What’s Crazy About Buying and Selling Hospitals

By Michael Fine

Lifespan, which is about to be rebranded as Brown University Health, just bought St. Anne’s Hospital in Fall River and Morton Hospital in Taunton, Massachusetts for $175 million, making it a two-state hospital system. Should Rhode Islanders care?

On the face of it, it’s no big deal. A number of Rhode Island hospitals – Landmark in Woonsocket, Westerly Hospital, and CharterCare (Roger Williams and St Joseph’s Hospitals) have been owned by out of state entities for a long time, and the sky hasn’t fallen in, although lots of people wonder about the financial stability of CharterCare and the extent to which it may have been drained by the private equity process. But a Rhode Island hospital system owning an out-of-state hospital or hospitals is a relatively new phenomenon. (Lifespan attempted a merger with Tufts University Hospital about twenty-two years ago, though it wasn’t clear who was acquiring whom, or what the purpose of that short-lived affiliation was at the end of the day.)

But who cares what Lifespan buys? Lifespan had a $1.6 billion endowment at the end of 2022 which may well be worth in excess of $2 billion now. Shouldn’t Rhode Island want Lifespan to turn into the CVS of hospitals, and start acquiring hospitals all over the country? Or even all over the world?

There are actually two reasons for being cautious about these purchases, which occurred with almost no regulatory oversight in Rhode Island. (Massachusetts had regulatory oversight of the purchased hospitals, but I’ll bet at least a quarter that the regulators closed their eyes, terrified that the hospitals might otherwise close. Politicians hate when hospitals close because they fear they might be blamed. Even though we have way more hospitals than we need, and way way more than we would need if everyone had primary care.)

The first reason to be concerned is the general principle of health policy: hospital mergers drive up the cost of health care. If you believe that health care should be a business, this is a problem of supply and demand. When hospitals consolidate, there is less competition, and hospitals can charge more. Because thirty to forty percent of health care costs is from hospital payments, hospital costs have a major impact on the cost of health insurance at the end of the day.

The second reason to be concerned is how dependent Rhode Island is on Lifespan for hospital care and as a major employer. Any financial instability would have major economic, access-to-care, and some public health impacts.

Please note that Lifespan is a 501c3 private corporation run by a private self-appointed board that controls public assets and is effectively funded by public payments. And that Rhode Island has been lucky so far. We have pretty good health care. It costs too much. But we are as a state able to make our own decisions about cost and health care quality and stand on our own two feet.

The good news is that the acquisition of St Anne's and Morton hospitals by Lifespan is unlikely to have much impact on health insurance cost in Rhode Island. The two hospitals exist in a different health insurance market, so any increases in hospital cost will impact Massachusetts, not Rhode Island. There may be some increase in administrative overhead at Lifespan in association with these acquisitions, and it is possible that increase may be passed on to Rhode Island consumers, but it is also possible that administrative cost increases will be covered by additional income. Note how Lifespan reduced administrative overhead by shrinking its Rhode Island-based administrative services -- like separating from the President of Newport Hospital – about the time of these acquisitions, which was a responsible move from the perspective of hospital operations, but which also has impact on Rhode Island services, even at the outset. That said, if there was regulatory oversight of out-of- state hospital services, which there isn't, regulators might well have allowed the purchases to go through, but with the condition that no Rhode Island services should be reduced.

The bad news is that it is not possible to predict the outcome of these purchases on Rhode Island itself. Hospital deals come and hospital deals go. Hospitals get into financial trouble from time to time. Or get drained by the private equity folks when regulators aren't looking, or when regulators don't have adequate authority over hospital operations, given that hospitals are seventy percent funded by public dollars.

Lifespan appears well run at the moment, but that could change. The problem is that, if Lifespan were ever to get into trouble, they would turn to the legislature in a Rhode Island minute, reminding us that they are the state's largest employer and biggest provider of specialty services, and they would be demanding a public bailout, aka 38 Studios – and our state leaders would be hard pressed to say no. Or if Lifespan got into financial trouble, it could be sold to an out-of-state owner, which would take control of our largest employer and a significant portion of our specialty and hospital services, moving hospital oversight and influence out of state.

We have no oversight over Rhode Island hospitals that buy out-of-state hospitals, even though such purchases represent a meaningful risk to that state. We have no public representation on hospital boards, and thus no true public accountability for hospital business operations, even though hospitals are run with public funds. That's crazy, and so are we if we just sit back and watch all this, and hope nothing bad ever happens.

It will.