



# **Updated Physician Practice Acquisition Study:** National and Regional Changes in Physician Employment 2012-2018

February 2019

# About the Physicians Advocacy Institute

The Physicians Advocacy Institute (PAI) is a not-for-profit organization that was established to advance fair and transparent policies in the health care system to sustain the profession of medicine for the benefit of patients.

As part of this mission, PAI seeks to better understand the challenges facing physicians and their patients and also educate policymakers about these challenges.

PAI also develops tools to help physicians prepare for and respond to policies and marketplace trends that impact their ability to practice medicine.

Information about PAI research, advocacy and education activities can be found at [www.physiciansadvocacyinstitute.org](http://www.physiciansadvocacyinstitute.org).

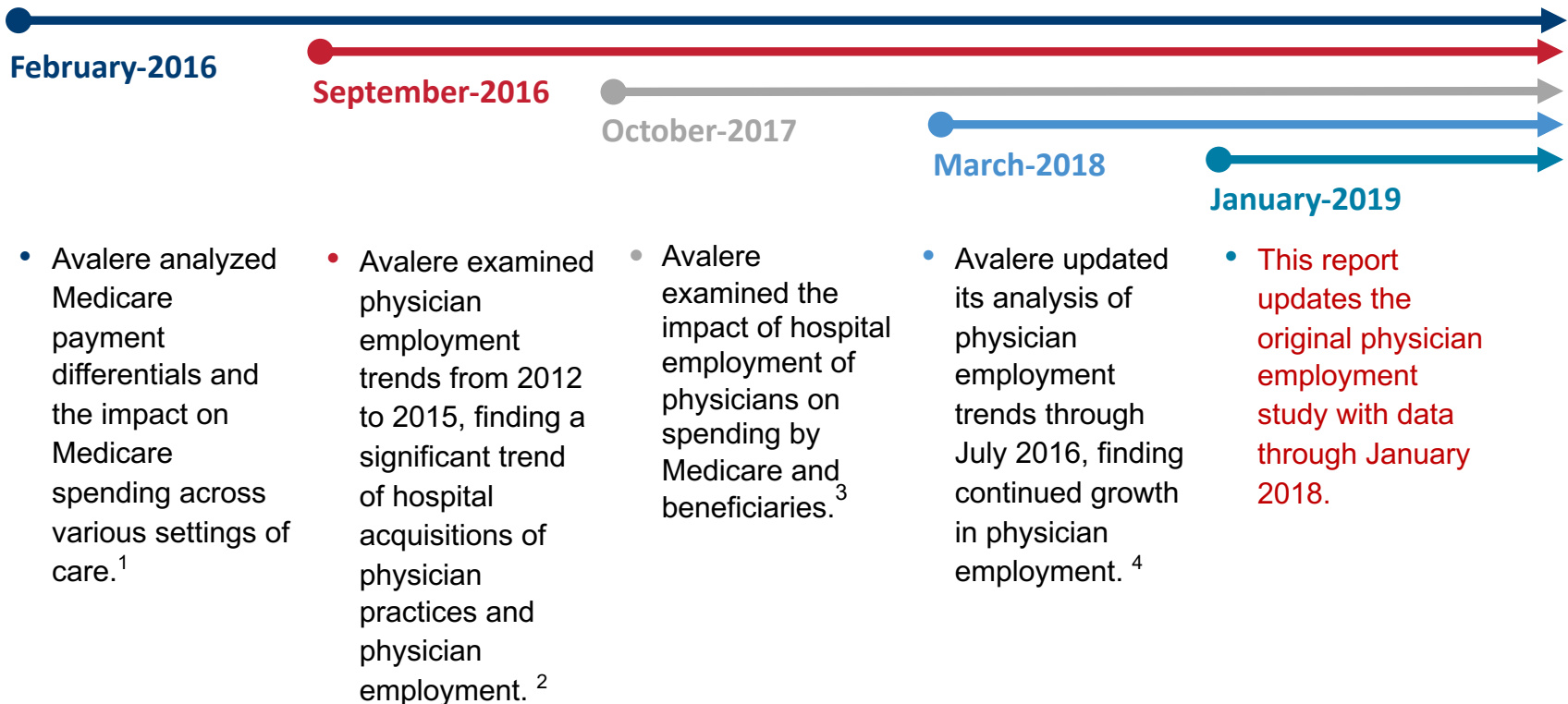
# PAI: Committed to Researching Topics Important to Physicians and Patients

Through a research collaboration with Avalere Health, PAI is working to gain a more complete picture of the potential impact that various marketplace forces and private and public sector policies have on physicians and patients.

The trend towards consolidation is dramatically reshaping the landscape for physician practices. Understanding the extent and impact of this trend is important for all health system stakeholders.

**This report updates and builds upon prior studies with an additional year of data.** Specifically, a previous analysis examined national and regional changes in physician employment trends from July 2012 through July 2016, finding a consistent trend towards hospital acquisitions of physician practices and a dramatic increase in physician employment. **This analysis incorporates data from July 2016–January 2018 that shows a continued trend of hospital acquisitions of physician practices and growth in physician employment.**

# PAI Research Collaborations Provide Valuable Insights into Important Health Care Dynamics



1. <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/Payment-Differentials-Across-Settings.pdf>

2. <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI-Physician-Employment-Study.pdf>

3. [http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI\\_Medicare%20Cost%20Analysis%20--%20FINAL%2011\\_9\\_17.pdf](http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI_Medicare%20Cost%20Analysis%20--%20FINAL%2011_9_17.pdf)

4. <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/2016-PAI-Physician-Employment-Study-Final.pdf>

# Highlights from the Newly Added 18 Month Period through January 2018

## CONTINUED TRENDS IN PHYSICIANS EMPLOYED BY HOSPITALS AND HOSPITAL ACQUISITIONS OF PRACTICES THROUGH JANUARY 2018

### National trends from July 2016 through January 2018:

- An additional **14,000 physicians** were employed by hospitals, and the percentage of hospital-employed physicians **increased of 6%**.
- An additional **8,000 physician practices** were acquired by hospitals, and the percentage of hospital-owned practices **increased by 5%**.

### At the regional level, there was overall growth with variation across regions between July 2016 and January 2018:

- The percentage of hospital-employed physicians **increased between 3% and 7%** in most regions.
- The percentage of hospital-owned practices **increased between 1% and 8%** across regions.

Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

Regional analysis includes 5 regions: Northeast, South, Midwest, West, and Alaska & Hawaii

# Five-Year Physician Employment and Hospital Acquisitions Highlights

**SIGNIFICANT AND CONSISTENT GROWTH IN PHYSICIANS EMPLOYED BY HOSPITALS AND HOSPITAL ACQUISITIONS OF PRACTICES HAS CONTINUED THROUGH JANUARY 2018**

This updated research confirms that over the 5 ½ year period from July 2012 through January 2018, there was a significant nationwide trend of physicians leaving private practice and entering into employment arrangements with hospitals and health systems.

## **National Trends in Physician Employment**

- The percentage of hospital-employed physicians **increased by more than 70%** from July 2012 through January 2018, with increases in every six-month time period measured over these 5 ½ years.

## **Regional Trends in Hospital Acquisitions**

- All regions saw an increase in percentage of hospital-owned practices at every measured time period, with a range of total increase from **91% to 303%** by region from July 2012 through January 2018.

# Detailed Summary: 18 Month Period through January 2018

## National Trends

| Measure  | July 2016 | January 2018 | % Increase |
|--|-----------|--------------|------------|
| Number of Hospital-Employed Physicians (thousands) | 154.9     | 168.8        | 9.0%       |
| % of Hospital-Employed Physicians                  | 41.7%     | 44.0%        | 5.7%       |
| Number of Hospital-Owned Practices (thousands)     | 72.1      | 80           | 11.1%      |
| % of Hospital-Owned Practices                      | 29.7%     | 31.2%        | 5.0%       |

## Regional Trends

| Measure                           | Region    | July 2016 | January 2018 | % Increase |
|-----------------------------------|-----------|-----------|--------------|------------|
| % of Hospital-Employed Physicians | Northeast | 44.3%     | 45.7%        | 3.3%       |
|                                   | South     | 37.4%     | 39.2%        | 5.0%       |
|                                   | Midwest   | 52.8%     | 55.1%        | 4.3%       |
|                                   | West      | 38.7%     | 41.2%        | 6.6%       |
|                                   | AK & HI   | 34.4%     | 34.1%        | -0.9%      |
| % of Hospital-Owned Practices     | Northeast | 30.6%     | 31.6%        | 3.3%       |
|                                   | South     | 26.9%     | 28.5%        | 6.0%       |
|                                   | Midwest   | 37.0%     | 38.4%        | 3.8%       |
|                                   | West      | 25.9%     | 28.0%        | 8.1%       |
|                                   | AK & HI   | 29.0%     | 29.4%        | 1.4%       |

# Detailed Summary: Five-Year Period Through January 2018

## National Trends

| Measure  | July 2012 | January 2018 | % Increase |
|--|-----------|--------------|------------|
| Number of Hospital-Employed Physicians (thousands) | 94.7      | 168.8        | 78.2%      |
| % of Hospital-Employed Physicians                  | 25.8%     | 44.0%        | 70.8%      |
| Number of Hospital-Owned Practices (thousands)     | 35.7      | 80           | 124.4%     |
| % of Hospital-Owned Practices                      | 13.6%     | 31.2%        | 128.7%     |

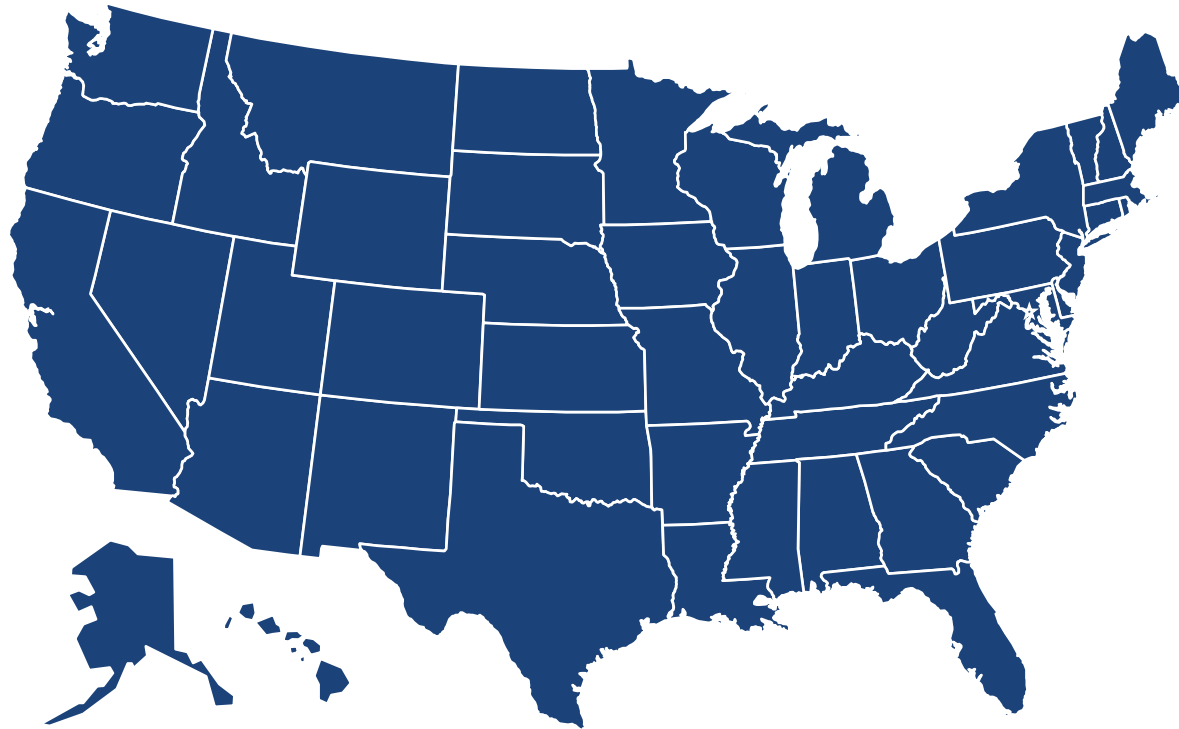
## Regional Trends

| Measure                           | Region    | July 2012 | January 2018 | % Increase |
|-----------------------------------|-----------|-----------|--------------|------------|
| % of Hospital-Employed Physicians | Northeast | 22.1%     | 45.7%        | 107.0%     |
|                                   | South     | 21.0%     | 39.2%        | 86.8%      |
|                                   | Midwest   | 34.3%     | 55.1%        | 60.7%      |
|                                   | West      | 25.0%     | 41.2%        | 64.8%      |
|                                   | AK & HI   | 18.3%     | 34.1%        | 86.1%      |
| % of Hospital-Owned Practices     | Northeast | 13.2%     | 31.6%        | 139.4%     |
|                                   | South     | 12.2%     | 28.5%        | 133.6%     |
|                                   | Midwest   | 20.1%     | 38.4%        | 91.0%      |
|                                   | West      | 11.3%     | 28.0%        | 147.8%     |
|                                   | AK & HI   | 7.3%      | 29.4%        | 302.7%     |



