MERGERS IN THE MOUNTAIN STATE:

How Hospital Consolidation Impacts Health Care Prices for West Virginians

WEST VIRGINIA CENTER ON BUDGET & POLICY

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SECTION 1

Introduction

Commercial and private health care costs in the United States and West Virginia are rising at a concerning rate.

West Virginia outpaces the nation with the highest health care spending of any state, comprising more than one-fourth of the state's gross domestic product.[1] A groundbreaking RAND Corporation study found that West Virginia residents bear the cost, as the Mountain State has private and commercial health care costs higher than any other state. In 2022, West Virginia spent about $6,000 per capita on hospital care, nearly $2,000 more than the national average, much of which fell on patients to pay. [2]

Many factors contribute to high health care costs in the United States and in West Virginia including an aging population; rising rates of chronic conditions; the costs of advancements in medicine, treatments, and technologies; and a fragmented health care system with many payers and limited regulatory enforcement. And recently, the impact of the increasing prevalence of concentrated provider networks became an emerging field of analysis for rising costs.

Evidence shows that concentrated markets reduce the leverage insurers, employers, and individuals have to negotiate prices with providers to secure affordable care.

This report focuses on hospitals in West Virginia and how provider consolidation trends impact the state and consumers by reallocating market power to just a few hospital networks. Market consolidation is an important area of study for policymakers as well as consumers, as it directly impacts patients' ability to afford care and services. Evidence shows that concentrated markets reduce the leverage insurers, employers, and individuals have to negotiate prices with providers to secure affordable care. This dynamic impacts consumers regardless of their insurance status, as even insured individuals and families absorb increases in health costs through higher premiums and out-of-pocket costs.[3]

While hospital costs represent just one piece of the puzzle, they are worth examining as they represent about **30 percent of health care expenditures** nationally and are the most consolidated part of the health care industry. Additionally, prices in the hospital sector have been growing faster than in any other sector of the economy.[4] Between 2010 and 2023, national hospital care prices rose 36 percent—and much of these costs were passed on to patients.[5] In West Virginia, hospital systems also own a range of clinics, including many primary care provider offices. Between this relationship with other clinics and with health insurance costs, hospital consolidation significantly impacts patients beyond the hospital setting.

One obvious solution to this information asymmetry is to simply make health care prices transparent so that people can compare costs and make the most

informed decisions about their health care. And while that is essential, it only addresses part of the problem. Even if a person were able to see how much a specific service would cost them before they sought it, in many places, they still must accept that price because it may be the only option available to them.

This dynamic is a key consideration in rural areas like West Virginia, as **researchers have found that hospitals that have no competition in a 15-mile radius have 12 percent higher prices on average than those with nearby competitors.**[6] A Yale University study found a statistically significant relationship between increased health care prices and suppressed wages and employment levels for workers both within and outside of the health care system. Increased unemployment driven by increased health care costs also had a causal relationship with mortality in the short term.[7]

SECTION 2

Key Findings

WEST VIRGINIA HAS THE HIGHEST COMMERCIAL AND PRIVATE HEALTH CARE COSTS IN THE COUNTRY with annual expenditures totaling 28.7 percent of the state's gross domestic product.

A range of research supports that **HOSPITAL CONSOLIDATION INCREASES PRICES** with mixed findings on consolidation's impact on quality of care.

140% On average, West Virginia hospitals charged patients **140 PERCENT ABOVE WHAT IT COST FOR THEM TO BREAK EVEN.**

Nonprofit West Virginia hospitals spent as little as two percent of operating expenses on charitable care, **WHILE THEIR CHARITABLE TAX STATUS WAS WORTH NEARLY FIVE PERCENT.**

70% Two hospital systems, WVU Medicine and the Vandalia Health System, **OWN 70 PERCENT OF HOSPITALS ACROSS THE STATE.**

13% In 2021, **13 PERCENT OF WEST VIRGINIANS REPORTED HAVING MEDICAL DEBT,** leading to delayed care, foregone necessities like food and heat, and further debt.

Heightened health care prices driven by hospital consolidation are associated with **DEPRESSED WAGES, HIGHER UNEMPLOYMENT, AND INCREASED DEATHS ACROSS ENTIRE COMMUNITIES.**

Several policy recommendations, including price transparency, strengthening antitrust policy, and setting a charity care threshold for nonprofit hospitals **CAN MITIGATE GROWING HEALTH CARE COSTS IN THE STATE.**

SECTION 3

What is Health Care Consolidation?

In many West Virginia communities and others across the country, it has become increasingly difficult for independent providers to remain operational.

