

Kaiser, Geisinger: the first of similar headlines?

June 2023—Consolidation in health care makes the news often. But the coming together of Kaiser Permanente and Geisinger Health and their launch of Risant Health got special attention. CAP TODAY publisher Bob McGonnagle asked Compass Group members for their take on the acquisition when they met online on May 2.

The Compass Group is an organization of not-for-profit IDN system laboratory leaders who collaborate to identify and share best practices and strategies.



Carbonneau

Kaiser Foundation Hospitals announced on April 26 it has acquired Geisinger Health. The CEO of Geisinger will be the head of Risant Health, a nonprofit organization that will be a second tier of the Kaiser integrated delivery and value-based care models. Eric Carbonneau, can you comment on this news?

Eric Carbonneau, MS, MLS(ASCP), chief operating officer, TriCore Reference Laboratories, Albuquerque: One of our sponsors, Presbyterian Healthcare Services, announced in March it is looking to do a joint venture with UnityPoint Health. I think we're going to see a lot more of these.

Greg Sossaman, what do you make of it and do you think it puts the commercial laboratories a little behind the eight ball when we're talking about entire systems merging and creating new entities?

Gregory Sossaman, MD, system chairman and service line leader, pathology and laboratory medicine, Ochsner Health, New Orleans: I think so. Futurists have spoken at the Executive War College meetings in the past, and a few years ago one of them referenced in his comments that there will be market consolidation and eventually we'll see only a certain number of big hospital systems nationwide. It was interesting to hear that reiterated at the Executive War College this year and then a few hours later see the announcement about Geisinger and Kaiser Permanente. This kind of activity is in response to some of what's going on with Optum and the consolidation of physician practices and other expense-reduction efforts in large hospital systems. But this activity does protect our business. Having the work from those physicians stay within a system or systems helps us. It's not being syphoned out.

Richard Zarbo, what are your thoughts?

Richard J. Zarbo, MD, system chairman, pathology and laboratory medicine, Henry Ford Health, Detroit: I don't have a direct line of sight on national mergers like this. I just hope it isn't an ill-founded lemmings following lemmings across the United States for the next five years before we find out whether there are economies of scale or whether they can make money in a value-based reimbursement environment.

One of the clear winners in any of this consolidation seems to be Medicare Advantage. It was considered increasingly to be the big winner and compelling people to consolidate. Do you feel that pressure of Medicare Advantage in the Henry Ford system?

Dr. Zarbo (Henry Ford): Yes, and we're successful at it because we have a regional system and people buy local. All medical care is local and all quality is local. That's why I don't understand the national play. Most people live within 10 miles of where they were born, so it's not as if we're traveling across the U.S. for health care purposes.



Dr. Zarbo

Once a concept like consolidation is in the water, it usually takes a decade or more to work through the concept.

Dr. Zarbo (Henry Ford): Most mergers fail. There are issues with scale. If you get too large, you lose your opportunity for efficiency. These are the negatives I see when you try to become big like this. It doesn't worry me. I just hope it isn't going to be the next CEO quest, where they follow each other along on the same path.

Stan Schofield, you've emphasized in your talks to the Compass Group and Executive War College how strained many of the health care systems are in their operations. What do you make of this news that Geisinger has sold itself?

Stan Schofield, VP and managing principal of the Compass Group (formerly of NorDx/MaineHealth): I'm not surprised. I wondered why it didn't happen several years ago, but everyone's discussions were suspended when the pandemic began. We're going to see FOMO, fear of missing out. There's going to be an increased fervor of picking partners and trying to get off a double- or triple-A team and into the majors.

The opportunities for cost reduction are around business operations because more computerization and automation are available. Maybe once someone is registered in a system electronically, it's easy to handle the business operation—billing, reimbursement, all the back-office things—from a centralized point. Those will be some of the major savings. The others will come from better negotiations around pharmaceuticals, deliverables, and chemo-tactic agents. They're going to be big enough, complex enough, and sophisticated enough to have valuable, important information where a double-A-level health care system can't compete. This is where scope and scale will benefit if they can execute it cleanly around the fringes without disrupting the core clinical delivery. Between computer systems and best-in-class protocols, they'll have the best care. And the money that comes through more automation, more informatics, more streamlining of business operations, they'll be able to put into clinical delivery at higher salaries.

