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Small State, Big Hospital Costs



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Maine’s state motto is “Dirigo” which is Latin for “I lead,” as it is the first state to see the sun rise each morning. Unfortunately, one dynamic Maine is currently leading is around hospital consolidation, which is causing skyrocketing health care costs and dwindling competition.

In 2019, MaineHealth, a tax-exempt hospital system that owns hospitals in Maine and New Hampshire, merged with another hospital system, Mid Coast-Park View Health. MaineHealth is the largest health care system in the Pine Tree State, owning nearly a quarter of the state’s hospitals.¹ As a result of that, and

other consolidation amongst health care providers, Maine ranks as one of the states with the highest health care costs for patients with private coverage.

Hospital Systems Dominate

Portland, which is Maine's largest city, has notably high levels of hospital market concentration. In a study of 183 metro areas, only 20 cities performed worse. MaineHealth delivers care to two-thirds of every hospital patient in Portland and the rest of Southern Maine. In addition to being the largest Maine hospital system, MaineHealth is the state's largest employer.

MaineHealth is a nonprofit hospital system, meaning it is exempt from paying taxes and is required to provide benefits to the community. In Maine specifically, all hospitals, both for- and not-for profit, are required to provide charity care to those at 150% or less of the federal poverty level. MaineHealth claims to go beyond these requirements, extending charity care to those up to 200% of those below the poverty line. Interestingly, MaineHealth ranks in the bottom quarter of hospital systems that provide charity care expenditures, with just 1% of their expenses accounting for charity care.

In 2021, MaineHealth also received \$102 million in COVID relief, with \$43.4 million coming from the American Rescue Plan. Rather than using these funds to fully invest in patient care and affordability, MaineHealth acquired commercial real estate shortly after receiving those federal funds, including a sandwich shop and a strip mall.

The Consequences of Consolidation

Hospitals can raise prices when they consolidate because they have the market power to dictate what they will charge for medical services. Health insurers often have no choice but to accept these high prices because they are bound by federal requirements to cover a sufficient number of doctors and hospitals in a given area (called "network adequacy" requirements). If one health system controls most of the hospitals, the health insurers have less bargaining power since they

are bound to contract with that system's providers, otherwise they could fail to meet state and federal network adequacy requirements.

Because of that, Maine's hospital prices for employer-provided coverage are 275% more than Medicare's, putting Maine well above the national average. Maine is also an outlier in the region—a hip replacement surgery costs \$16,150 in Boston compared to \$44,850 in Maine.

Higher prices translate into higher premiums and out-of-pocket costs for patients. The average 2022 deductible for employees in Maine is the highest in the nation at \$2,771. It's the fifth highest for families at \$4,415. Because of the high price of care in Maine, employers have been steering patients to receive care in Boston for a much lower price.

Mergers between hospitals are not the only driver of rising prices. As health systems grow, they often gobble up outpatient clinics and physician practices. That's because outpatient clinics owned by hospitals receive higher reimbursement rates by Medicare and charge private health plans up to three times the amount paid to a physician practice for the same service through what's called facility fees. In the case of MaineHealth, the system owns 145 non-hospital clinics.

What Can Be Done?

Lawmakers at the federal level and the Maine State Legislature have an opportunity to combat the effects of hospital consolidation on patient costs. Here are three ways to do that:

First, require transparent billing and pricing for hospitals. This can be done by codifying and strengthening federal price transparency rules that lack sufficient enforcement and ensuring hospitals bill health insurers correctly using appropriate codes and billing forms for outpatient clinics.

Second, ban anticompetitive contracting. We shouldn't have rules that allow hospitals to dictate network terms that result in higher prices. That means, for

example, that insurers shouldn't be forced to contract with all providers within that hospital's system, known as "all-or-nothing contracting."

Third, limit add-on facility fees charged by hospitals. Patients shouldn't be forced to pay more for services by the hospital and their clinics. The Maine legislature created a task force this year to study those extra facility fees and make recommendations addressing facility fees. But Maine should go beyond that--the state and Congress should place limits on facility fees to lower costs for patients.

Both Congress and the Maine legislature can enact each of these policies, just as other states are starting to do. For example, Texas and New York banned hospitals' use of anticompetitive contracting tactics. Maine made progress last year after passing a law requiring hospitals enrolled in the 340B Drug Pricing Program to submit annual reports for how they use this extra funding from prescription drug manufacturers, a sign of progress showing a willingness to embrace hospital reform.

A single hospital system's dominance of the Maine hospital market is just one example of the rampant hospital consolidation that exists throughout the country. They are not the first and won't be the last.

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ENDNOTES

1. MaineHealth is the largest health system in terms of revenue and number of services.