Cost Implications of Hospitals Employing Physicians

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What is the issue?

- Hospitals seeking to increase market share power:
  - Accelerated their hiring of physicians
  - Increased their purchases of physicians private practices
  - Utilize the fee-for-service payment model to incentivize increased volume of services delivered

- Potential to convert greater market share power into higher prices and less competition
Why Have Hospitals Changed Their Rate of Employing of Physicians?

- Patient Protection and Affordable Care Act (PPACA)
  - Accountable care organizations
- Health care industry 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
Why Are Physicians Seeking Hospital Employment?

- Rising costs of private practice
- Stagnant reimbursement rates
- Difficulties recruiting younger physicians
- Desire for a better work-life balance
- Greater access to hospital facilities and equipment
Expansion of Market Share
-> Less Competition

- Hospitals purchase or build facilities outside their typical market boundaries
  - Ambulatory care facilities
  - Free-standing emergency departments

- Hospital gain “must-have” status
  - Employ specialty care physicians
  - Expansion brings more patients into their system
Greater Market Power

-> Increased Cost

- Hospitals negotiate health plan contracts on behalf of their employed physicians
  - Obtain higher rates than independent physicians
- Overutilization of services through supplier-induced demand
Facility Fee -> Increased Cost

- Hospitals are typically paid a facility fee in addition to the services provided.
- Hospital can charge this fee for any service provided at the ambulatory physician practices they own if these meet provider-based facility criteria.
  - Higher cost for insurance payers
  - Higher cost for patients in deductibles and coinsurance
## Comparison of Costs

<table>
<thead>
<tr>
<th>Services</th>
<th>Non-Hospital Outpatient Facility</th>
<th>Hospital Outpatient Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chest X-Ray</td>
<td>$80.24</td>
<td>$236.25</td>
</tr>
<tr>
<td>Exercise stress test</td>
<td>$274.97</td>
<td>$416.33</td>
</tr>
<tr>
<td>MRI - joint</td>
<td>$1,163.79</td>
<td>$2,289.86</td>
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</tbody>
</table>
Increased Prices in Economic Downturn

- Health Care Institute analyzed 3 billion health insurance claims 2007-2010
  - Hospital prices rose at least 5 times rate of inflation
    - 1.6% versus 5.1% for average facility price and 10.1% for their outpatient services
- During same period the patients were consuming less healthcare services overall
Fee-For-Service Payment Model

- Predominant payment system
- Financially appealing to both hospitals and physicians
  - Incentivizes increasing the volume of services delivered
- Lacks incentive to improved quality of services delivered
- Medicare Payment Advisory Committee recommends a move away from this payment model
Proposed Payment Models

- **Pay-per-performance**
  - Based on meeting pre-defined 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 for all of the care a patient may require over the course of a clinical episode or period of management

- **Mixed or inconclusive results so far**
New Centers for Medicare and Medicaid Initiative

- Comprehensive Primary Care Initiative Pilot Project – Blended payment model
  - Fee-For-Service
  - Care management fee
  - Shared savings reward
- Working with Medicaid programs
- Partnering with Private payers
American Academy of Family Physician Proposal

- Blended payment model:
  - Pay-for-performance
  - Care management fee
  - Fee-for-service – reduction of this method over time

- Move from predominant volume driven payment model

- Recommend demonstration project for this model
Questions???
Thank you!

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- Norman Gevitz, PhD
- Nancy Cooper
- Health Policy Fellow Class of 2011-2012
- Dennis Martinez