What is the Issue?

Hospitals seeking to increase market share power have accelerated their hiring of physicians. They have increased their purchases of physicians’ private practices and are utilizing the fee-for-service payment model to incentivize increased volume of services delivered. These measures have the potential for hospitals to convert greater market share power into higher prices and less competition.

Why Have Hospitals Changed Their Rate of Employing of Physicians?

- To compete with the Accountable Care Organizations established by the passage of the Patient Protection and Affordable Care Act (ACA)
- Health care industry’s move towards value-based payment models

Why Are Hospitals Employing Physicians?

- Form accountable care organizations
- Expand and secure their referral base
  - Increase their hospital admissions
  - Increase utilization of their services
- Meet demand for physicians services
- Cover emergency department call

Expansion of Hospital Market Share Leads to Less Competition

Hospitals purchase or build facilities outside their typical market boundaries, including ambulatory care facilities and free-standing emergency departments. Hospitals obtain “must-have” status and employ specialty care physicians. This expansion brings more patients into their system.

What is the Impact?

Greater Market Power Leads to Increased Cost: Hospitals negotiate health plan contracts on behalf of their employed physicians and as a result they obtain higher rates than independent physicians. Supplier-induced demand results in overutilization of services.

Hospital Facility Fee Leads to Increased Cost: Hospitals are typically paid a facility fee in addition to the services provided. Hospitals can charge this fee for any service provided at the ambulatory physician practices they own if these meet provider-based facility criteria. The fees result in higher costs for insurance payers and higher costs for patients in deductibles and coinsurance.

Figure 1: The number of physicians who are “truly independent” has been declining at a rate of about 2 percent since the turn of the millennium. Source: Adapting to a new model of physician employment by Andrea A. Ziaikin, Kristin L. Pickey and Richard N. Fu. August 2011

Although the total number of physicians is increasing, the percentage that are truly independent is declining.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number</th>
<th>Truly independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>683</td>
<td>57%</td>
</tr>
<tr>
<td>2005</td>
<td>723</td>
<td>49%</td>
</tr>
<tr>
<td>2008</td>
<td>767</td>
<td>43%</td>
</tr>
<tr>
<td>2013</td>
<td>793</td>
<td>33%</td>
</tr>
</tbody>
</table>

Policy Alternatives

Pay-per-performance: Based on meeting predefined performance goals for quality and/or efficiency measures.

Comprehensive payment for comprehensive care: Global fee per patient per year that is adjusted for the patient’s needs and risks attributes.

PROMETHEUS Payment Model: Bundled payment model for all of the care provided to a patient over the course of a clinical episode or period of patient management.

New Centers for Medicare and Medicaid Initiative: Comprehensive Primary Care Initiative Pilot Project – Blended payment model that includes

- Fee-For-Service
- Care management fee
- Shared savings reward
- Working with Medicaid programs
- Partnering with Private payers

Recommendation

American Academy of Family Physicians Proposed Payment Model: Blended payment model that includes

- Pay-per-performance
- Care management fee
- Fee-for-service – with reduction of payment method over time

Move away from predominant volume driven payment model.

Recommend this proposed payment model for a CMS demonstration project.

Bibliography

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