



MASSACHUSETTS HEALTH POLICY COMMISSION REVIEW OF

**Partners HealthCare System's Proposed
Acquisition of Massachusetts Eye and
Ear Infirmary, Massachusetts Eye and Ear
Associates, and Affiliates
(HPC-CMIR-2017-1)**

EXECUTIVE SUMMARY

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On May 30, 2017, Partners HealthCare System (Partners) and the Foundation of the Massachusetts Eye and Ear Infirmary (MEE) executed an Affiliation Agreement for Partners to acquire MEE, including its specialty hospital, the Massachusetts Eye and Ear Infirmary (MEEI), and its physician organization, Massachusetts Eye and Ear Associates (MEEA). MEEI and MEEA have longstanding clinical affiliations with Massachusetts General Hospital (MGH) and Brigham and Women's Hospital (BWH), and MEEA also has a contracting affiliation with Partners. Under the proposed transaction, MEEI and MEEA would become corporate subsidiaries of Partners and would contract through Partners for all contracts with payers. MEE and Partners would also explore options for expanding MEE's services across the Partners provider system. The parties have stated that the transaction will support MEE through integration of financial, managerial, and administrative supports, including the achievement of "market competitive rates" for MEEI, and that greater clinical and information technology integration between Partners and MEE will result in improved patient care.

Following a 30-day initial review, the Health Policy Commission (HPC) determined that the proposed transaction was likely to have a significant impact on costs and market functioning in Massachusetts and warranted further review. This transaction is concurrently under review by the Massachusetts Department of Health's (DPH) Determination of Need (DoN) program. On November 1, 2017, the HPC issued a Preliminary Report presenting the analysis and key findings from its review. The parties provided a written response to these findings on November 30, 2017 (Parties' Response). The HPC now issues this Final Report, including the Parties' Response (attached as Exhibit A) and the HPC's analysis of the Parties' Response (attached as Exhibit B).

This report is organized into five parts. Part I outlines our analytic approach and the data we utilized. Part II describes the parties to this cost and market impact review and their goals and plans for undertaking the transaction. Parts III and IV then present our findings. Part III reports on the parties' baseline performance leading up to the transaction, and Part IV reports on the projected impact of the proposed transaction on that baseline. We conclude in Part V. Below is a summary of the findings presented in Parts III and IV:

1. **Cost and Market Baseline Performance:** Partners is the largest health care system in the state, with high inpatient, outpatient, and physician market shares. MEEI provides more outpatient otolaryngology and ophthalmology services than any other provider in its service area, and Partners provides some services that overlap with those provided by MEE. Partners patients have high total medical spending and the Partners system has high hospital and physician prices, including for outpatient otolaryngology and ophthalmology services. MEE's prices are substantially lower than Partners' prices.
2. **Quality Baseline Performance:** Given that MEE provides only a specialized set of services, there are relatively few relevant, standardized, publicly reported quality measures available to assess its performance. However, MEEI generally performs at or above the statewide average for relevant measures, and it performs particularly well on

patient experience measures. Partners hospitals and physicians also generally perform at or above the statewide average on most of the measures we reviewed.

3. **Access Baseline Performance:** MEEI is the principal provider of a number of specialty otolaryngology and ophthalmology services, although there are few services for which MEEI is the sole provider. MEEI participates more frequently than Partners general acute care hospitals in Medicaid managed care organization (MMCO) networks and commercial limited network products, and is generally placed in more favorable cost sharing tiers of tiered network products. MEEI and most Partners hospitals have higher commercial payer mix and lower Medicaid payer mix relative to comparator hospitals.
4. **Cost and Market Impact:** After the transaction, Partners could likely obtain Partners physician rates for MEEA physicians across all commercial payers and would likely seek significant hospital rate increases for MEEI. Over time, we estimate that total commercial health care spending would increase by \$20.8 million to \$61.2 million annually if Partners achieves parity between MEEI's rates and the rates of Partners' other acute care hospitals, depending on price levels obtained, and if MEEA physicians begin receiving Partners physician rates for all commercial payers. The parties concede that they expect MEEI and MEEA to receive higher prices and have declined to offer an unequivocal and measurable commitment to limit such increases. These rate increases would ultimately be borne by consumers and businesses through higher commercial premiums, including for tiered and limited network products that include MEE, and may also impact other providers' spending against risk budgets to the extent that their patients use MEE. Simultaneously, the parties expect to achieve internal efficiencies that would reduce their own expenses.
5. **Quality Impact:** The parties have stated that the proposed transaction will facilitate improved quality, primarily by better integrating MEE into Partners' technical infrastructure, including its data warehouse, quality reporting platform, and electronic medical record system. However, it is unclear to what extent these technical improvements would result in improved patient care, given that MEE's quality performance is already strong and comparable to that of Partners and recognizing the parties' existing collaborations. The parties have identified only a few metrics for quality improvement, and propose to collect baseline data and set improvement targets only after the transaction is completed. Given existing quality performance and unspecified targets, it is unclear that the proposed transaction is necessary or sufficient to achieve improvements in clinical quality.
6. **Access Impact:** While the parties have suggested that patient need for MEE's services is increasing, they have not described specific plans for when or where MEE might expand its services to meet those needs, or why corporate integration would be necessary to do so. In addition, if MEE adopts Partners' contracting patterns as a result of the transaction, patients in tiered and limited network products may face barriers to accessing MEE's specialty services, although the parties have stated a commitment to continue MEE's participation in MMCO networks.

In summary, we find that the proposed transaction between Partners and MEE is likely to increase health care spending due to expected increases in hospital and physician prices that are consistent with the parties' stated goals of the transaction. While the parties have claimed that the transaction will result in operational efficiencies and improvements in the quality of patient care and access to services, they have declined to offer an unequivocal and measurable commitment to limit the price increases that would increase spending for payers and consumers, and have not provided evidence that a corporate merger is either necessary or sufficient to achieve quality or access improvements. The parties also have not offered commitments regarding MEE's commercial payer network participation that would protect against any impaired access to MEE's specialty services subsequent to the transaction.

Given that the proposed transaction is under concurrent review by DPH's DoN program, the HPC will provide a copy of this Final Report to DoN program staff for consideration in the context of the factors for DoN approval. In addition, the HPC finds that Partners meets the criteria for mandatory referral to the Massachusetts Attorney General's Office pursuant to MASS. GEN. LAWS ch. 6D, § 13(f) as Partners has "dominant market share," "materially higher prices" than other providers, and "materially higher TME" than other providers.

Health Policy Commission

50 Milk Street, 8th Floor

Boston, MA 02109

www.mass.gov/HPC
