Cost Implications of Hospitals Employing Physicians

Sonia Rivera-Martinez, DO, FACOFP

Health Policy Fellowship 2011-2012

Abstract

Faced with declining revenues and pressures to reduce health care spending, hospitals have been aggressively hiring physicians and purchasing private physician practices in an effort to expand their market share and referral base. This trend has been fueled by the Patient Protection and Affordable Care Act’s (ACA) creation of Accountable Care Organizations. A major concern is the potential for hospitals to convert greater market power into higher prices and less competition.

Though ACOs and other integrated physician-hospital care organizations could potentially provide higher quality care at lower cost, they also increase provider market power. Physician and hospitals in largely integrated systems have considerable influence for commanding large payment increases when negotiating with commercial insurers. Indeed accumulated national data over the past several decades of hospital mergers and acquisitions have demonstrated that consolidation of provider markets drive up healthcare prices. Another source of increased prices is that hospitals and their employed physicians practice in a predominantly fee-for-service (FFS) environment which incentivizes healthcare providers to increase the volume of services delivered. A different payment model that incentivizes delivery of quality may assist in curtailing the exponential growth in healthcare expenditures.

Multiple models have been studied. Unfortunately these have failed to produce the desired results. The American Academy of Family Physicians has proposed a blended payment model with a phase out of FFS. This blended payment model has built-in incentives to improve quality of care and reduce costs, which makes it a sensible option for a Centers for Medicare and Medicaid Services (CMS) sponsored demonstration project.