

Vertical and Horizontal Physician Integration

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Overview of this brief presentation

- Advantages of consolidation
- Disadvantages of consolidation
- Trends in consolidation
- Impact of consolidation

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*"I wish you would make up your mind, Mr. Dickens.
Was it the best of times or was it the worst of times?
It could scarcely have been both."*

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Best of times

- Increased consolidation can support widespread, innovative efforts to increase the quality and decrease the cost of medical care.

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Worst of times

- Increased consolidation can raise health care costs by increasing physician and hospital negotiating leverage.

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Potential advantages of horizontal integration for medical groups

- Economies of scale
- Increased negotiating leverage with:
 - Health plans
 - Hospitals
 - Specialist medical groups
- Increased ability to take financial risk

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Economies of Scale

- Nurse care managers
- Effective use of EHR
- Data analytics
- Support individuals whose entire job is to make care better
- Operate ancillary services: lab, imaging . . .

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Leverage with health plans

- At present, a medical group (or hospital) can almost certainly gain more profit from increasing leverage than from bonuses for improving quality and/or lower costs
- This could change if rewards for quality and efficiency become much larger as a percentage of medical group revenue

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A Tale of Two Worlds: Negotiating Leverage



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Hypothetical Example: Leverage vs. Shared Savings and P4P

- Payment rate as a percentage of Medicare:
 - Large group: 140-180%
 - Small practice: 105%
- Potential shared savings: 3%?
- Potential P4P bonus: 3%?

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Leverage with hospitals and specialists

- Gain their cooperation
- Possible to create a medical group-only ACO and:
 - Generate savings by reducing hospital and specialist costs
 - But not share the savings with hospitals or specialists

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Does vertical integration of physicians and hospitals increase their negotiating leverage?

- **Yes.**
 - (according to medical group, hospital, and health plan leaders)
- **Maybe**
 - (according to neoclassical economics)

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Vertical integration may increase total medical costs to payors

- Increased negotiating leverage
 - For physicians in the already high-priced group
 - For physicians joining from a lower priced group
- Changed referral patterns
 - As physicians refer patients to the higher priced group (and ? to the higher priced hospital)
- Facility fees
 - When a hospital acquires a physician group

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Provider consolidation may reduce competition in the health plan market

- Consolidated providers have more leverage with smaller health plans
- Higher prices paid by smaller health plans may force them to leave the market or be acquired by a larger health plan

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Hospital consolidation

- 2007-2011:
 - 432 hospital mergers and acquisitions
 - Involving 835 hospitals
- Half of U.S. hospital markets are highly concentrated

DM Cutler. "Hospitals, Market Share, and Consolidation. *JAMA*. 2013;310(18):1964-1970

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Physician consolidation

- Physician markets are generally less consolidated than hospital markets
- Large, brand-name multispecialty physician groups have significant leverage
- Medium-sized single specialty groups may have leverage
- The number of both types of group is increasing, but not rapidly

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Hospital employment of physicians

- U.S. patient care physicians employed by hospitals:*
 - 2000: 11%
 - 2011: 15%
- This trend may be accelerating.

* L.R. Burns et al. *Horizontal and Vertical Integration of Physicians: A Tale of Two Tales*. *Advances in Healthcare Management*, vol. 15, 2013, p. 72.

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Impact of hospital consolidation

- Data is not entirely conclusive, but suggests that:
 - Hospital consolidation raises prices
 - Hospital consolidation has minimal impact on quality

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Impact of medical group consolidation

- Larger groups use more processes to improve care
- But there is not much evidence for or against larger groups having better outcomes

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Impact of vertical physician-hospital integration

- Little data
- Major social experiment
- If it fails, it will not be easy for medical groups to go back to independent status

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Large provider organizations are not all the same

- The best known organizations:
 - Are physician-driven
 - Are old (and have developed a culture)
- Performance may differ!

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Four key points on consolidation:

- 1) Consolidation does NOT necessarily mean integration!
- 2) Consolidation without integration will raise prices but will not increase value
- 3) Consolidation with integration might (MIGHT!) lead to:
 - a. Higher prices per unit of service but:
 - b. Higher quality
 - c. Lower total medical costs
- 4) Remember that health plans are consolidating too!

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