# National Trends

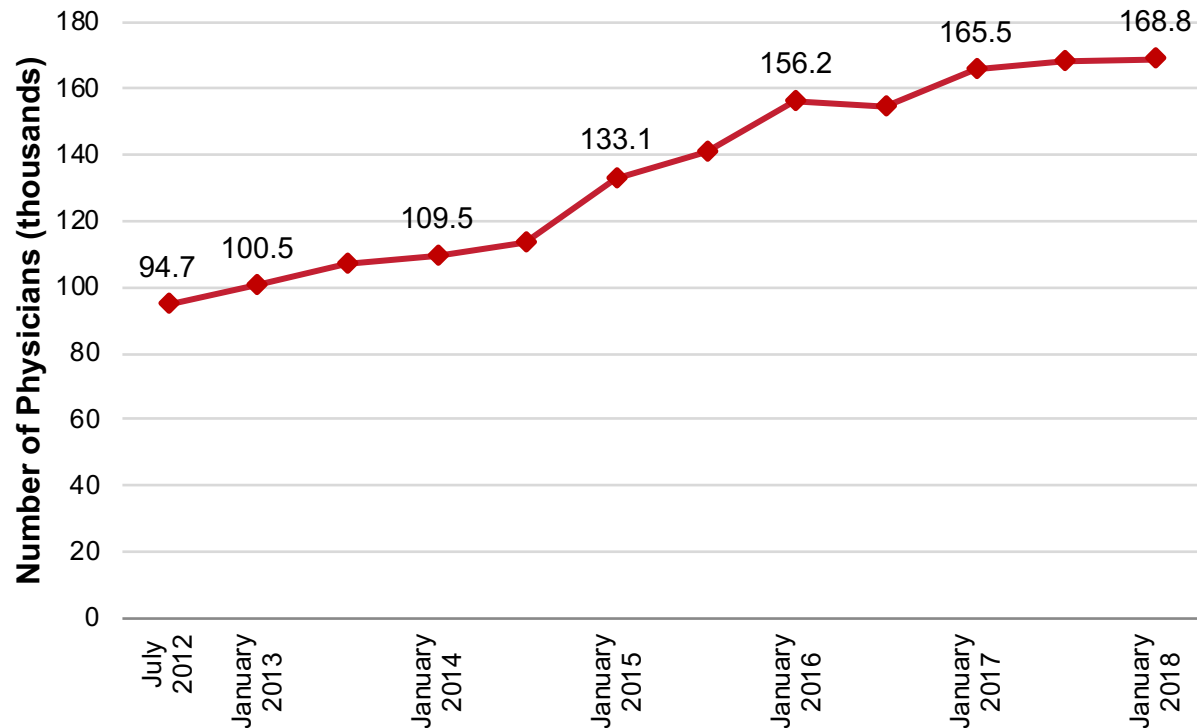
- Number of Hospital-Employed Physicians
- Percent of Hospital-Employed Physicians
- Number of Hospital-Owned Physician Practices
- Percent of Hospital-Owned Physician Practices



## From July 2016 to January 2018, the Number of Physicians Employed by Hospitals Increased by 14,000 Nationwide

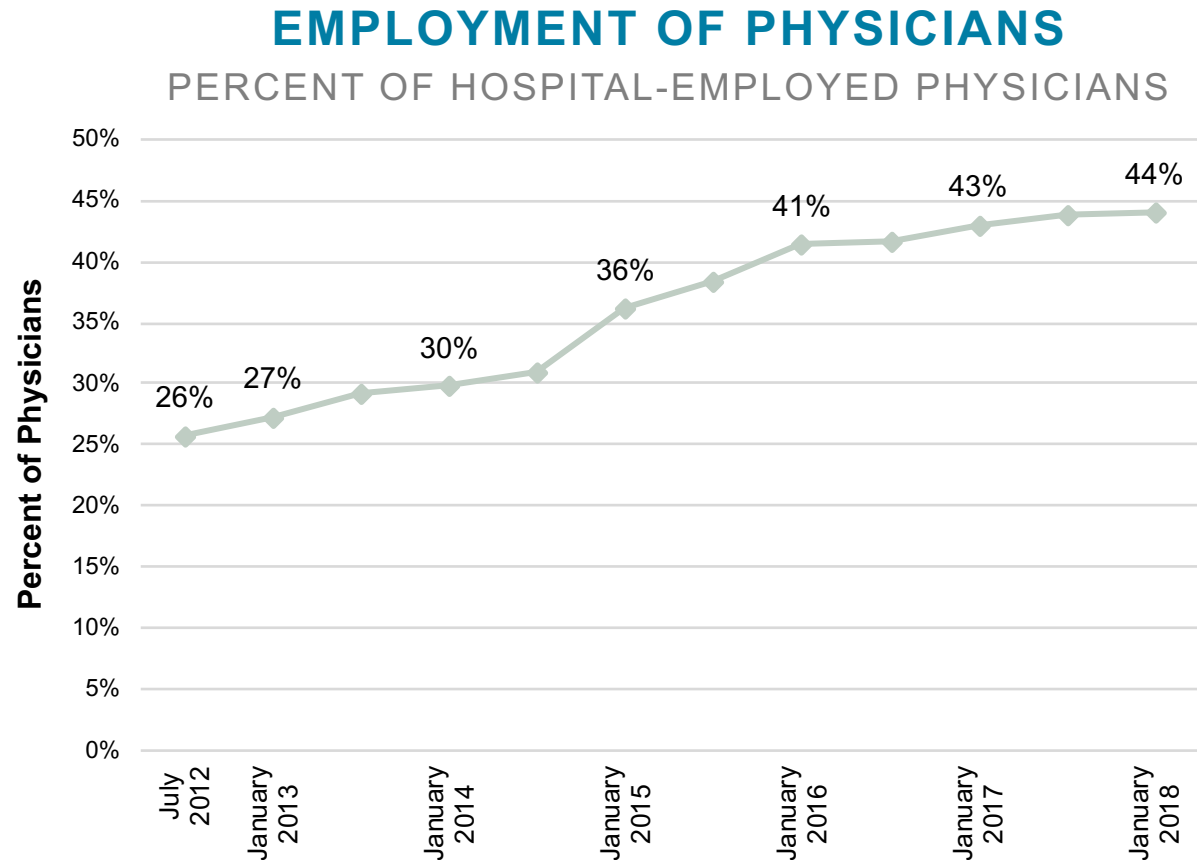
### EMPLOYMENT OF PHYSICIANS

#### NUMBER OF HOSPITAL-EMPLOYED PHYSICIANS



- Since July 2015, nearly 28,000 physicians shifted into employment models.
- Physician employment grew in ten of the eleven 6-month periods analyzed.
- After a small decrease in July 2016 due to a reduction in the total number of physicians, the number of employed physicians rose to nearly 170 thousand by 2018.

