



Updated Physician Practice Acquisition Study: National and Regional Changes in Physician Employment **2012-2016**

March 2018

About the Physicians Advocacy Institute

The Physicians Advocacy Institute (PAI) is a not-for-profit organization that was established to advance fair and transparent policies in the health care system to sustain the profession of medicine for the benefit of patients.

As part of this mission, PAI seeks to better understand the challenges facing physicians and their patients and also educate policymakers about these challenges.

PAI also develops tools to help physicians prepare for and respond to policies and marketplace trends that impact their ability to practice medicine.

Information about PAI research, advocacy and education activities can be found at www.physiciansadvocacyinstitute.org.

PAI: Committed to Researching Topics Important to Physicians and Patients

Through a research collaboration with Avalere Health, PAI is working to gain a more complete picture of the potential impact that various marketplace forces and private and public sector policies have on physicians and patients.

The trend towards consolidation is dramatically reshaping the landscape for physician practices. Understanding the extent and impact of this trend is important for all health system stakeholders.

This report updates and builds upon a prior study with an additional year of data. Specifically, a previous analysis examined national and regional changes in physician employment trends from July 2012 through July 2015, finding a consistent trend towards hospital acquisitions of physician practices and a dramatic increase in physician employment. **This analysis incorporates data from January 2016 and July 2016 that shows a continued trend of hospital acquisitions of physician practices and growth in physician employment.**

PAI Research Collaborations Provide Valuable Insights into Important Health Care Dynamics

February - 2016

September -
2016

October -
2017

March-2018

- Avalere analyzed Medicare payment differentials and the impact on Medicare spending across various settings of care.¹
- Avalere examined physician employment trends from 2012 to 2015, finding a significant trend of hospital acquisitions of physician practices and physician employment.²
- Avalere examined the impact of hospital employment of physicians on spending by Medicare and beneficiaries.³
- This report updates the original physician employment study with data through mid-2016, finding continued growth in physician employment

1. <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/Payment-Differentials-Across-Settings.pdf>

2. <http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI-Physician-Employment-Study.pdf>

3. http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI_Medicare%20Cost%20Analysis%20--%20FINAL%2011_9_17.pdf

Research Update Shows Trend Continued Through Mid-2016

HOSPITAL ACQUISITION TRENDS CONTINUED NATIONWIDE THROUGH MID-2016

During the Year Period from July 2015 to July 2016:

- An additional **5,000 physician practices** were acquired by hospitals.
- The **number of physicians employed by hospitals** grew by **14,000** nationwide.
- The percentage of employed physicians **grew by nearly 11%**.

In every region of the country, both physician employment and hospital ownership of practices increased for the fourth consecutive year. From July 2015 to July 2016:

- The percentage of hospital-employed physicians **increased between 5% and 22%** in every region across the country.
- The percentage of hospital owned practices **increased between 8% and 47%** in every region across the country

Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

Regional analysis includes 5 regions: Northeast, South, Midwest, West, and Alaska & Hawaii

Highlights of 4-Year Research Findings

SIGNIFICANT AND CONSISTENT GROWTH IN PHYSICIAN EMPLOYMENT AND HOSPITAL ACQUISITIONS OF PRACTICES OVER FOUR-YEAR PERIOD

This updated research confirms that over the four-year period from July 2012-July 2016, there was a significant nationwide trend of physicians leaving private practice and entering into employment arrangements with hospitals and health systems.

National Trend:

- Over this period, the percentage of hospital-employed physicians **increased by more than 63%**, with increases in nearly every six-month time period measured over these four years.

