The Physicians Advocacy Institute (PAI) released an issue brief that explores one aspect of consolidation occurring throughout the health care marketplace: the trend of hospital acquisitions of physician practices and rise in physician employment by hospitals, health systems and venture capital firms seeking to reap profits based on marketplace incentives favoring integration.

- Over the period between July 2012 and January 2018, hospital-acquired medical practices increased from 35,700 in 2012 to 80,000. During this period, physician employment increased by more than 70 percent, growing from 94,700 to 168,000.

- Growth occurred in every region of the nation.

This brief also discusses how this trend increases spending for payers and patients, because payers pay a “facility” fee for hospital-based services that drives spending higher than the same services delivered in the physician office setting.

- Avalere examined spending for episodes of care for four Medicare covered services performed in hospital-owned settings, finding that Medicare spent an additional $2.7 billion over three years and beneficiaries faced $411 million more in out-of-pocket costs due to higher cost-sharing than if the services were delivered in the physician office setting.

- The Health Care Cost Institute (HCCI) found a similar “site of service” payment differential exists in the private health insurance marketplace, driving higher spending for hospital-delivered services.

This issue brief discusses the forces driving this trend, which include: higher payments for the same services performed in a hospital-owned setting than in a physician office setting; “value-based” payment policies that favor larger, integrated delivery systems and require expensive technologies to support intensive data reporting requirements; the imbalance of negotiating ability that independent physicians have vis-à-vis increasingly large health insurers; and ever-increasing administrative and regulatory burdens.
This issue brief explores one aspect of the trend of consolidation that is occurring throughout the health care marketplace as hospitals, health systems and private equity firms acquire physician practices and physicians shift from independent practice to employment arrangements. The trend has dramatically altered the practice landscape for our nation’s physicians. It also has significant implications for where patients receive services and how much those services cost. This brief documents a dramatic, continued trend toward consolidation and examines how that trend raises spending by Medicare, private payers and patients.

Factors driving consolidation between hospitals and physicians
The systemwide trend of consolidation in the health care marketplace has extended to health care providers, as hospital and health systems have acquired physician practices at an unprecedented pace. Various complex, powerful economic and regulatory forces are driving this trend of “vertical” consolidation. The acquiring hospitals and health systems are positioning to succeed under “value-based” payment policies that favor larger, highly integrated delivery systems. Another factor driving these acquisitions is that government and private payers generally pay more for services performed in hospital-owned settings compared to the same services performed by private physicians in their offices. This “site of service” payment differential is well-documented and described in more detail below. Other economic factors, such as the need to build and protect the hospital’s patient base and strengthen referrals within the system, also influence this drive to acquire physician practices.

Another related trend is for private equity firms to acquire significant equity stakes (typically 60-80 percent ownership1) in physician practices. These firms pay a substantial up-front amount to physician owners and then employ them, taking over many of the key operational and administrative functions of the practice, including contractual negotiations with insurers and strategic decisions to maximize profitability. These firms typically look to sell the practices after a period of several years to other investors. The ramifications of this trend on the larger health care system, including costs and clinical implications, are not yet well-understood.

There are various forces driving physicians from private practice and into these employment arrangements, including a foremost concern about the financial viability of sustaining an independent practice in today’s climate. Specific considerations driving physicians to sell their practices or seek employment include:

- Constant downward pressure on physician payments from government and private payers, as well as growing uncollected receivables from patients who cannot afford increasingly high deductibles for services before their insurance “kicks in.”

- The changing payment landscape often leaves smaller independent practices

without meaningful opportunities to participate. “Value-based” payment systems favor entities that can manage risk for large populations of patients and afford expensive technologies to support intensive data-reporting requirements. Physician practices have struggled to succeed under these policies.

- Consolidation among health insurers has created significant additional barriers for physicians to negotiate with increasingly large private health insurers. The result is often a “take it or leave it” contract that favors the insurer and affords the physician little ability to dispute decisions made by the insurer relating to their patients’ clinical needs or to payment-related policies. When a physician becomes an employee of a hospital or health system, the negotiation over contract terms with insurers is handled by that larger entity, which has greater ability to secure payments that cover the costs of delivering services.

- Significant administrative burdens imposed by government and private payers, including time-consuming procedures for securing prior authorization for medically necessary treatment for their patients and fair and timely payment for services rendered. As noted by the Physicians Foundation 2018 Survey of America’s Physicians, physicians are experiencing unprecedented “burn out” and frustrations regarding the administrative burdens associated with their practice. Many have turned to employment with a hope of being able to focus less on administrative tasks and more on caring for their patients.

Over three different study periods (2012-2015, 2015-2016 and 2016-2018), this research documents a sustained nationwide trend of hospital-driven consolidation, marked by continued growth in hospital acquisitions of physician practices and physician employment.

The most recent study, released in February 2019, analyzes eighteen months of data—between July 2016 and January 2018—during which hospitals acquired 8,000 medical practices, and an additional 14,000 physicians left private practice in favor of employment. This continued an ongoing trend that earlier PAI-Avalere research documented for the period between July 2012-July 2016, which witnessed an intense increase in hospital acquisitions and growth in physician employment.

The cumulative study period—from July 2012 through January 2018—saw a dramatic, sustained trend of physicians leaving independent practice to enter into employment arrangements with hospitals and health systems. These latest cumulative findings highlight striking changes in healthcare delivery, marked by consolidation between the hospital and physician sectors in every region of the country.

Over the full study period, from mid-2012 to January 2018:

- Hospitals aggressively pursued acquisitions of physician practices, growing 128 percent, from 35,700 hospital-owned practices to 80,000. This more than doubled the number of hospital-owned practices nationwide.