In some cases, particularly in rural areas, shrinking populations mean lower patient volumes. Many providers have needed to become part of large hospital systems to stay afloat, further restricting patient options. Health care consolidation refers to hospitals and other health care entities joining together under common ownership through a merger or acquisition.[8] Between 1998 and 2023, over 2,000 hospital mergers occurred across the country, pushing the number of hospitals within a hospital system to over two in three.[9] By 2023, 55 percent of physicians in the country worked in a hospital or health system, with the highest concentration in the southern United States.[10]

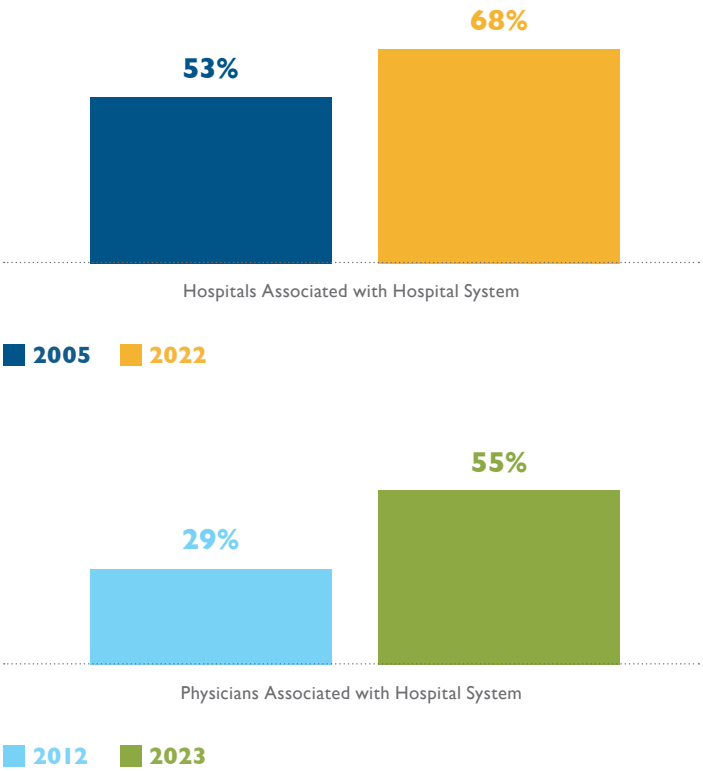
Between 1998 and 2023, over 2,000 hospital mergers occurred across the country, pushing the number of hospitals within a hospital system to over two in three.

Hospital consolidation has been touted as an effort to keep rural providers and hospitals from closing by providing a large network of resources, increasing efficiency, and improving coordination and quality of care.[11] However, **the evidence is clear that it also drives up health care prices for patients.** While estimates vary, the former director

FIGURE 1

HOSPITAL SYSTEMS HAVE GROWN SIGNIFICANTLY OVER THE PAST DECADES

HOSPITALS ASSOCIATED WITH HOSPITAL SYSTEM, 2005, 2022; PHYSICIANS ASSOCIATED WITH HOSPITAL SYSTEM, 2012, 2023



Source: Kaiser Family Foundation

of economics at the Federal Trade Commission (the agency tasked with reviewing mergers and acquisitions) stated that consolidation led to price hikes of 40 to 50 percent in 2014.[12] Meanwhile, the RAND Corporation found price increases of up to 65 percent due to consolidation.[13]

These findings contribute to a growing body of research highlighting that hospital consolidation artificially drives up health care costs with mixed evidence as to whether consolidation achieves promised quality improvements.[14] With a declining range of alternative options, patients often do not have a reasonable set of choices that can offset predatory pricing schemes. This lack of competition in the current health care system combined with the lack of price transparency enables providers to set prices and demand ever higher reimbursements without many checks or levers for insurers, individuals, or employers to say no.

Some evidence also points to hospital consolidation as a factor in the reduction of services, like intensive care, labor and delivery, and psychiatric care, leading to care deserts for critical services in rural and other underserved communities.[15] These services are less profitable than other hospital services, and their cuts are profit motivated and irrespective of community need. This trend will be examined in a future publication.

SECTION 4

How Does Health Care Consolidation Look in West Virginia?

Hospital and provider consolidation has played a key role in West Virginia's health care landscape in recent years, largely centering around two systems: West Virginia University (WVU) Medicine and the Vandalia Health System.

While WVU Medicine has mostly acquired individual hospitals, Vandalia Health is largely comprised of three smaller health systems.

Between them, they own 42 hospitals across the state—25 and 17, respectively. **That figure represents 70 percent of all hospitals in West Virginia.**[16] Much of the consolidation within these two systems has happened over the past several years. The Charleston Area Medical Center and the Mon Health System merged to form Vandalia Health in 2022, then acquired the Davis Health System and several independent hospitals in 2023.[17] Meanwhile, WVU Medicine has doubled its number of hospitals over the past five years.[18]

These mergers have contributed to a significant imbalance of power within the West Virginia health care system overall. Nationally and statewide, hospital patient revenues have grown faster than operating expenses, but the unique market power held between these two systems, especially by WVU Medicine, has contributed to profit margins that exceed those in the rest of the state. The National Academy for State Health Policy (NASHP) does not have data for Vandalia Health in its database, so this paper relies on information about one part of the network—Charleston Area Medical Center (CAMC)—moving forward.

