth has at times raised caution flags among government officials, like former Attorney General Kathleen Kane, who cited the "dominance" of UPMC in western Pennsylvania in denouncing a proposed -- and ultimately thwarted -- merger between Pinnacle and the Penn State Hershey Medical Center last year. Officials like Kane warned against the reduction in competition and higher prices that such a deal might represent.

And while similar worries have yet to be raised concerning UPMC's planned partnership with Pinnacle, likely because of their geographic separation and the continued existence of midstate competitors, criticism has followed UPMC on the road to central Pennsylvania.

As far back as 2001, when UPMC announced plans to merge with Pittsburgh's Children's Hospital, lawsuits were filed -- and later dropped -- by insurance companies fearful of UPMC's growing clout and the potential impacts on their bottom lines.

Martin Gaynor, a professor of economics and public policy at Carnegie Mellon University, wrote at the time that consumers and other providers also had reason to worry.

"Southwestern Pennsylvania already is burdened with some of the highest health care costs in the United States," Gaynor said. "As an economist, the reason is straightforward - our market for healthcare is far from being close to the ideal of perfect competition. Highmark is a giant dominating the health insurance market. UPMC is dominant in the hospital market. Health care in Southwestern Pennsylvania involves a face-off between these two behemoths."



Questions linger after Pinnacle announces big moves with UPMC, 4 regional hospitals

How will patient care change?

Gaynor continued: "Most likely, UPMC's acquisition of Children's will greatly increase its power in the Southwestern Pennsylvania health care marketplace. This is to the disadvantage of health insurers, who may end up having to pay higher prices or accept package deals with the UPMC system that they don't want. This is to the disadvantage of other hospitals in the region, who are now at a competitive disadvantage."

But UPMC's growth was only just beginning.

In 2008 it merged with Pittsburgh's Mercy hospital, raising similar objections from competitors, some of whom feared a monopoly.

Then there was UPMC's 2011 merger with the Hamot Medical Center in Erie, the 2013 merger with the Altoona Regional Health System, the 2016 mergers with Lycoming County's Susquehanna Health and New Castle's Jameson Health, and recent partnerships and mergers with health care centers in New York State as well.

Some of these were lauded for improving the hospitals absorbed by UPMC, while also improving rural patient access.

But there were also pockets of resistance from government regulators concerned again about the growing consolidation of health care services under one \$11.5 billion nonprofit.

Who is PinnacleHealth's new partner?

UPMC is the largest non-governmental employer in Pennsylvania, with 65,000 employees.

In other cases, the pushback has come from within the hospitals themselves, as was the case with UPMC's push into western New York in 2016.

And while smaller health care providers struggle nationally in a rapidly changing marketplace, more providers -- particularly rural ones -- are finding themselves forced to turn to mergers to stay afloat.

Meanwhile, for larger systems, such mergers represent a chance to secure greater market share and often greater leverage. On UPMC's end, hospital officials in 2016 reported revenue bumps from mergers of 4 percent at UPMC Altoona and 47 percent at UPMC Mercy, TribLive.com reported.

But the notion of health care and health insurance mergers remains a touchy one, with questions lingering about the benefits for consumers and, now, the voraciousness of government oversight and checks under President Donald Trump and Attorney General Jeff Sessions.

In Pittsburgh, UPMC, which is also one of the state's largest health insurers, has for years embodied such wariness, with competitors alleging the system's size and money have rendered the local and regional health care market a David-and-Goliath-style battlefield.

And to be sure, government regulators have sometimes agreed. When New Castle's Jameson Health System announced its planned merger with UPMC in 2015, then-Attorney General

Kathleen Kane actually provided Jameson officials with a list of health systems she hoped they would consider for the deal instead.

Jameson would ultimately side with UPMC, citing UPMC's coverage of its pension and debt obligations as key factors in their decision.

And while UPMC declined multiple requests for comment for this article, saying "PinnacleHealth and UPMC are now in the due diligence and regulatory review process, so we really cannot comment any further during this period," it has previously touted such mergers as a means of modernizing health care services, preserving local access, bringing doctors in to traditionally underserved markets and lowering costs by increasing buying power. That is the appeal of mergers with deep-pocketed systems in a nutshell, experts say.

"On the one hand there is the potential loss of competition, because if you had two options before, they now become one," Aviv Nevo, a professor with the University of Pennsylvania's Department of Economics, said about some mergers.

"But on the other hand there are various claims of higher quality and higher efficiency that merger parties can bring, and you could also have lower prices just because you have some cost reductions because they can eliminate some duplication," he said.

Nevo also said there are numerous health care and hospital mergers taking place in the U.S. each year, with many going unchallenged and others getting challenged but ultimately being allowed to proceed.



PinnacleHealth makes stunning move with UPMC, but watch for rivals to push back hard
Government regulators will have a big say.

But critics remain unconvinced of the longer-term impacts on consumers with fewer options, saying a more centralized network of providers can ultimately remove incentives for competitive pricing, as more patients are left with fewer places to turn.

In a December 2010 House Judiciary Subcommittee hearing on the state of antitrust enforcement in the health care industry, Sharis Pozen, then the U.S. Department of Justice Antitrust Division's chief of staff, said: "The success of [health care reform] will depend as much upon healthy competitive markets free from undue concentration and anti-competitive behavior as it will upon regulatory change," adding that her division would "carefully scrutinize and continue to challenge exclusionary practices by dominant firms -- whether for profit or nonprofit -- that substantially increase the cost of entry or expansion."

That zeal has in some cases trickled down to state's attorneys as well, but it remains to be seen if antitrust enforcement remains a top priority at the federal level going forward. Supporters of the Obamacare repeal have also cited a reduction in competition among insurers in explaining their opposition to the law, but it's not yet clear what, if anything, the final iteration of the GOP's replacement proposal will do to address that beyond existing antitrust laws.

Meanwhile, a joint press release issued by UPMC and PinnacleHealth this week stressed the mutual benefits of their planned arrangement, with UPMC President and CEO Jeffrey A. Romoff citing UPMC's "long history of successful affiliations" in places like Altoona and Erie, "where UPMC affiliations have meant significant investment and growth in advanced specialty care, primary care and community services for local residents."

Romoff also referenced a shared vision with PinnacleHealth of expanding "evidence-based, world-class healthcare with value-driven, low-cost insurance products to benefit more residents and businesses throughout Pennsylvania," adding, "This is at the heart of what we do."