- Physician employment increased overall by more than 70 percent, growing from 94,700 employed physicians to 168,800 employed physicians, with increases in every six-month time period measured over five-and-a-half years.

**PAI-Avalere research on the shift to employment/hospital acquisitions of physician practices**

PAI partnered with Avalere Health to study the growth in hospital acquisitions of physician practices and rise in physician employment.
• Forty-four percent of U.S. physicians were employed by hospitals or health systems by January 2018.

• All regions, ranging from 91 percent to 303 percent, saw a marked increase in hospital-owned practices.

**PAI-Avalere research underscores cost implications of trend on taxpayers and beneficiaries**

The implications of this shift in physician practice settings are profound. One important effect is that spending is higher for payers and patients alike when services are shifted from physician offices to outpatient settings. Two separate Avalere studies for PAI document how this increasingly consolidated healthcare system costs more for payers and patients alike. This is because the same services performed in the hospital outpatient setting are reimbursed by Medicare at higher rates compared to the independent physician office setting.

A 2016 study entitled “Medicare Payment Differentials Across Outpatient Settings of Care” examined Medicare payments for episodes of care for three services that are safely performed in the hospital outpatient department (“HOPD”) setting, ambulatory surgical center setting and physician office setting. Researchers compared Medicare payments for three common procedures typically performed either in a hospital outpatient department or a doctor’s office: echocardiograms, colonoscopies and evaluation and management services. Even after adjusting for certain risk factors, the study showed that for all three types of services, Medicare spends more when patients receive services in a HOPD instead of a physician office.

For the first time, researchers also looked at Medicare’s payments for an entire “episode of care”—the full 22-day period encompassing preparatory and follow-up care for a given procedure. When measuring across an “episode of care,” Avalere researchers found:

• Medicare’s payments for echocardiograms averaged $5,148 when provided in HOPDs but were $2,862 when provided in a physician’s office.

• Payments for colonoscopies and related services for Medicare patients are nearly 35 percent more when patients received care in hospital outpatient departments instead of physician offices.

• Payments for evaluation and management services for new patients were 29 percent more in HOPDs, as opposed to similar visits in offices.

The study suggests that when care is initiated in hospital-owned facilities, more services follow and these services are also more costly, compared to care that’s provided in a doctor’s office. The payment differential that begins with the initial service extends and is amplified throughout the entire episode.

The impact of the shift towards hospital-based care and the higher payments that follow were examined by Avalere on PAI’s behalf in a second study, “Implications of Hospital Employment of Physicians on Medicare and Patients.” Avalere researchers examined how the increase in physician employment over a three year period between 2012 and 2015 impacted Medicare spending, including beneficiary spending. Avalere looked at a 22-day episode of care for four Medicare-covered services—echocardiograms, diagnostic cardiac catheterizations, colonoscopies and arthrocentesis. The spending over that three-year period underscore a dramatic impact on spending:
• Medicare paid $2.7 billion more for four specific cardiology, orthopedic and gastroenterology services performed in the hospital outpatient setting than if the same services were delivered in the physician office setting from 2012 to 2015.

• For these same services, Medicare beneficiaries faced $411 million more in out-of-pocket costs due to higher cost-sharing.

HCCI study shows site of service payment differential exists in the commercial marketplace

A 2019 study by the Health Care Cost Institute (HCCI) shows that this spending differential for services delivered in outpatient settings versus physician office settings exists in the commercial health care marketplace as well.

Citing the PAI-Avalere research on the growth in physician employment, HCCI researchers found that the shift has affected where patients receive various services, finding an increase in services provided in outpatient settings. HCCI’s report noted that “[t]his trend is important, as services performed in an outpatient setting may come with a facility fee, which is an extra payment in addition to the service rendered that is intended to cover the cost of maintaining the facility.” HCCI found that “the average price was always higher in the outpatient setting than in the office setting.”

The shift from the office setting to the outpatient setting varied by service between 2009 and 2017. For instance, HCCI found that echocardiograms and drug administration shifted significantly to the outpatient setting, while upper endoscopy saw little change. HCCI’s report highlights examples of how payments grew at a faster pace in the outpatient setting over the eight-year study period, noting:

• The average price for a given service was always higher when performed in an outpatient setting. Average prices also tended to grow faster for the same services when performed in outpatient settings compared to office settings.

• For example, the study found:
  • The average price for a level 3 diagnostic and screening ultrasound visit increased four percent in office settings from 2009 to 2017, from $233 to $241, and 14 percent in outpatient settings, from $568 to $650.
  • The average price for a level 5 drug administration visit increased 15 percent in office settings from 2009 to 2017, from $220 to $254, and 57 percent in outpatient settings, from $423 to $664.
  • The average price for a level 4 endoscopy upper airway visit increased 14 percent in office settings from 2009 to 2017, from $463 to $527, and 73 percent in outpatient settings, from $1,552 to $2,679.

Learn more: PAI’s advocacy on behalf of physicians

PAI’s mission is to pursue fair and transparent payment policies and address systemic problems that impede physicians’ ability to treat patients in a wide variety of practice arrangements and compete in today’s rapidly evolving healthcare marketplace. PAI advocacy has drawn attention to concerns about systemwide consolidation and its impact on patients. Every day, PAI works to strengthen physician practices and improve the practice of medicine. Learn more at www.physiciansadvocacyinstitute.org/

---

2 Hargraves, John, Reiff, Julie. “Shifting Care from Office to Outpatient Settings: Services are Increasingly Performed in Outpatient Settings with Higher Prices.” Web blog post. #HealthyBytes. Health Care Cost Institute, 2 April 2019.