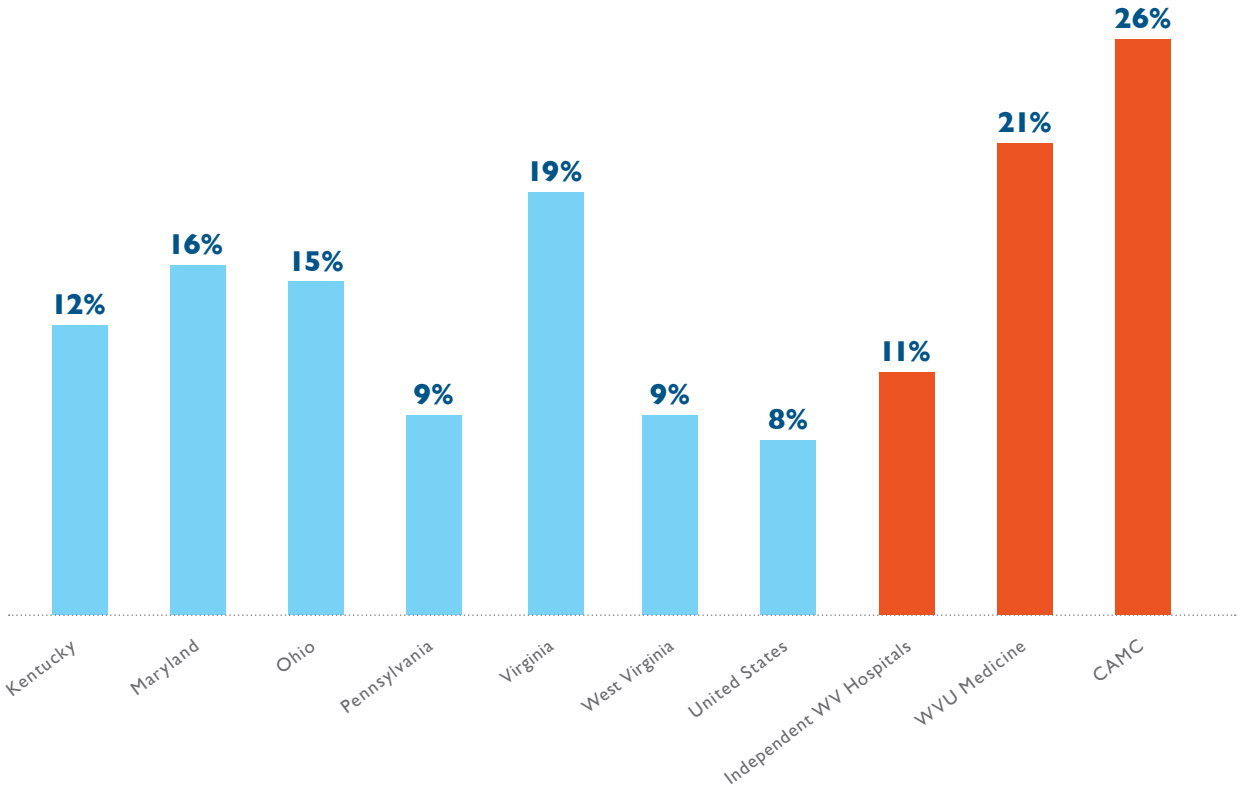
In 2023, WVU Medicine reported a 21 percent operating profit margin, while CAMC (just one part of Vandalia Health) reported 26 percent, as highlighted in Figure 2. The operating profit percentages represent the earnings on hospital patient services, excluding non-patient related income and costs.[19] Essentially, it measures how much profit hospitals are making in the business of caring for patients. These percentages translated to about $1.2 billion in operating profit between WVU Medicine and CAMC, which represent about half of hospitals in the state. These operating profit margins far outpace those in the state overall, including for independent hospitals, as well as the averages among neighboring states.

FIGURE 2

NONPROFIT HOSPITAL NETWORKS IN WEST VIRGINIA SAW LARGE PROFIT MARGINS

OPERATING PROFIT MARGINS, KENTUCKY, MARYLAND, OHIO, PENNSYLVANIA, VIRGINIA, WEST VIRGINIA, UNITED STATES, INDEPENDENT WEST VIRGINIA HOSPITALS, WVU MEDICINE, AND CAMC, 2023

Source: National Academy for State Health Policy



SECTION 5

Cost Trends

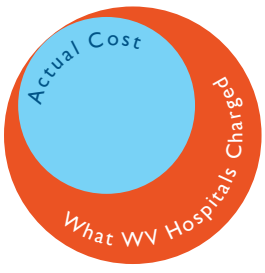
The health care model in the United States disproportionately empowers providers as price opacity prevents patients from knowing the cost of a medical service until after it has already been rendered.

The asymmetrical information between hospitals and providers and their patients creates a system that incentivizes providers to charge patients significantly more than the cost of care. While this relationship is applicable across health care settings, large hospitals and hospital systems stand to benefit more than smaller providers. They generally have many more resources at their disposal as well as large shares of local health care markets, making it difficult for independent providers to compete.

In 2023, West Virginia hospitals charged patients

140% more

than it actually cost to cover their expenses.



