

Team finds provider consolidation can lead to higher physician prices

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The Medica Research Institute has published work in the journal *Health Economics* that analyzes the impact of physician prices as a result of provider consolidation or integration.

In reaction to health reform efforts, U.S. hospitals have accelerated the trend toward acquisition of [physician practices](#). It's estimated that more than half of [physician](#) practices are now owned by hospitals or integrated delivery systems (IDSs).

When a clinic system is acquired by an IDS, the ownership change includes both vertical integration with the [hospital](#)(s) and horizontal integration with the IDS's previously owned "legacy" clinics, causing increased [market](#) concentration in physician services. While there have been previous studies on the impact of hospital market concentration, there have been sparse scientific findings on physician market concentration. The research team analyzed the impact on physician [prices](#) when two IDSs acquired three multispecialty clinic systems in the Minneapolis-St Paul market in 2007. To track prices, the team used commercial claims data from Medica health plans from 2006 to 2011.

"In theory, an IDS providing both hospital and physician services should be able to accept global reimbursement for care from public and private payers and more easily coordinate care, creating the possibility of higher quality, lower-cost care," says Caroline Carlin, Medica Research Institute investigator and study author. "However, this concentration in the provider market may also result in increased bargaining power and

higher prices. The researchers examined the impact of acquisition of three multispecialty clinic systems by two hospital-owned IDSs on enrollee average and procedure-specific physician prices. The team found the following:

- Increase in physician prices at both the acquired clinic system and the acquiring IDS's legacy clinics
- Four years after the acquisitions (2011), average physician prices in the acquired clinic systems were 32-47 percent higher than expected in absence of the acquisitions
- Average physician prices in the acquiring IDS legacy clinics were 14-20 percent higher than expected

These results are an important scientific contribution in the understanding of healthcare market organization. The findings provide an empirical study of physician price responses that can result from vertical integration accompanied by horizontal integration with the acquiring system's legacy clinics.

"These results are particularly germane given the incentives for vertical [integration](#) provided by public and private payer contracts with providers that include incentives for ACO formation to manage total cost of care," says Carlin.

More information: Caroline S. Carlin et al. The impact of provider consolidation on physician prices, *Health Economics* (2017). [DOI: 10.1002/hec.3502](https://doi.org/10.1002/hec.3502)

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