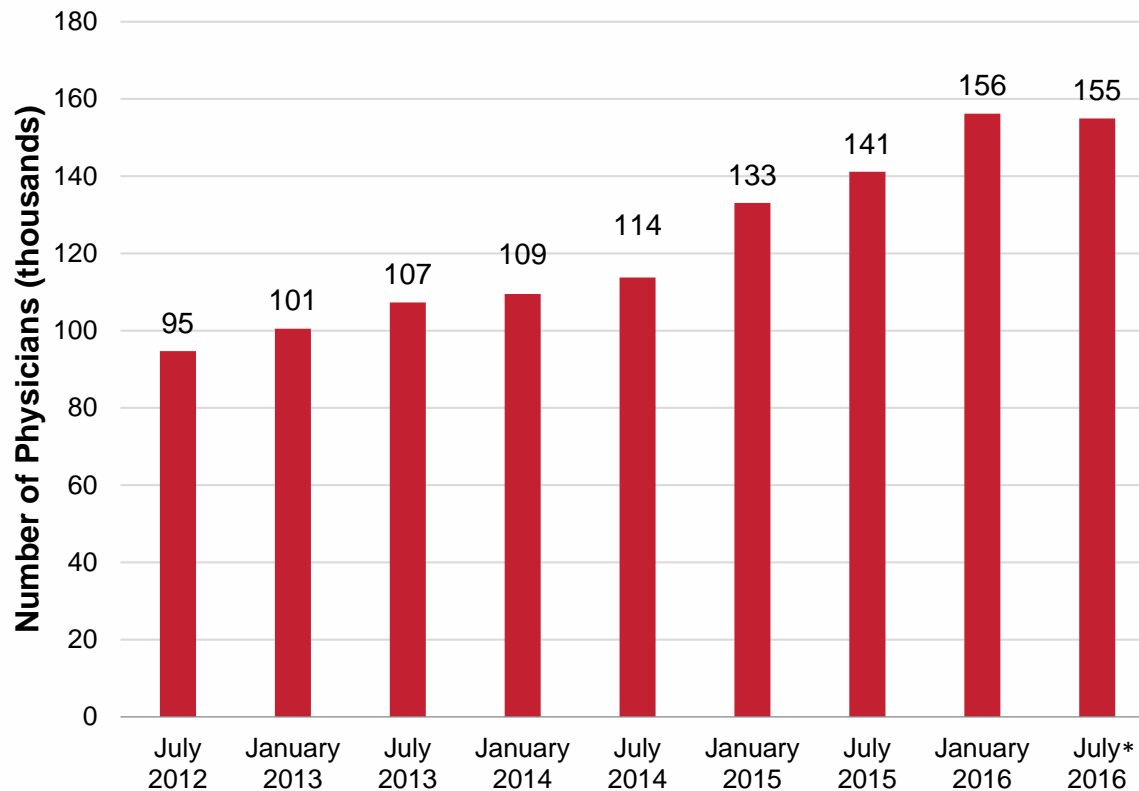
Employment Trend Extends Across All Regions:

- All regions saw an increase in hospital-owned practices at every measured time period, with a range of total increase from **83 to 205%**.

From July 2015 to July 2016, the Number of Physicians Employed by Hospitals Grew by 14,000 Nationwide