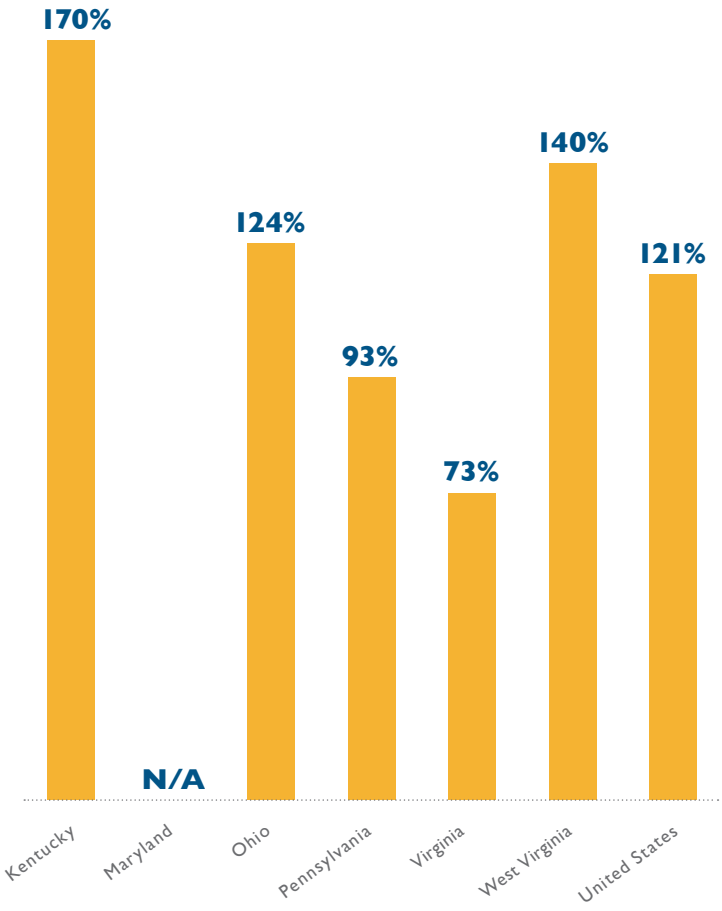
The reimbursement rate hospitals must receive from commercial payers to cover their costs is called the commercial breakeven point. The RAND Corporation compared those figures against how much hospitals charged patients to find the discrepancy between true cost and price.[20] Data pulled from the NASHP found that, on average, hospitals in West Virginia charged patients 140

FIGURE 3

WEST VIRGINIA HOSPITALS CHARGE PATIENTS NEARLY 2.5 TIMES BREAKEVEN COST

RATE HOSPITALS CHARGE OVER MEDICARE BREAKEVEN COST, KENTUCKY, MARYLAND, OHIO, PENNSYLVANIA, VIRGINIA, WEST VIRGINIA, AND UNITED STATES, 2023

Source: National Academy for State Health Policy



percent more than it actually cost to cover their expenses in 2023.[21] Figure 3 highlights that this exceeds the national average of 121 percent, while Figure 4 shows flat operating costs over time despite ever-increasing costs to patients. NASHP relies on data reported by hospitals and does not account for every hospital in the state. Still, it offers the most accurate hospital pricing data publicly available.

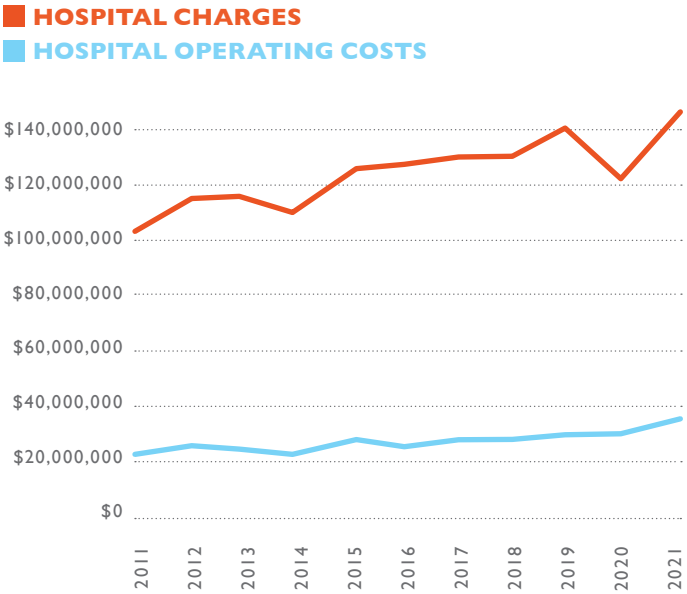
And while this overcharging is a national phenomenon, West Virginians bear the brunt of the inequity: according to a recent RAND Corporation study, health care prices for private insurance in the state are the highest in the nation, despite a relative lack of access to care, especially for specialty services. RAND's analysis of commercial prices as a share of Medicare breakeven costs found that West Virginia is just one of seven states where private insurance costs average more than 300 percent of Medicare reimbursements.[22]

