
Consolidation Fails to Lower Healthcare Costs



A new study published in *JAMA* showed that between 2009 and 2012, total expenditures per patient for hospital, professional, laboratory, pharmaceutical and ancillary services were higher in hospital-owned physician organisations compared to physician-owned organisations in California. The patients were covered by commercial health maintenance organisation (HMO) insurance; the study did not include patients covered by commercial preferred provider organisation (PPO) insurance, Medicare, or Medicaid.

James C. Robinson, PhD, MPH, of the University of California's School of Public Health, Berkeley, and Kelly Miller, BA, of the Integrated Healthcare Association, Oakland, conducted the study to determine whether total expenditures per patient were higher in physician organisations owned by local hospitals or multihospital systems compared with physician organisations owned by participating physicians. They analysed data on total expenditures for the care provided to 4.5 million patients treated by integrated medical groups and independent practice associations in California between 2009 and 2012.

A total of 158 organisations were included in the study: 118 physician organisations (75 percent) were physician-owned and provided care for 3,065,551 patients; 19 organisations (12 percent) were owned by local hospitals and provided care for 728,608 patients; and 21 organisations (13 percent) were owned by multihospital systems and provided care for 693,254 patients.

The researchers reported these key findings:

- Between 2009 and 2012, the average expenditure per patient across all physician organisations increased by 16.5 percent from \$2,954 to \$3,443.
- By 2012, expenditures per patient had increased to an average of \$3,066 in physician-owned organisations, \$4,312 in local hospital-owned organisations, and \$4,776 in multihospital system-owned organisations.
- The 2012 figures represent a 40.6 percent relative difference in expenditures per patient associated with hospital ownership and 55.8 percent relative difference associated with ownership by a multihospital system compared with ownership by member physicians.

After adjusting for patient severity and other factors over the period, the investigators found that expenditures per patient in local hospital-owned physician organisations were 10.3 percent higher than physician-owned organisations. Organisations owned by multihospital systems incurred expenditures 19.8 percent higher than physician-owned organisations. In addition, the largest physician organisations incurred expenditures per patient 9.2 percent higher than the smallest organisations.

"These findings are in contrast to the hope and expectation that organisational consolidation of physicians with hospitals would result in greater coordination, and hence lower expenditures," the authors said, noting the current trend in which hospitals and multihospital systems are acquiring medical groups and physician practices as part of a strategy to build integrated delivery systems capable of providing the full range of professional, facility, laboratory, and pharmaceutical services to affiliated patients. The ongoing consolidation may foster cooperation and thereby reduce expenditures, industry analysts said, but also may lead to higher expenditures through greater use of hospital-based ambulatory services and through greater hospital pricing leverage against health insurers.

The policy debate about consolidation has gained new attention due to the financial incentives provided by the Affordable Care Act for physicians to join hospital-affiliated accountable care organisations, the industry analysts continued. As pointed out by the study authors: "Policymakers must strive to ensure that hospital acquisition of medical groups and physician practices does not lead to higher expenditures. Antitrust law and policy need to find the appropriate balance between permitting hospital acquisitions that improve efficiency, on the one hand, and preventing acquisitions that increase expenditures, on the other. Reform of payment methods by Medicare and private insurers should focus on the total expenditures made on behalf of patients by the physicians and facilities involved in their care to promote coordination but also to create incentives for efficiency and price reductions."

Source: *JAMA*

Image Credit: Moritz College of Law, The Ohio State University

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