## The Percentage of Employed Physicians Increased by 6% between July 2016 and January 2018

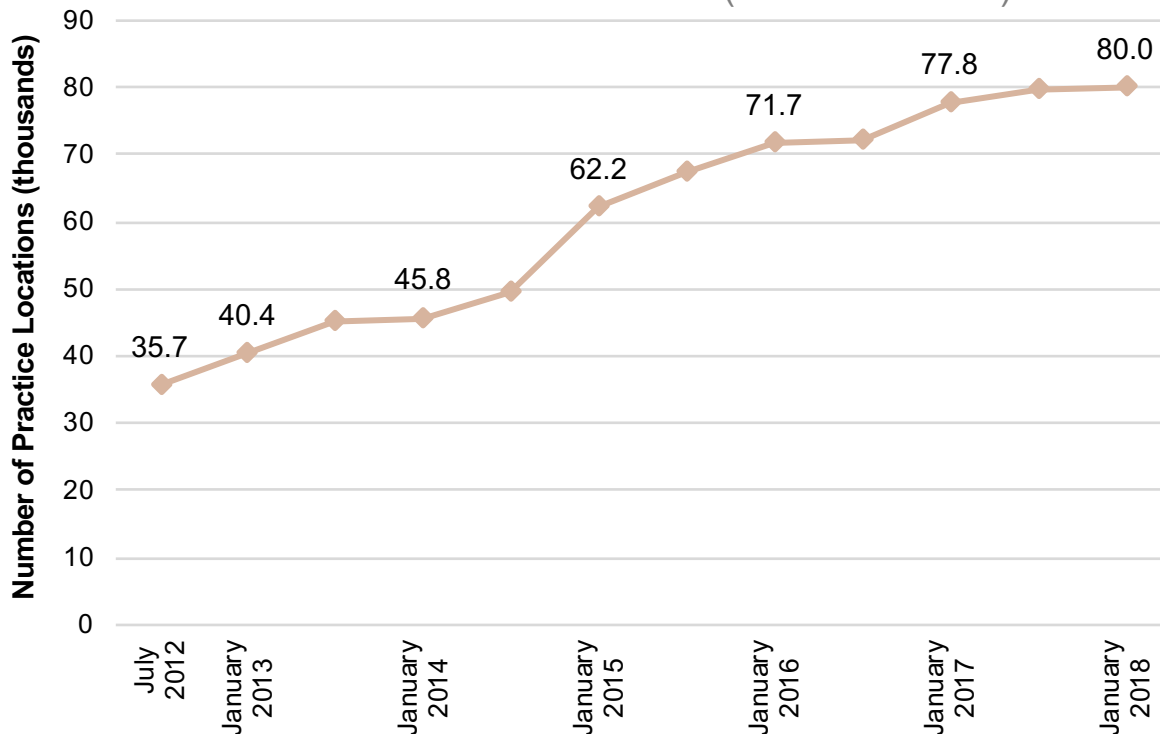


- 44 percent of physicians were employed by hospitals in January 2018, compared to just one in four physicians in July 2012.
- Growth occurred throughout the 5 ½ year period, with some of the fastest acceleration occurring in late 2014 and 2015

## An Additional 8,000 Physician Practices Were Acquired Between July 2016 and January 2018

### OWNERSHIP OF PHYSICIAN PRACTICES

NUMBER OF HOSPITAL-OWNED  
PHYSICIAN PRACTICES (THOUSANDS)

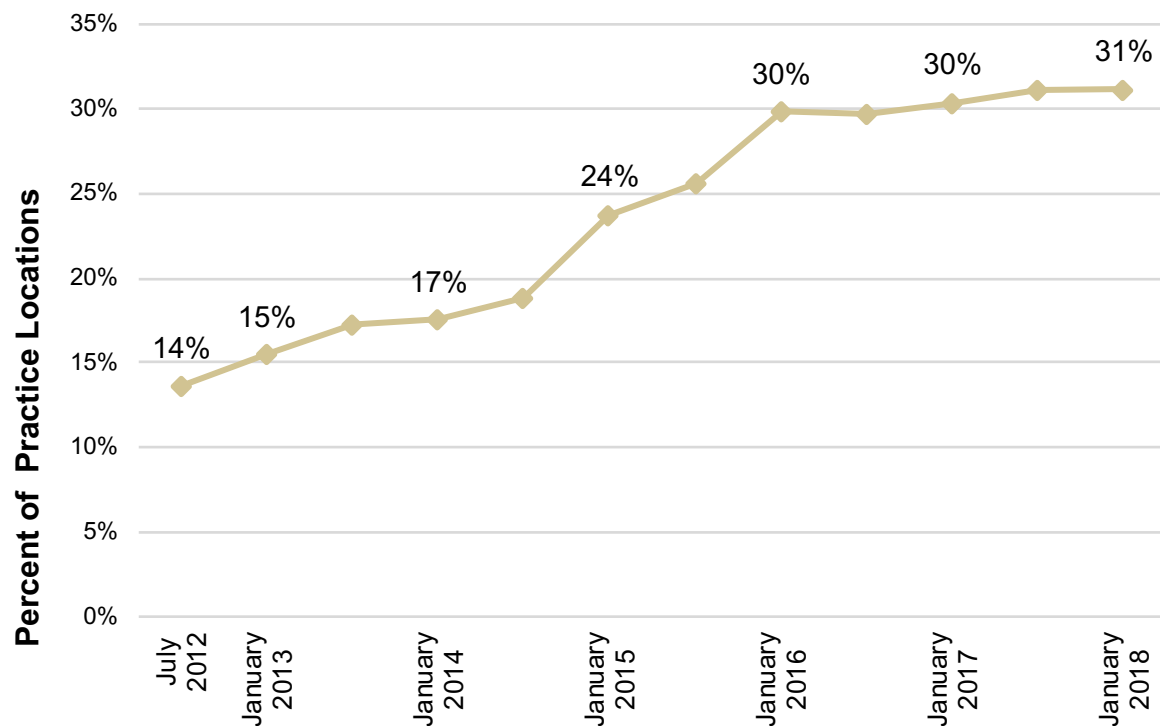


- Between July 2012 and January 2018, the number of physician practices employed by hospitals grew by 44,400 practices; a 124% increase over 5 ½ years.