FIGURE 4

WEST VIRGINIA HOSPITAL OPERATING COSTS REMAINED FLAT WHILE CHARGES INCREASED

HOSPITAL OPERATING COSTS AND CHARGES IN WEST VIRGINIA, 2011 TO 2021

Source: National Academy for State Health Policy



SECTION 6

Nonprofit Hospitals in West Virginia

WVU Medicine and Vandalia Health are both comprised of mostly nonprofit hospitals, a status that dominates the state health care landscape.[23]

Nonprofit hospitals receive tax exemptions in exchange for providing charity care and other benefits to the communities in which they operate. This status applies to over half of all hospitals across the country. Despite the "nonprofit" label, there are no restrictions on these hospitals' ability to turn a profit, nor limits on the amount of profit that can be generated. Thus, many nonprofit hospitals look and operate similarly to their for-profit counterparts, with successful investment

portfolios, large cash reserves, and high profits. In 2023, NASHP reported that WVU Medicine had boasted a $2.3 billion fund balance.[24]

Despite the "nonprofit" label, there are no restrictions on these hospitals' ability to turn a profit, nor limits on the amount of profit that can be generated.

While the Internal Revenue Service (IRS) has posted general guidelines on the need for nonprofit hospitals to provide charity care, there are no specific requirements detailing the amount of community benefits these hospitals must provide to maintain their nonprofit tax status, leading to significant variation in community benefit spending.[25]

The most recent data available from 2023 indicates that hospitals in West Virginia spend about four percent of their net revenue on charity, uninsured, and uncompensated care. This percentage is on par with the national average and above those in neighboring states. Between 2015 and 2023, WVU Medicine and CAMC spent two and three percent, respectively, of net patient revenue on charity, uninsured, and uncompensated care, as highlighted by Figure 5.[26]

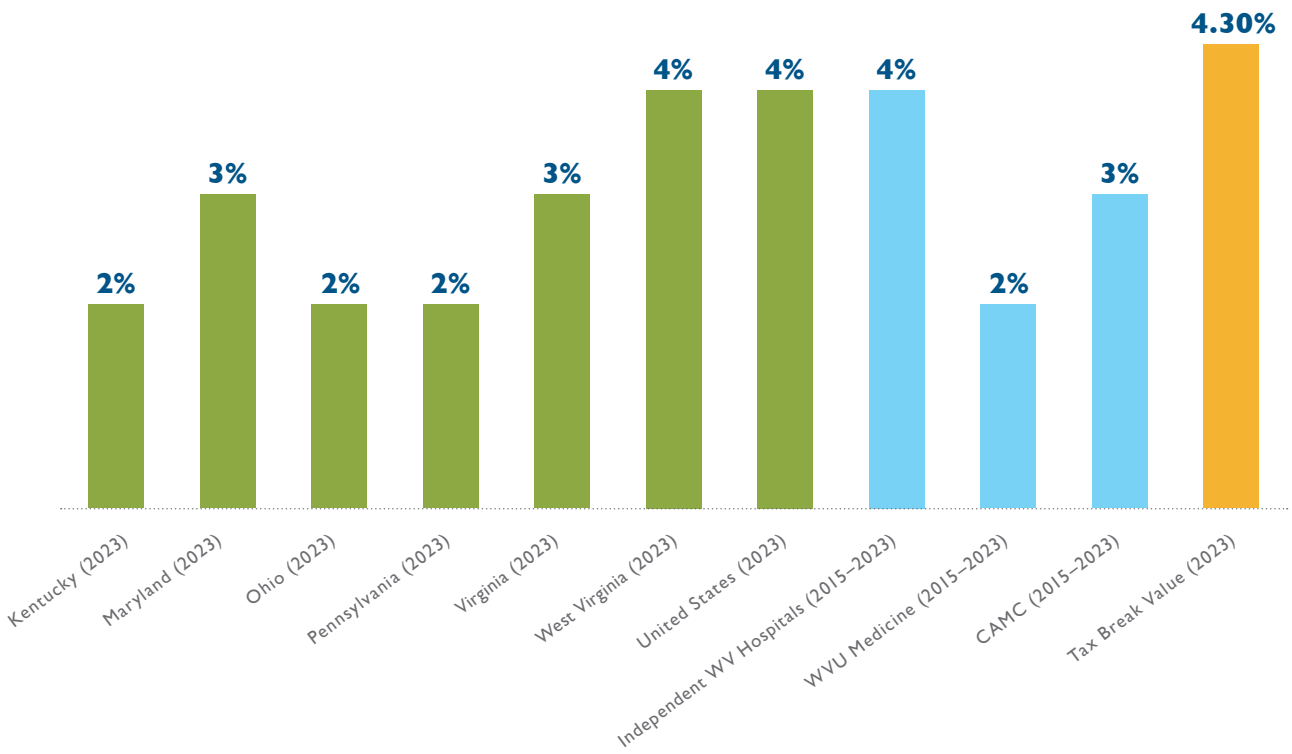
The rate of charity, uninsured, and uncompensated care was higher prior to 2015; the previous year, West Virginia and many other states expanded Medicaid, giving millions more people nationwide access to health care.[27] This increased access to traditional health care reduced the need for charity

