Unintended costs of health-care integration

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In recent years hospitals have been rapidly acquiring physician practices, a trend that could potentially lower health care spending—for example, through better coordination of inpatient and outpatient care—or increase spending by increasing prices or use of profitable hospital-based services.

As health care providers position themselves to meet the challenges of new payment models that hold them accountable for the full spectrum of patient care, many observers believe that this trend will accelerate. If this is the case, the consequences of physician-hospital integration become even more important to understand.

So far, a new study by researchers from Harvard Medical School's Department of Health Care Policy has determined, this type of provider consolidation has led to higher prices with no evidence of offsetting reduction in the use of care. The findings, published in *JAMA Internal Medicine*, suggest that integration between physicians and hospitals strengthens their bargaining position with insurers, particularly for prices of outpatient care, but has not led to more efficient care.

"Payment reform is critically important to achieving a high-performing health system, but the price increases we found do suggest a potential unintended consequence," said J. Michael McWilliams, associate professor of health care policy and medicine at HMS, a practicing general internist at Brigham and Women's Hospital and senior author of the study.

From 2008 to 2012 the proportion of physicians employed by hospitals or working for practices owned by hospitals increased significantly, with an increase of 5.2 percentage points among markets at the 75th percentile of changes in physician-hospital integration. At the same time, an increase in physician-hospital integration of this magnitude was associated with a 3.1 percentage point increase in annual outpatient spending. This increase in spending was driven almost entirely by price increases. The changes in use of outpatient care were minimal. This is the first study to examine the association between hospital-physician integration and prices for outpatient care.

Consolidation is an attractive option in the light of alternative payment models that emphasize coordinated care, because integrated physicians and hospitals could potentially work together to streamline processes and align patient care, providing higher value care to patients and potentially cutting costs.

However, consolidation may also increase an organization's market power, allowing it to command higher prices from insurers.

The researchers say that their findings, with no change in the use of health care services and a $75 per patient increase in annual outpatient spending, suggest that policymakers will need to grapple with how reforms affect provider market power.

"At this moment of great change in health care systems, it is crucial to measure and manage the impact of consolidation on prices so we don't inadvertently end up spending more on health care at a time when we're trying to go in the other direction," said lead author Hannah Neprash, a doctoral candidate in the Harvard Program in Health Policy.

McWilliams noted that earlier research of his showed that ownership of physician practices by hospitals is not necessary for alternative payment models such as accountable care organizations to achieve cost savings. "We have known for some time that financial integration has not led to clinical integration under fee-for-service incentives. It is possible that may change under new payment models, but the benefits of financial integration between physicians and hospitals have certainly not manifested yet."

The researchers used data from Medicare claims to determine when a practice was purchased by a hospital system, and then measured the difference in spending and prices before and after integration for a sample of more than 7 million patients with commercial insurance.

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