# By January 2018, Hospitals Owned More Than 31% of Physician Practices

## OWNERSHIP OF PHYSICIAN PRACTICES

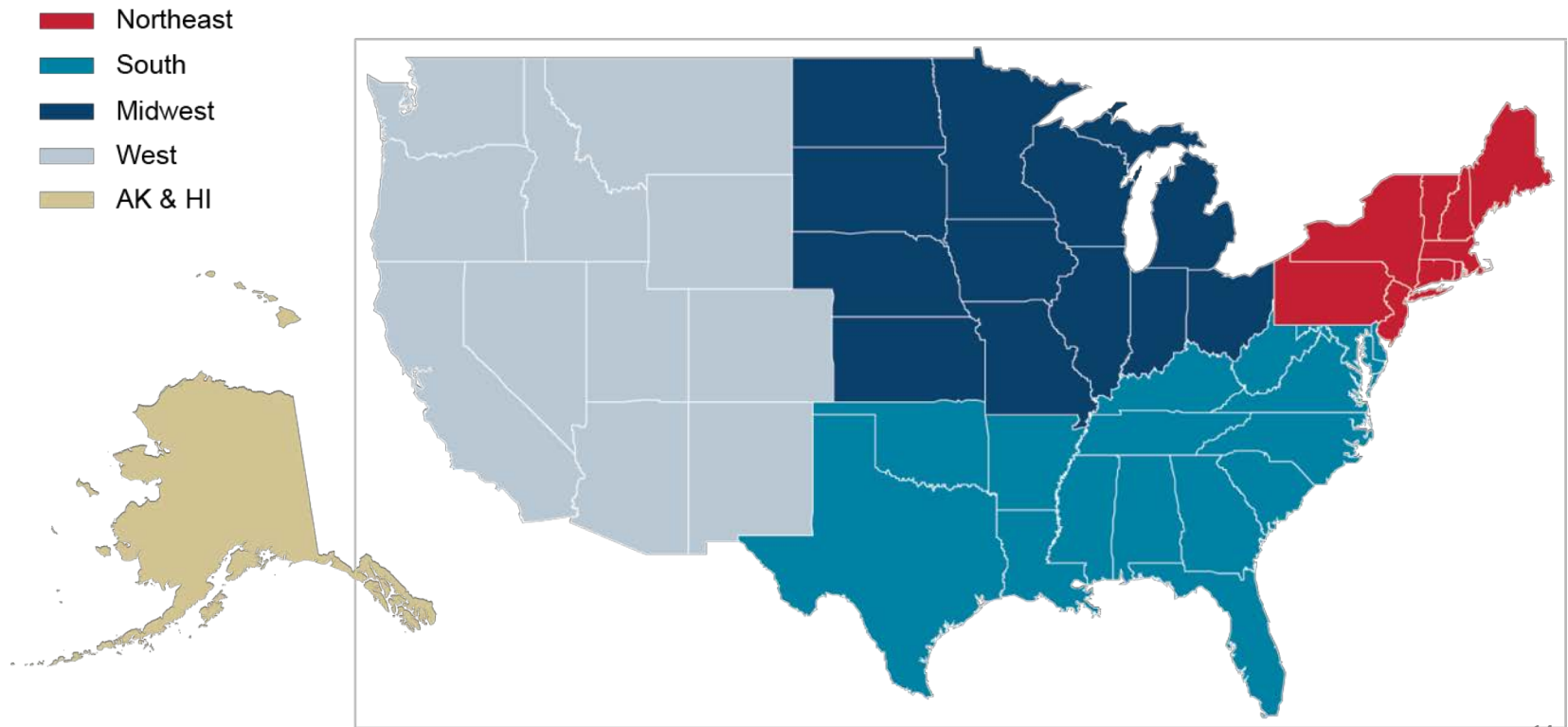
### PERCENT OF HOSPITAL-OWNED PHYSICIAN PRACTICES



- The steady stream of hospital acquisitions resulted in a **129% increase**, more than doubling the ownership percentage over 5 ½ years.