EMPLOYMENT OF PHYSICIANS

NUMBER OF HOSPITAL-EMPLOYED PHYSICIANS



Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

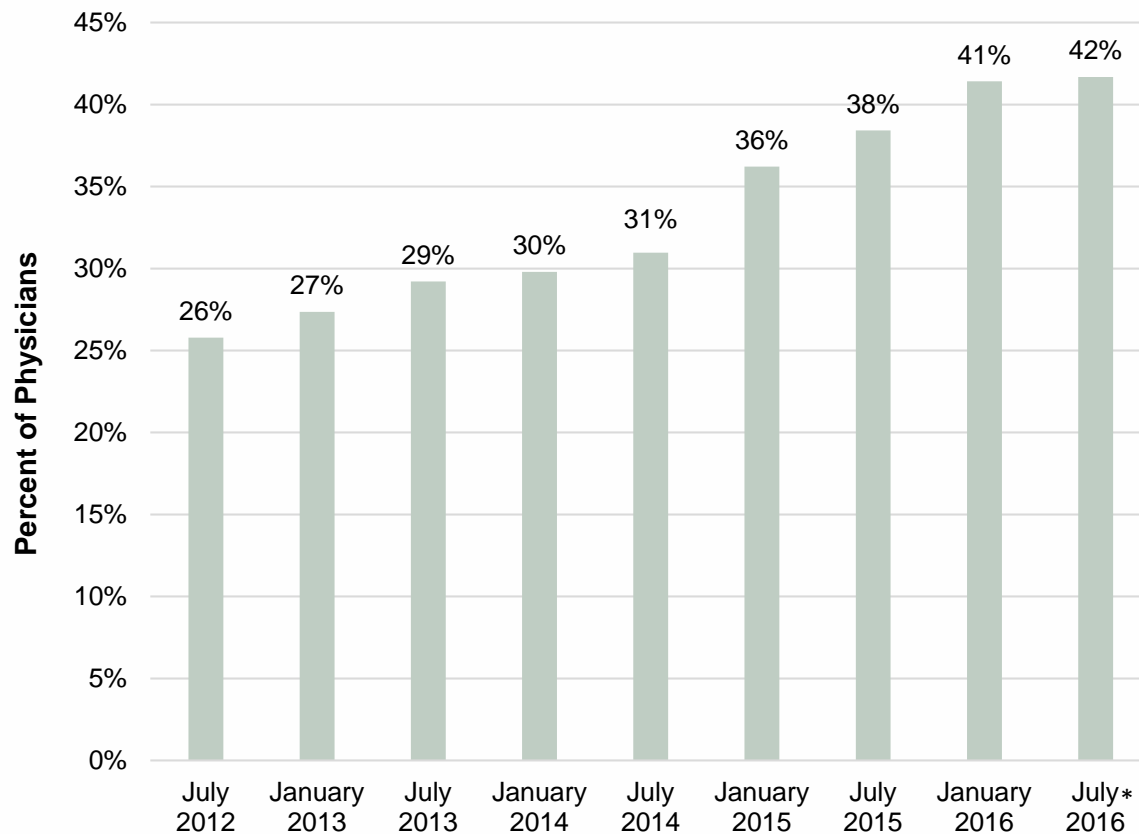
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- From July 2014 to July 2016, over 40,000 physicians shifted into employment models.
- Physician employment grew in seven out of the eight 6-month periods analyzed.
- In July 2016, the number of employed physicians decreased slightly from January 2016, due to a decline in the total number of physicians, but the percentage of hospital employed physicians increased.

The Percentage of Employed Physicians Increased by Nearly 11% in July 2016 Compared to the Prior Year

EMPLOYMENT OF PHYSICIANS

PERCENT OF HOSPITAL-EMPLOYED PHYSICIANS



- 42 percent of physicians were employed by hospitals in July 2016, compared to just one in four physicians in July 2012.
- Growth occurred throughout the four-year period, with some of the fastest acceleration occurring in late 2014.

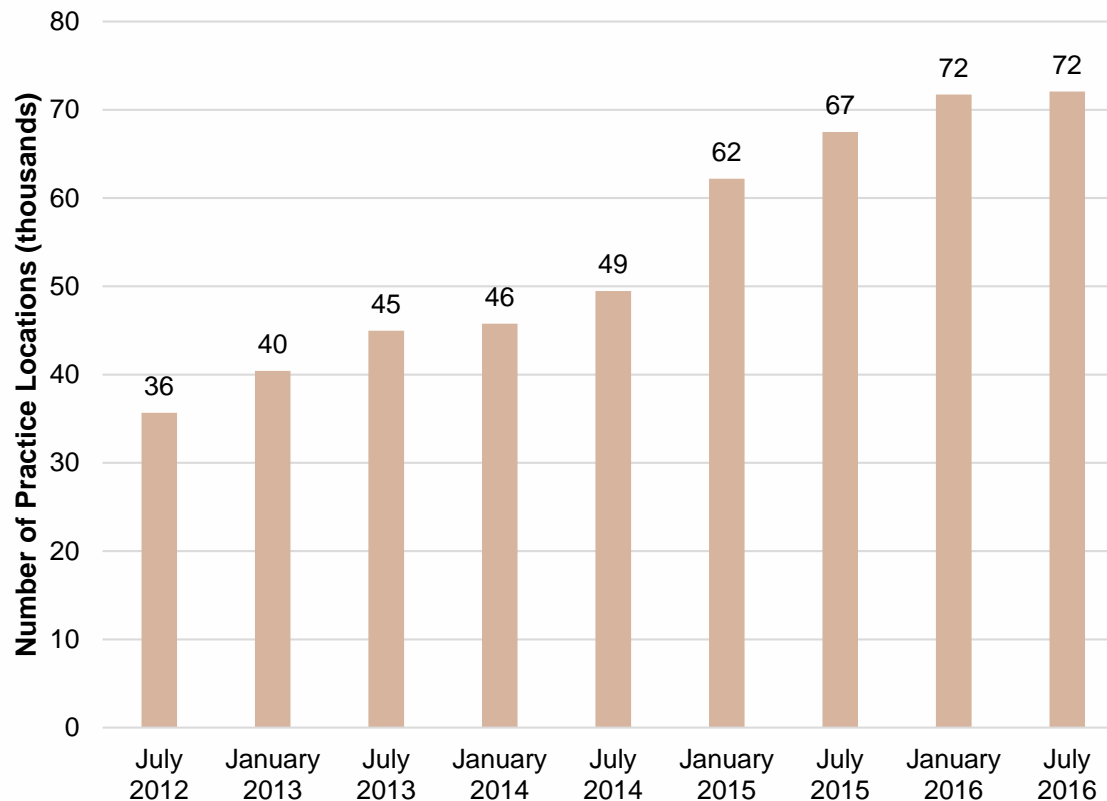
Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

