Addressing Impact of Provider Consolidation

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Powerful Trend towards Provider Consolidation

- Understanding the Trend
  - Context of Consolidation
  - Drivers of Consolidation
- Impact of Trend
- Particular Impact of Hospital-Physician Consolidation
- Policy Responses

Trends in Provider Consolidation

- Hospital consolidation is on the rise:
  - Over 1,000 hospital mergers since mid-90s (Gaynor)
  - Consolidation slowed in the past decade, but has picked up recently
  - Most urban areas are now dominated by 1-3 large hospital systems

Drivers of Provider Consolidation

- Increased leverage/revenue
- Respond to push for coordinated and integrated care
  - HIT and quality reporting requirements
- Future requirements appear daunting to smaller hospitals and medical practices
  - Motivating mergers with larger organizations
- Advocates of coordinated care:
  - Accept some additional consolidation
  - Put in place mechanisms to contain price increases

Impact of Provider Consolidation

- Research shows that consolidation drives up prices (Gaynor, Kleiner, Schneider, Dafny)
  - Hospitals mergers have led to price increases of 3.5-53 percent (Gaynor)
- Range of increase is affected by availability of competitive options
- Providers with “must have” status have substantial leverage even when concentration is low
- Higher prices lead to higher insurance premiums
  - Burden to consumers, employees, employers, governments

Recent Challenge of Hospital-Physician Consolidation (1)

- Hospital acquisition or affiliation with physician groups and employment of physicians
  - The most active area of consolidation
  - Strong direct effects on prices
    - Hospitals negotiate much higher prices for services of employed physicians
    - Addition of a facility fee
    - Indications of higher hospital prices as well

Recent Challenge of Hospital-Physician Consolidation (2)

- Challenges for purchasers beyond price increases
  - Obstacle to insurers' steering of patients to high-value providers
    - PCPs and specialists locked into referring to system
  - Discourages development of physician organizations
    - Reduced potential for competition in ACO/risk contracting market

Care Coordination with Less Consolidation

- Small physician practices can join IPA or larger group instead of becoming hospital employees
- Hospital can develop contractual relations looser than ownership
  - Not only physician organizations, but other providers
  - For example, rather than purchase post-acute providers, hospitals can identify those worthy of contractual relationship

Need for Steps to Limit Impacts on Prices

- Market approaches
  - Steps by employers/insurers to engage patient/consumer to seek lower-priced providers
    - Incentives
    - Information
- Government efforts to facilitate market approaches

Better Information on Price and Quality for Enrollees

- Online tools for enrollees
  - Customize to relevant insurance product and enrollee's deductible/account
- Scope will grow with increasing deductibles
  - But most opportunities on outpatient side
  - Inpatient pricing much more complex
    - Other approaches involving less price data have more promise

Limited Networks

- Fewer providers in network leads to lower prices in two ways: steering and increased leverage
- Public more receptive now than in 1990s
  - Affordability challenges are larger
  - ACA exchanges and subsidies create ideal incentive structure
    - Absence of “one size fits all” requirements that apply to employer-sponsored insurance
- Potential regulatory obstacles from network adequacy

Tiered Networks

- Potential for broader appeal than limited networks
  - Less of a commitment by enrollee
  - Potentially more effective if done by service line
- But prominent hospitals can block through refusal to contract

Reference Pricing

- More aggressive approach to tiers
  - Stronger patient incentives
  - But applies to relatively small share of spending
- Works best with discrete outpatient procedures
  - Colonoscopy
  - MRI
  - Cataract surgery
- Carriers split on priority to give to approach

Fostering Physician Organizations (1)

- Potential upside
  - More competitive hospital market
    - Reduce attractiveness of hospital employment
    - Protect use of incentives to steer patients to higher-value hospitals and specialists
      - Results from AQC evaluations
  - Potentially more effective performance under global payment incentives than hospital-led organizations
    - Less conflicted incentives

Fostering Physician Organizations (2)

- Financial/technical assistance to organizations
  - BCBSNC HIT subsidies for practices
  - CareFirst BCBS PCMH initiative
    - Global incentives and information provision for PCPs
    - Pods for small PCP practices
- Purchase of physician organizations
  - Insurers (United purchase of Monarch IPA)
  - Others (e.g. DaVita purchase of HealthCare Partners)
    - Capital injections support expansion

Government Actions to Foster Market Approaches (1)

- Regulation of hospital contracting practices
  - Prohibit demands for tier placement
  - Prohibit all or none system contracting
- Require plans to provide real-time price data for enrollees
- Support for physician organizations
  - Loans/grants to establish infrastructure
  - Easier requirements for ACOs (Medicare)
  - Eliminate higher Medicare payments for physician services in hospitals (MedPAC proposal)

Government Actions to Foster Market Approaches (2)

- Broader access to physician-specific data for profiling
  - Medicare Part B claims data
  - State all-payer claims data

Conclusions

- Strong trend towards provider consolidation in response to challenging environment
  - Potential to facilitate integration and coordination, but also potential for higher prices
- Both private sector and government can take steps to address increasing provider leverage on prices through market approaches
- Degree of success will determine whether direct regulation is pursued