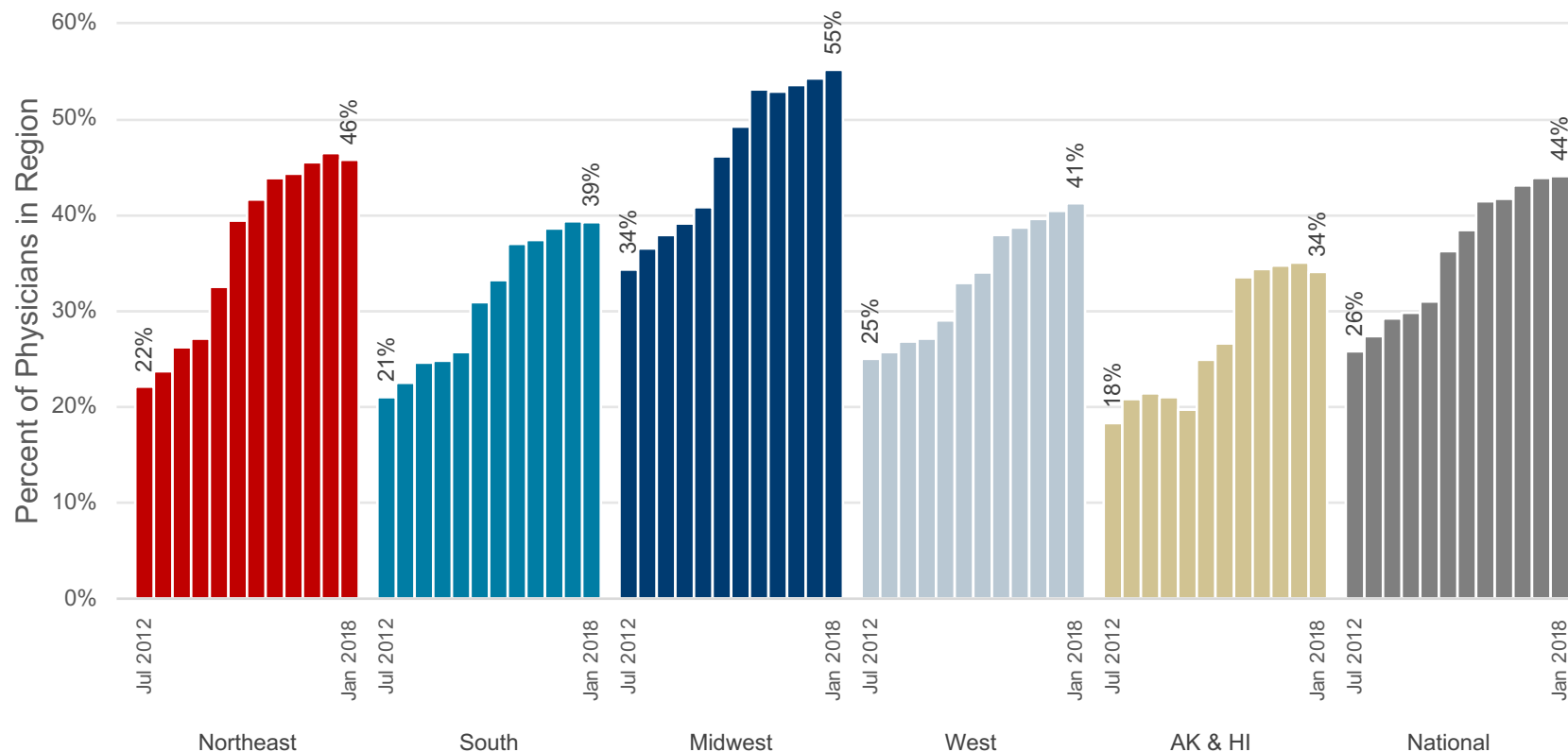
# Regional Trends

Avalere also studied these trends by region. While there are differences across regions, there is a steady trend toward increased employment and hospital ownership of practices in every region of the nation.



## Between July 2016 and January 2018, the Percentage of Hospital-Employed Physicians Increased Between 3% and 7% in Most Regions

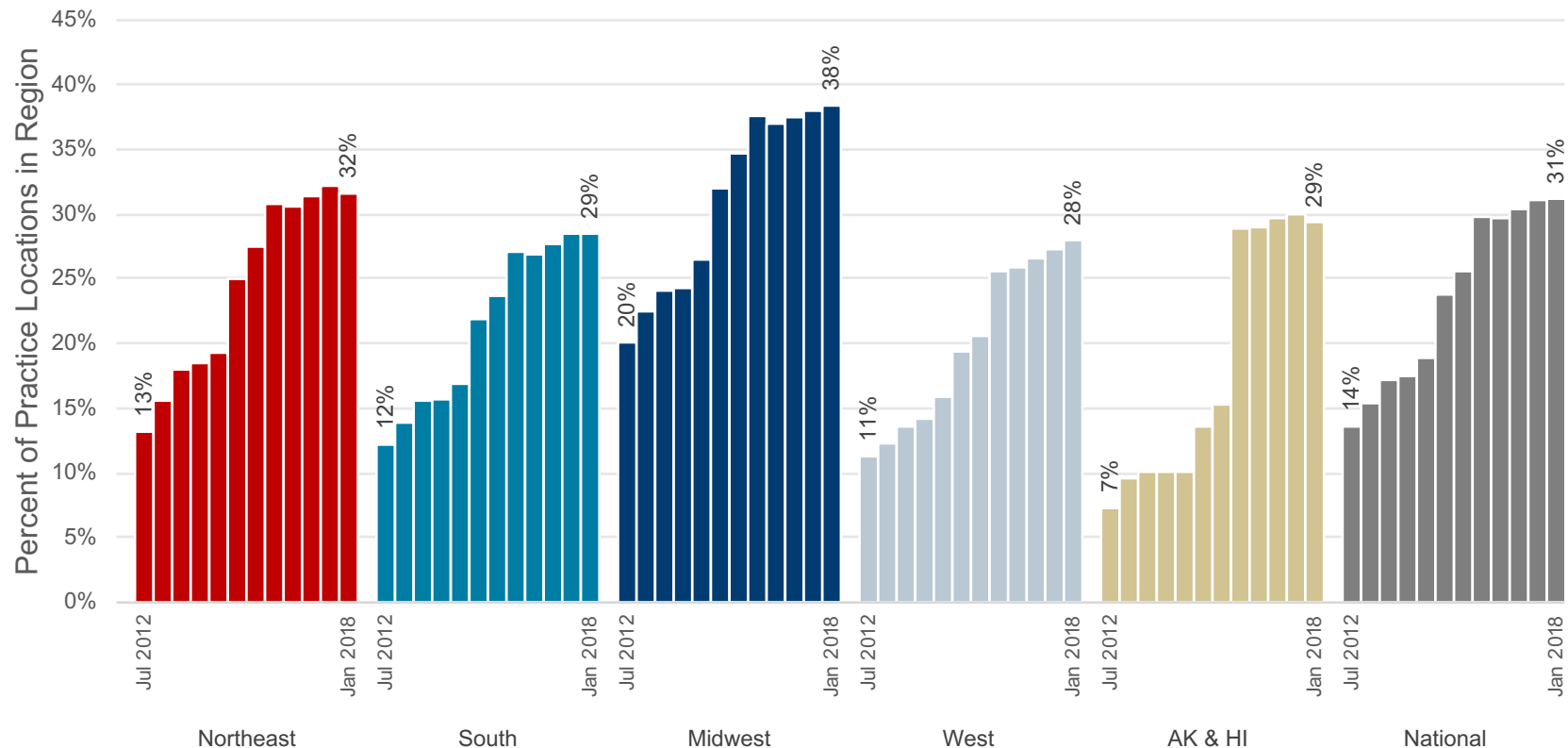
### HOSPITAL-EMPLOYED PHYSICIANS BY REGION



More than half of all physicians in the Midwest are employed by hospitals. The number of hospital-employed physicians increased substantially in all regions during the full study period. There is a percentage increase in almost every period examined.

# Between July 2016 and January 2018, the Percentage of Hospital-Owned Practices Increased Between 1% and 8% in Every Region Across the Country

