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Court Nullifies Physician Practice Acquisition for Violation of Antitrust Law

On January 24, 2014, a district court in Idaho found that the acquisition of the assets of the Saltzer Medical Group (Group) by St. Luke's Health System (St. Luke's) violated federal and state antitrust laws. The Court permanently enjoined the acquisition and ordered St. Luke's to fully divest itself of the physicians and assets obtained from the Group. A summary of the [Court's opinion](#) is provided below.

BACKGROUND

St. Luke's, a not-for-profit health system composed of six hospitals, an emergency room facility, a children's hospital, a cancer referral center, and more than 100 clinics, acquired the assets of the Group, the largest independent primary physician practice in Idaho, with 44 physician employees. Although the Group's physicians were not employed by St. Luke's following the acquisition, they entered into a five-year professional services agreement with St. Luke's and provided St. Luke's with the right to manage their daily operations, to negotiate payor contracts, and to establish rates and charges for services provided by the Group's physicians. As a result, St. Luke's controlled 80 percent of the primary care physicians in the service area.

The Federal Trade Commission (FTC) and other health care providers, including two hospital competitors, filed suit against St. Luke's, claiming the acquisition violated antitrust laws. In its complaint, the FTC alleged that St. Luke's acquisition of independent physician groups in the geographic area had created a "single dominant provider" of adult primary care services, which resulted in increased bargaining leverage and the ability to negotiate higher rates with payors, thereby increasing overall health care costs to the consumer. The FTC also alleged that any claim of promoting efficiency and quality of care following the acquisition did not negate the potential for anticompetitive harm.

ANALYSIS

Although the Court commended St. Luke's effort to improve patient outcomes, an accomplishment it noted that St. Luke's would likely have achieved, the Court determined that the anticompetitive effects of the acquisition outweighed these benefits and, therefore, violated both federal and state antitrust laws. Specifically, the Court stated that the acquisition would give St. Luke's the power to (1) negotiate higher reimbursement rates and (2) raise rates for ancillary services provided by St. Luke's and physicians affiliated with St. Luke's, thereby raising the cost of health care. Consequently, the court permanently enjoined the acquisition and ordered St. Luke's to fully divest from the Group's physicians and assets and to take any necessary steps to unwind the acquisition.

CONCLUSION

The Court's ruling illustrates how antitrust laws apply to physician buyouts by hospitals looking to create an integrated health care delivery system. Based on this decision, hospitals contemplating a physician group acquisition will want to consider the potential market share and anticompetitive effects of such an acquisition.

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