They could dominate, but it's going to take a lot of work and a lot of excellence. At the end of it, I would like to see what they project to save and if they can do it. I don't know that a savings of \$3 or \$4 billion is available, and that's the kind of money they need to save with this kind of consolidation.

I think there's going to be a headline like this in health care every month over the next 18 months.

Rick Vander Heide, tell us what you make of this news or anything else you've been hearing about or experiencing.

Richard S. Vander Heide, MD, PhD, MBA, medical director of pathology and laboratory medicine service line, Marshfield Clinic Health System, Marshfield, Wis.: I was surprised by the news. We're in talks ourselves in terms of a merger operation with a rural-based health care system in the upper Midwest. From our perspective in rural Wisconsin, the issue is, where are you going to find new patients and how will you get them into your system? I'm wondering whether that might be a small piece of it.

One member of the Compass Group told me in a note that he attributes this move and some others largely to be reflective of the consolidation of payers. Dwayne Breining, do you have a comment about the news?

Dwayne Breining, MD, executive director, Northwell Health Laboratories, New York: The trend does seem to be mergers. There are basically five private insurance companies that run everything, and you could argue that until there are five big providers that run everything and are integrated in some way, you won't have equal bargaining power at the table. It is kind of an artificial environment. It's regional, state by state, and the idea of crossing

states is a bit confusing. How do you make that work? Many of us are familiar with the Geisinger laboratory, which is impressive. If you were to centralize reference lab services in Pennsylvania versus California, you could probably cut costs in about half.

Kaiser is the leader in the industry of providers trying to become payers; that's the origin of that system. Most of us have tried it and have been mildly successful or successful in small arenas or we've almost lost our shirts. Geisinger does a lot of direct-to-employer insurance plans, so having the Kaiser expertise behind that and a bigger financial pot to spread risk against could make a lot of sense in terms of the providers becoming payers. That's the only way the providers, the medical systems, benefit from our forays into risk reduction and disease avoidance. Unless we're payers, we don't see the benefit of that. To date no one has been willing to pay us to do that, so we should pay ourselves.

Tony Bull, give us your reaction to this news.

Tony Bull, system administrative officer, Pathology and Laboratory Medicine Integrated Center of Clinical Excellence, Medical University of South Carolina: I see a lot of similarities between the Kaiser and Geisinger systems. Some experts have said a key benefit of large health system mergers is found in back-office operations savings and that there's not as much opportunity with actual patient-facing care. But I think there might be more of those opportunities in this case due to how highly integrated both systems are. There are avenues of savings and revenue improvement in contract and benefits negotiations and in billing, and it will be interesting to see how that works when the systems are not geographically connected. Futurists talked years ago about consolidation resulting in 20 or so mega health systems across the country, and I wonder if some of the large mergers we've seen recently are supporting that prediction. We're seeing this on a smaller scale in South Carolina. We've seen smaller hospitals in smaller cities joining our system to gain the benefits of scale and continue to provide care to their communities. I don't know if this will have a big impact on the commercial laboratories buying up outreach businesses or if the equation changes with larger systems retaining ownership of their lab business.

John Waugh, it seems like we're all interwoven more than we've been before. Do you have thoughts about this as you've listened and reflected?

John Waugh, MS, MLS(ASCP), system VP, pathology and laboratory medicine, Henry Ford Health System, Detroit: My gut tells me this is a result of post-COVID economic headwinds that all of us are facing now. We don't have a revenue problem; we have an expense problem where expenses are on a different dimension than we've been on before. Geisinger has done a good job of delivering health care to rural communities in central Pennsylvania and has built brand loyalty there. As a result, they operate with minimal competitive forces because people drive past the few competitors and go to Geisinger's brand. This is probably not about improving health care or about laboratories either; it's about money. Geisinger will bring loyal subscribers to their health plan who will now be part of Risant and maybe buy what Kaiser Permanente has been selling, and that's insurance. Kaiser will bring cash to the table at a time when Geisinger could use an infusion in this post-COVID era in which salaries are out of whack for many providers. □