## HOSPITAL-OWNED PRACTICES BY REGION

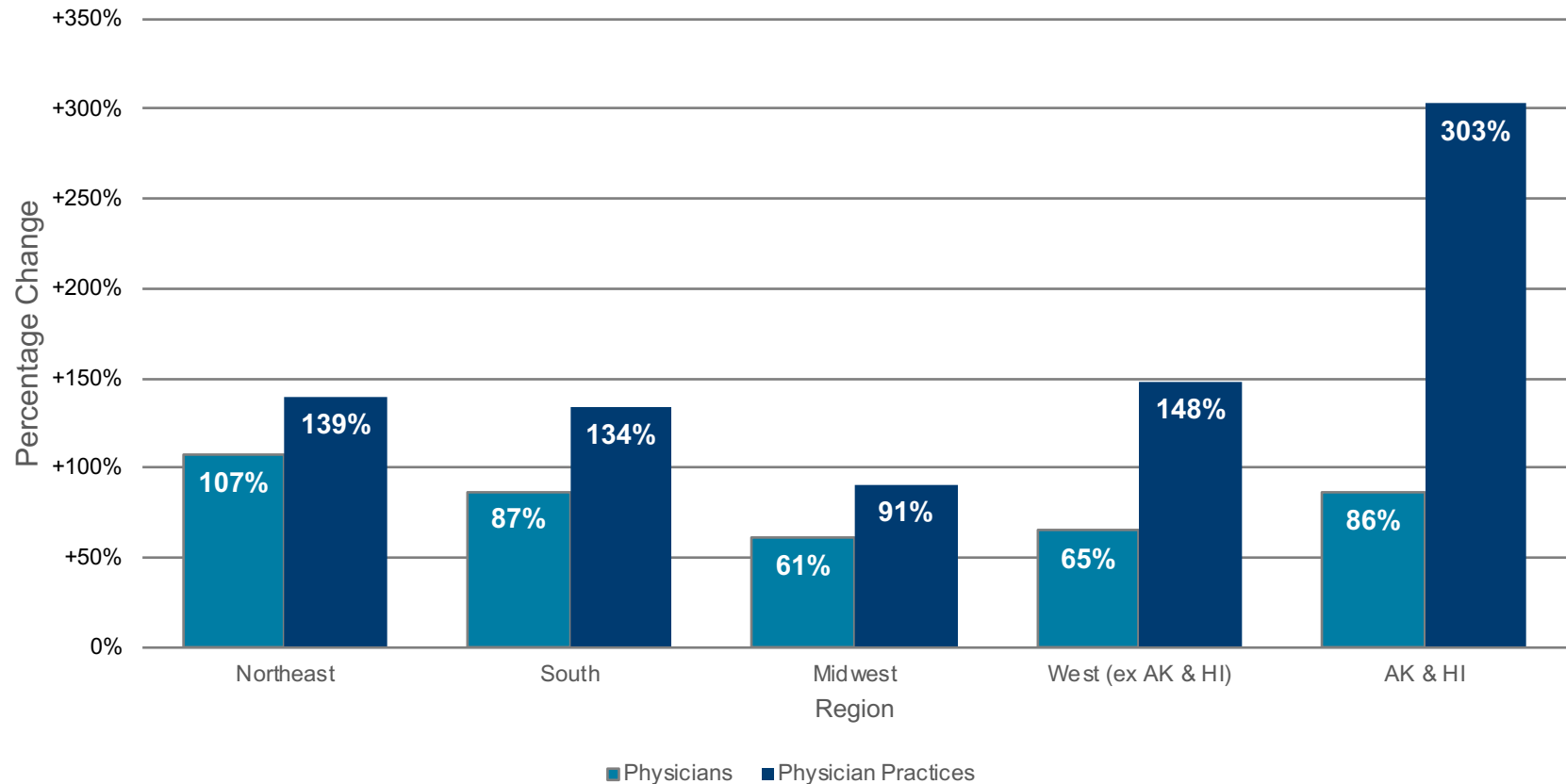


Nearly 40% of Midwest physician practices were hospital-owned in 2018. Rates of practice ownership increased in every region over the entire time period.



# All Regions Have Seen Rapid Growth in Hospital Employment and Practice Ownership

## INCREASE IN PERCENT OF PHYSICIANS AND PRACTICES BETWEEN JULY 2012 AND JANUARY 2018

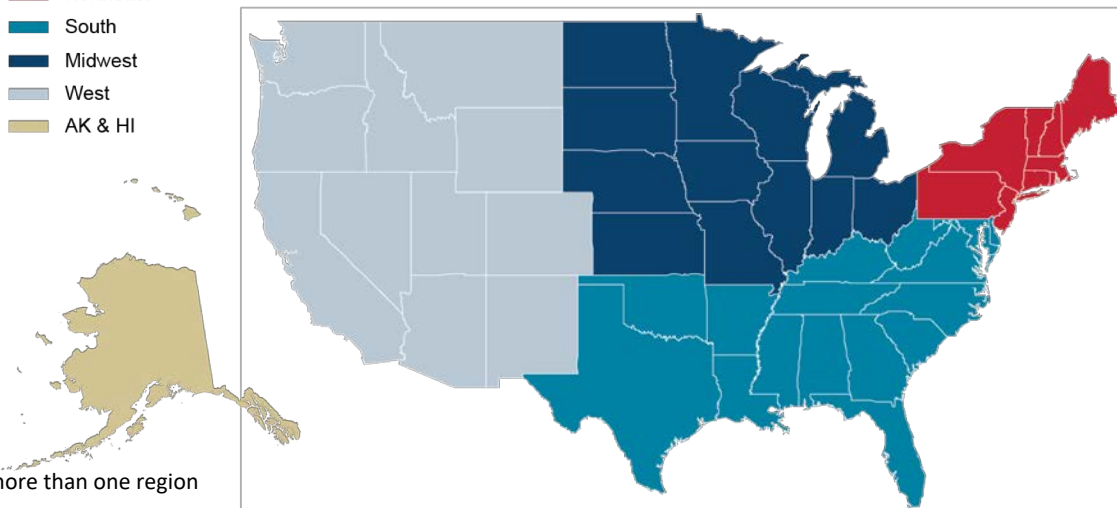


Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with National Plan & Provider Enumeration System (NPPES) data on primary practice location by NPI

# Physician and Practice Increase & Distribution

| Measure   | Region    | July 2012 | January 2018 | % Change<br>July 2012 to<br>January 2018 | January 2018<br>Count as % of<br>National Total |
|---|-----------|-----------|--------------|--|---|
| Number of Hospital-Employed Physicians Practicing in Each Region* (Thousands) | Northeast | 27.7      | 40.4         | 45.8%                                    | 22.5%   |
|   | South     | 26.7      | 55.4         | 107.5%                                   | 30.8%   |
|   | Midwest   | 20.8      | 50.5         | 142.8%                                   | 28.1%   |
|   | West      | 19.2      | 32.5         | 69.3%                                    | 18.1%   |
|   | AK & HI   | 0.4       | 0.9          | 125.0%                                   | 0.5%  |
| Number of Hospital Owned Practices in Each Region (Thousands)                 | Northeast | 7.7       | 17.8         | 131.2%                                   | 22.3%   |
|   | South     | 11.7      | 26.8         | 129.1%                                   | 33.5%   |
|   | Midwest   | 10.5      | 20.7         | 97.1%                                    | 25.9%   |
|   | West      | 5.6       | 14.0         | 150.0%                                   | 17.5%   |
|   | AK & HI   | 0.1       | 0.7          | 600.0%                                   | 0.9%  |

■ Northeast  
■ South  
■ Midwest  
■ West  
■ AK & HI



\*Physicians can practice in more than one region

# Impact of Increase in Physician Employment

The shift towards employment has significant implications for physicians, patients, and the health care system as a whole.