FIGURE 5

NONPROFIT TAX BREAK VALUE OUTPACES CHARITABLE CARE IN WEST VIRGINIA

CHARITY, UNINSURED, AND UNCOMPENSATED CARE AS PERCENTAGE OF NET REVENUE IN KENTUCKY, MARYLAND, OHIO, PENNSYLVANIA, VIRGINIA, WEST VIRGINIA, UNITED STATES, 2023; INDEPENDENT WEST VIRGINIA HOSPITALS, WVU MEDICINE, AND CAMC, 2015–2023; TAX BREAK VALUE, 2023

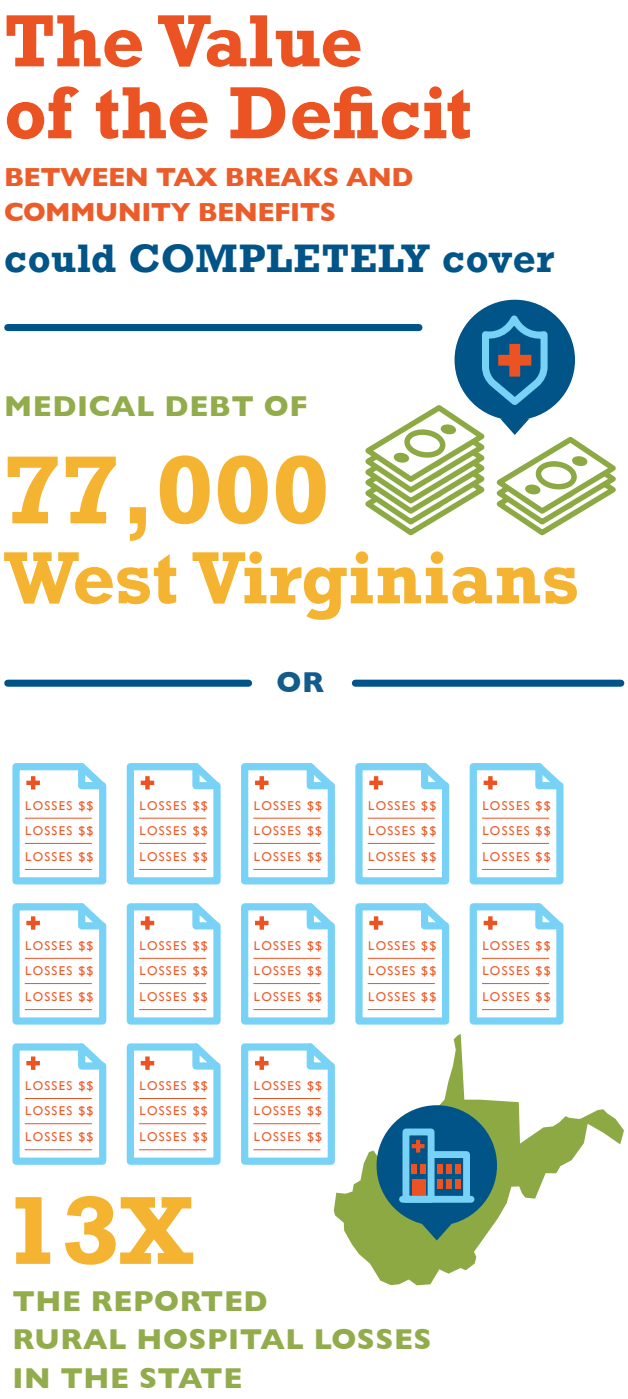
Source: National Academy for State Health Policy



care, but has not eliminated it. And despite having health insurance, many people still go into debt for medical necessities across the state.

A study published in 2021 found that between 2011 and 2018, nonprofit hospitals received a near-five percent boost in revenue due to tax exemptions. Figure 5 compares this tax exemption with charitable care, revealing that the value of the tax break is higher than the value of charitable care nonprofit hospitals in West Virginia provide. Charity care refers to discounted services for low-income community members, while community benefits are initiatives aimed at improving community health outcomes. Nationally, over one-third of hospitals provided fewer community benefits than the value of their tax exemption and nearly nine in ten provided less charity care than their tax exemption. Further, the study found that affiliation with a hospital system was negatively associated with community benefits and charity care.[28] Despite their nonprofit status and supposed commitment to communities, most nonprofit hospitals in the United States prioritize profits and take more than they give.

In 2020, the difference between nonprofit tax breaks and charity, uninsured, and uncompensated care in West Virginia was $132 million. In other words, nonprofit hospitals in the state saved $132 million generated by tax breaks that were not reinvested in charity care to help vulnerable West Virginians access care or pay their medical bills. The value of the deficit between tax breaks and community benefits could completely cover the medical debt of over 77,000 West Virginians or cover the losses reported by rural hospitals in the state more than 13 times.[29] In 2021, nonprofit hospitals took in nearly $400 million more than they reinvested in their communities; this deficit was unusually large due to significant federal public health emergency funds during COVID-19 that aimed to mitigate health disparities during an uncertain time.