- For physicians, the trend brings challenges – including a loss of clinical autonomy in treating patients - but can alleviate certain burdens of independent practice. Government and private payer payment policies increasingly favor integrated health systems and make it challenging for physician practices to remain independent.
- When physicians are employed by hospitals or health systems, they perform more services in a HOPD setting than independent physicians.
- The higher proportion of services performed in a HOPD setting increases both costs to the Medicare program and financial responsibility for patients.

# Medicare's "site of service" payment differential results in higher spending over an episode of care

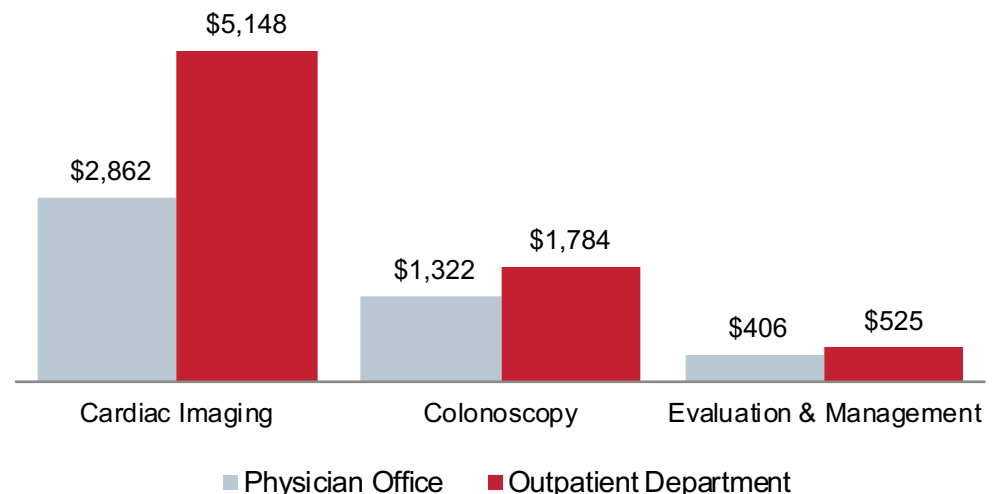
## Medicare Payment Differentials Across Outpatient Settings of Care

In 2016, Avalere released a study in collaboration with PAI that documented the differential in Medicare payment for services routinely performed in hospital outpatient department (HOPD) and physician office settings.

This study underscores the impact that the ongoing shift towards hospital employment/hospital ownership of physician practices could have on spending, should this payment differential persist.

For the three types of services studied—cardiac imaging, colonoscopy, and evaluation and management services—Medicare pays more across an episode of care when patients receive services in a HOPD setting (even when it is in a stand-alone or “off-campus” building) than in a physician-owned office.

**Risk-Adjusted Payment Differences Between Physician Office and Outpatient Department by Episode of Care**



Data reflects 22-day episodes for cardiac imaging and colonoscopy and profile 2 for E&M. For detailed results and methodology please see complete paper.

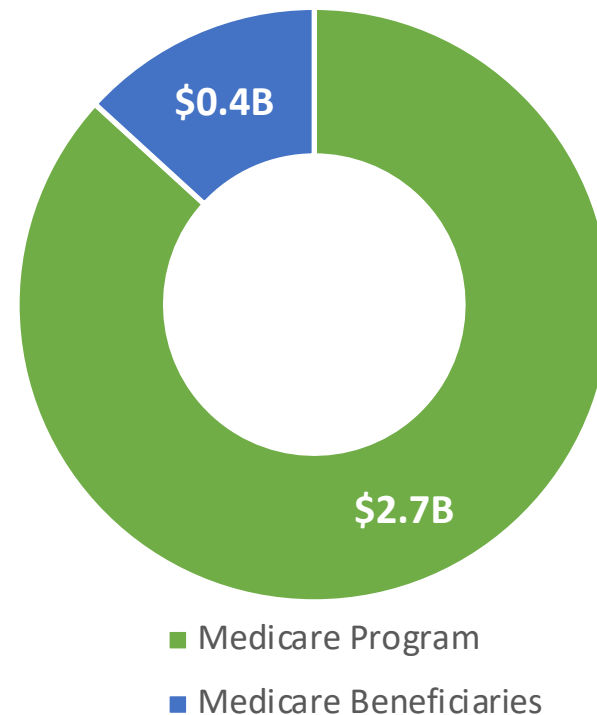
# Impact of Hospital-Led Consolidation on Spending

A November 2017 Avalere-PAI study examined the implications of these trends on Medicare and beneficiary spending for four specific cardiology, orthopedic, and gastroenterology services over a three year period.

Across the services Avalere examined, increased integration of the hospital-physician marketplace resulted in more than **\$3.1 billion** in increased costs from 2012-2015

- Medicare program paid **\$2.7 billion** more for these services
- Medicare beneficiaries faced **\$411 million** (27%) more in financial responsibility for these services

**Additional Medicare and Beneficiary Spending  
for Four Medicare Services Delivered in Hospital-  
owned Settings  
2012-2015**



# **Methodology**

# Methodology: Trends in Hospital Ownership of Physician Practices with Medicare-Billing Physicians

- Avalere used an SK&A<sup>1</sup> database that contains physician<sup>2</sup> and practice location information on hospital/health system ownership:
  - Each record in the database corresponds to a unique physician in a specific practice location
  - The database identifies each physician-practice location combination as “employed”—part of a hospital or health system-owned practice—or “independent”
  - These data include solo and single-location small practices as well as large, multi-specialty multi-location group practices
  - The dataset covers eleven different points in time from July 2012 to January 2018 for each physician-practice location combination
  - SK&A develops the physician affiliation flag through conducting bi-annual phone surveys with individual practice locations

<sup>1</sup> SK&A is an organization that provides health care provider information and data solutions. <http://www.skainfo.com/about#ims>

<sup>2</sup> Physicians are defined as MDs and DOs and does not include nurse practitioners or physicians assistant

# Methodology: Trends in Hospital Ownership of Physician Practices with Medicare-Billing Physicians

- Avalere linked the data from SK&A to the CMS National Plan & Provider Enumeration System (NPPES) by NPI<sup>3</sup> to identify the primary address for the providers
  - Each record in the database corresponds to a unique physician in a specific practice location
  - Physicians are counted as unique NPIs nationally or unique NPIs practicing in each region; physicians can practice in more than one region
  - Practices are defined as practice locations; there is a unique identifier for practice locations but not for practices as a whole

<sup>3</sup> NPI = National Provider Identifier



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