SECTION 7

Impact on Patients

A RAND Corporation study found that the Mountain State has private and commercial health care costs higher than in any other state, even those with greater access to health care services and specialization.[30]

Health care costs total 28.7 percent of West Virginia's entire gross domestic product annually. These costs are passed on to patients through higher health insurance premiums and out-of-pocket costs; further, for employees, these costs can depress pay increases as employers often prioritize absorbing rising insurance costs over offering higher wages.

One study highlighted that between 2019 and 2021, 13 percent of West Virginia adults reported having medical debt, higher than the national average of 8.6 percent.[31] It found that nationally, people with disabilities, those in poor health, and those in low-income households held a disproportionate amount of medical debt. Many West Virginians fall into one or more of these categories.

These statistics translate to concerning gaps in access to health care and general wellness, with one survey finding that over half of respondents delayed or skipped pursuing necessary health care services in the prior 12 months due to cost. Lower-income West Virginians and West Virginians with disabilities were more likely to go without care and incur debt due to health care costs.[32]

Ample research supports that delaying or forgoing necessary care can exacerbate medical conditions, leading to more invasive and expensive treatment later. According to a national study conducted in 2023, common types of care that people delayed or went without included mental health care, prescription drugs, and dental care. It also found that people of color, people in poorer health, those in low-income households, and those without insurance were the most likely to fall into this category.[33]

Of those who were able to access care, two in five experienced struggles paying their medical bills, leading them to either drain their savings or go without necessities like food, heat, or housing to afford the cost.[34] The health and financial impacts of high health care costs have multifaceted consequences for patients in the short and long terms. It is unclear how many people die each year due to forgone or delayed health care interventions that became out of reach due to increased health care prices.[35]

Despite this reality, nonprofit hospitals across the state, including WVU Medicine, seize bank accounts, garnish wages, and send medical debt to collections for patients who cannot pay medical bills; they engaged in this practice even during the height of the COVID-19 pandemic, when both wellness and income were in flux for many people in the Mountain State.[36]

SECTION 8

Impact on Labor and Wages

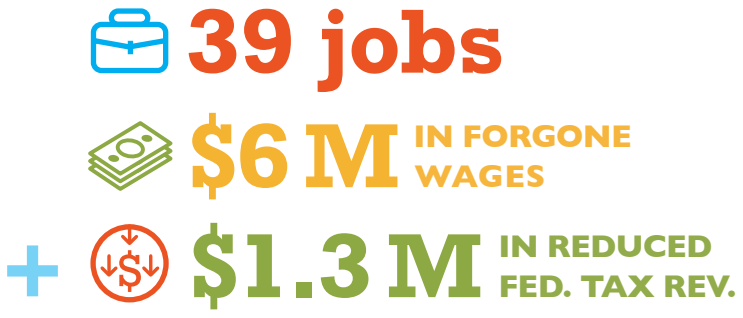
It is essential to note that in addition to creating consequences for patients, the centralization of hospital services has not benefited workers, either.

Hospitals throughout the nation cite high labor costs as one of the factors driving up hospital expenses. A nationwide shortage of health care workers and an increased reliance on contract labor, exacerbated by the pandemic, has led the median labor expense per discharge to steadily rise for hospitals. West Virginia hospitals' median direct patient labor costs per adjusted patient discharge totaled $2,844 in 2021.[37]

Hospitals that cite increased labor costs as justification for higher hospital prices often fail to explain the increasing pay disparity between hospital executives and frontline staff, with many hospitals' CEO salary increases drastically surpassing those of frontline health care workers. **In fiscal year 2023, the CEO and president of Vandalia Health was compensated roughly $2 million, outpacing the average health care industry worker's annual income by nearly 35 times.**[38]

West Virginia hospitals choose to prioritize generous executive compensation at the expense of fair compensation for frontline health care workers, which has direct impacts on patients across the state. Evidence suggests that hospital CEO pay is not meaningfully tied to an increase in quality of care or patient safety but rather is primarily associated with a higher volume of patients passing through the doors, thus increasing profits.[39]

These data have broad implications for patients as well as communities. A Yale University study investigated the economic consequences of hospital mergers, finding that when hospitals merge, hospital prices rise and increase labor costs via higher employer-sponsored health insurance premiums. Employment becomes more expensive across the entire community, not only within the health care system. The study found a statistically significant relationship between hospital mergers and local economies, calculating that, on average, a single hospital merger costs 39 jobs, $6 million in foregone wages, and $1.3 million in reduced federal tax revenue (not to mention additional foregone state and local tax revenue). The study also found an increase in people relying on unemployment insurance and the amount paid out by unemployment insurance—despite decreased tax revenue to pay for this necessary resource.



The Average Cost of a Single Hospital Merger

SECTION 9

Policy Recommendations

There are a range of policies available to help rein in hospital health care costs at different points in the process.

These include, but are certainly not limited to, strengthening antitrust and merger review policy on the federal and state levels, improving cost and price transparency, and setting a threshold for how much hospitals must spend in charity care to maintain their nonprofit status. Further, addressing exorbitant health care prices also necessitates finding mechanisms for lowering the high health care costs unique to the United States.

Strengthen Federal and State Merger Review Processes

The federal government can flex antitrust policy to limit hospital consolidation, but their jurisdiction only applies to certain types of mergers. This limitation has allowed many hospitals to escape review and expand without intervention. In fact, despite over 1,000 mergers occurring between 2000 and 2020, the Federal Trade Commission took just 13 enforcement actions.[40]

One policy option is to **strengthen federal antitrust policy to include all types of mergers and acquisitions,** as well as to require mergers to be reviewed and approved before being allowed to proceed.

States also have power via their attorneys general or health agencies to fill in gaps left by limited federal policy.[41] Several states, including neighboring Pennsylvania, utilize this power in myriad ways to address health care costs driven by consolidation. These policies include requiring advance notice for review ahead of potential mergers to allow states appropriate time to analyze the economic impacts; implementing substantive review criteria to ensure comprehensive analysis of major transactions; requiring compliance reports annually to monitor hospitals and ensure they are meeting agreed upon criteria; and allowing state attorneys general or another agency to block mergers that are anticompetitive in nature.[42] A major limitation of this policy is that it can only address future mergers, though it can mitigate the growth of existing hospital networks.

Improve Price Transparency

It is critical that policymakers disrupt the information asymmetry that exists within the US health care system. **Giving patients equal access to pricing information currently only available to providers could lower costs significantly.** There are some federal price transparency regulations in place, but West Virginia hospitals poorly comply with the policies designed to help patients; further, the federal agencies responsible with enforcing these policies do so poorly.

Through reviews of 2,000 hospital websites in July 2023, researchers found that nationally, only about one-third of hospitals are in full compliance with the requirements. The same report found that just 10 percent of West Virginia hospitals surveyed were compliant with these regulations.[43] This rampant lack of compliance with transparency regulations limits the

ability of patients to make informed decisions about their medical care with their unique financial situation in mind, generating costly impacts for West Virginians. Federal regulators have an obligation to enforce existing policy more robustly.

West Virginia also has opportunities to go beyond federal policy and require hospitals to share detailed data about prices and fees, as well as their ownership and other features impacting prices. Putting this information into a centralized database could allow patients to easily compare prices and make informed decisions. It could also put pressure on hospital providers to justify their costs for a range of services.

The West Virginia Legislature passed a resolution during the 2025 legislative session that would begin to study hospital consolidation and price transparency, but it is unclear what the study will entail.[44] With that said, this future research could be valuable by helping increase public awareness and knowledge of the discrepancy between how much a health care service truly costs and how much a patient pays to receive it.

Implement Charity Care Requirements for Nonprofit Hospitals

Both federal and state governments can **create guidelines for the minimum amount hospitals must spend on charitable care to qualify as a nonprofit entity.** The US Government Accountability Office recommended that Congress create guidelines around which services and activities are for community benefit and collect data regularly to monitor how much hospitals contribute, and West Virginia could also choose to implement such a policy at the state-level. Several states, including Pennsylvania, Oregon, and Utah have policies in place that West Virginia could model.[45]

Lower Health Care Costs

Because the policies above mainly address potential future consolidations and existing hospital networks, it may take a long time to see meaningful changes in patients' experiences. At the root of the issue lies uniquely high health care costs that policymakers and regulators alike must address in the short term to ensure patient wellness and financial stability. There are several mechanisms that various states have implemented to address this issue that United States of Care outlined in a recent brief.[46]

Site-neutral payment policies, or fair billing policies, seek to address the difference in health care costs between various facilities. Implementing such policies would ensure that patients paid similar rates for similar services across the state. This policy addresses prices as well as some anticompetitive practices utilized by hospital networks to push out independent providers.

West Virginia could also join 18 states—including neighboring Ohio and Maryland—in **prohibiting, limiting, or notifying patients of facility fees.** Facility fees are fees that hospitals charge in addition to those paid to providers for a service. They include costs not related to the services a person receives, like uncompensated care, maintaining electronic health records, and more. These costs are unique to hospital networks and patients do not generally face these fees in a physician office. Importantly, these costs are often not included in price transparency databases and tend not to be covered by health insurance. Because of this, even with the current price transparency mechanisms in place in some locations, patients face surprise costs that are often unaffordable.

Lastly, **regulators can place direct limits on health care costs.** Public health care programs like Medicare and Medicaid already do this to an extent by setting pre-established provider rates. States can expand this tool to apply to other programs over which they have jurisdiction.

However West Virginia chooses to address high health care costs driven by hospital consolidations, the state must also collect data around prices and the efficacy of various policies to ensure that each tool is functioning as intended. By putting patients—not profits—at the crux of health care, West Virginia can become a healthier, more affordable place for all who call it home.

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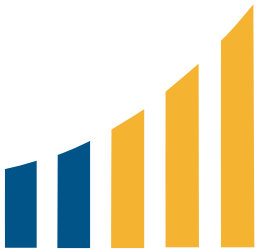

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