*In July 2016, the total number of physicians decreased. As a result, the number of employed physicians decreased slightly but the percentage employed physicians increased.

An Additional 5,000 Physician Practices Were Acquired Between July 2015 and July 2016

OWNERSHIP OF PHYSICIAN PRACTICES

NUMBER OF HOSPITAL-OWNED PHYSICIAN PRACTICES (THOUSANDS)



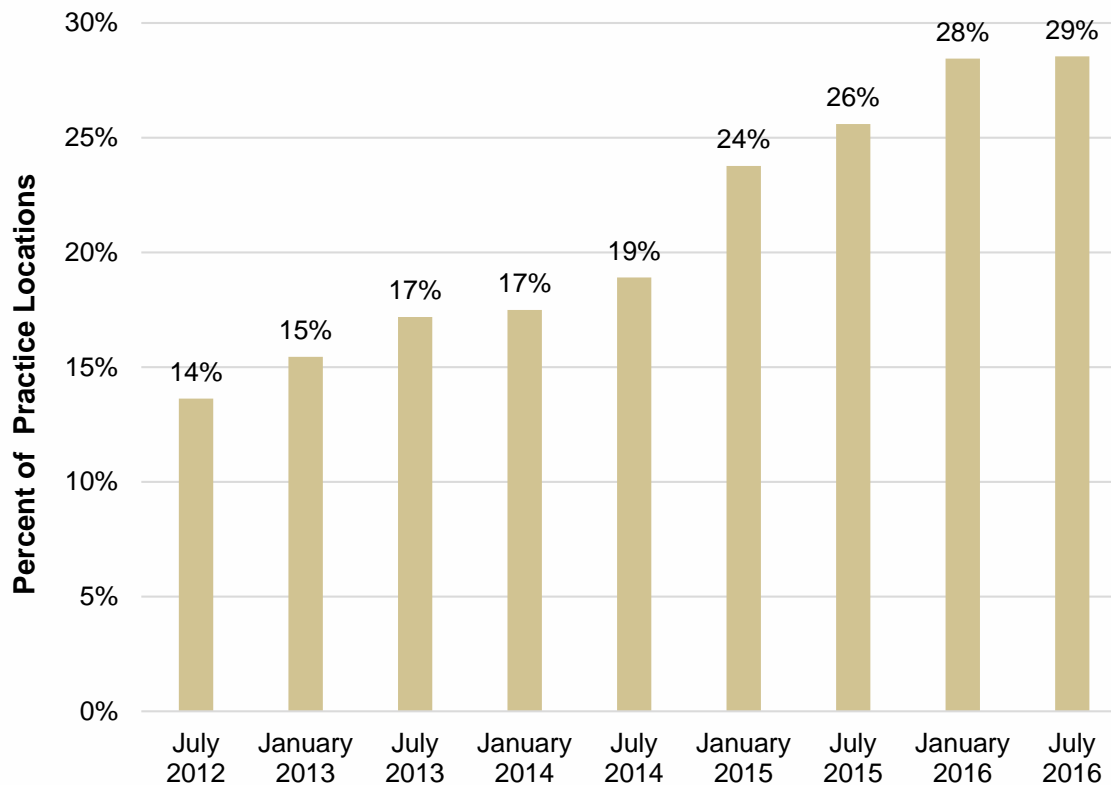
- Between July 2012 and July 2016, the number of physician practices employed by hospitals grew by 36,000 practices; a 100% increase over four years.

Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

By July 2016, Hospitals Owned Nearly 30% of Physician Practices

OWNERSHIP OF PHYSICIAN PRACTICES

PERCENT OF HOSPITAL-OWNED PHYSICIAN PRACTICES

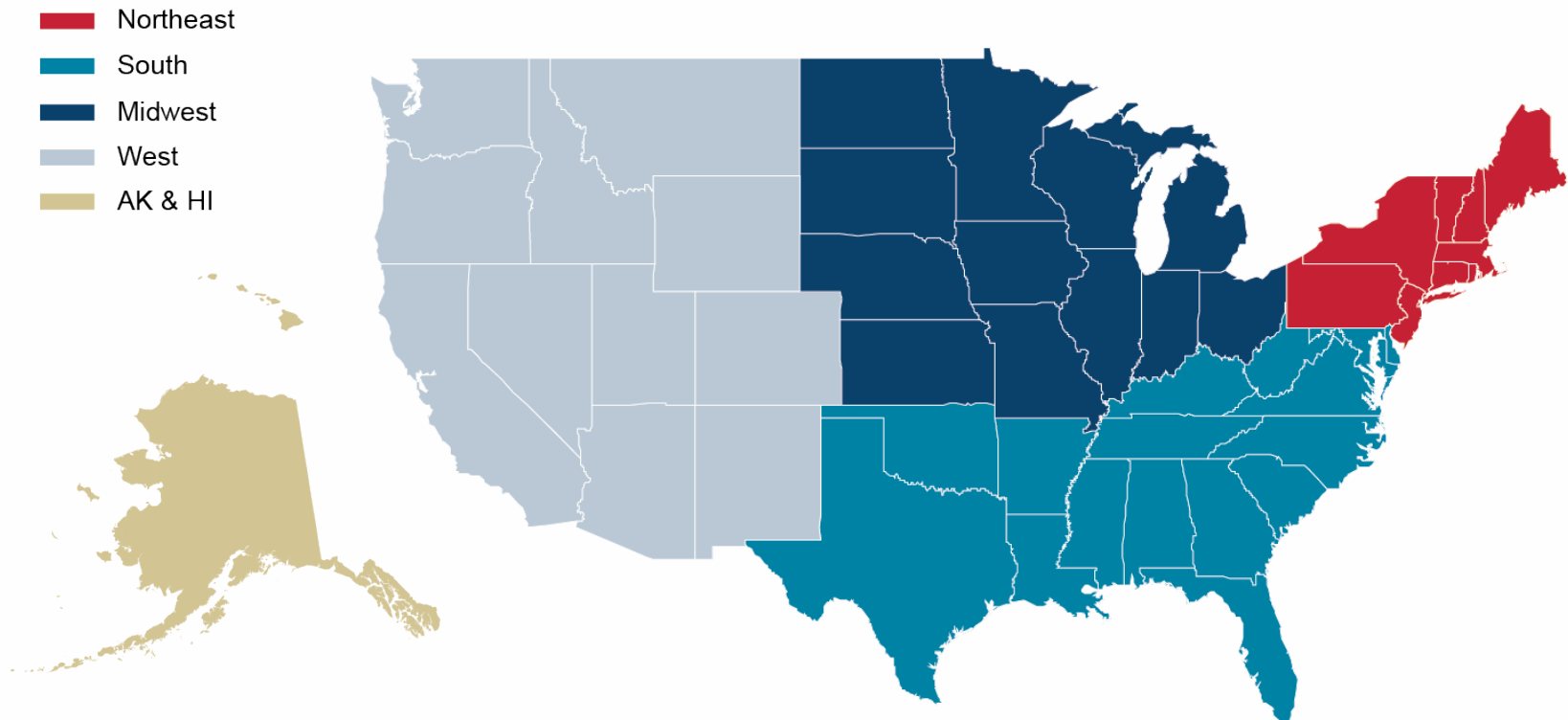


- As of July 2016, 29% of physician practices were owned by a hospital.
- The steady stream of hospital acquisitions resulted in a **107% increase**, more than doubling the ownership percentage over the four-year period.

Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with Medicare 5% Standard Analytic Files

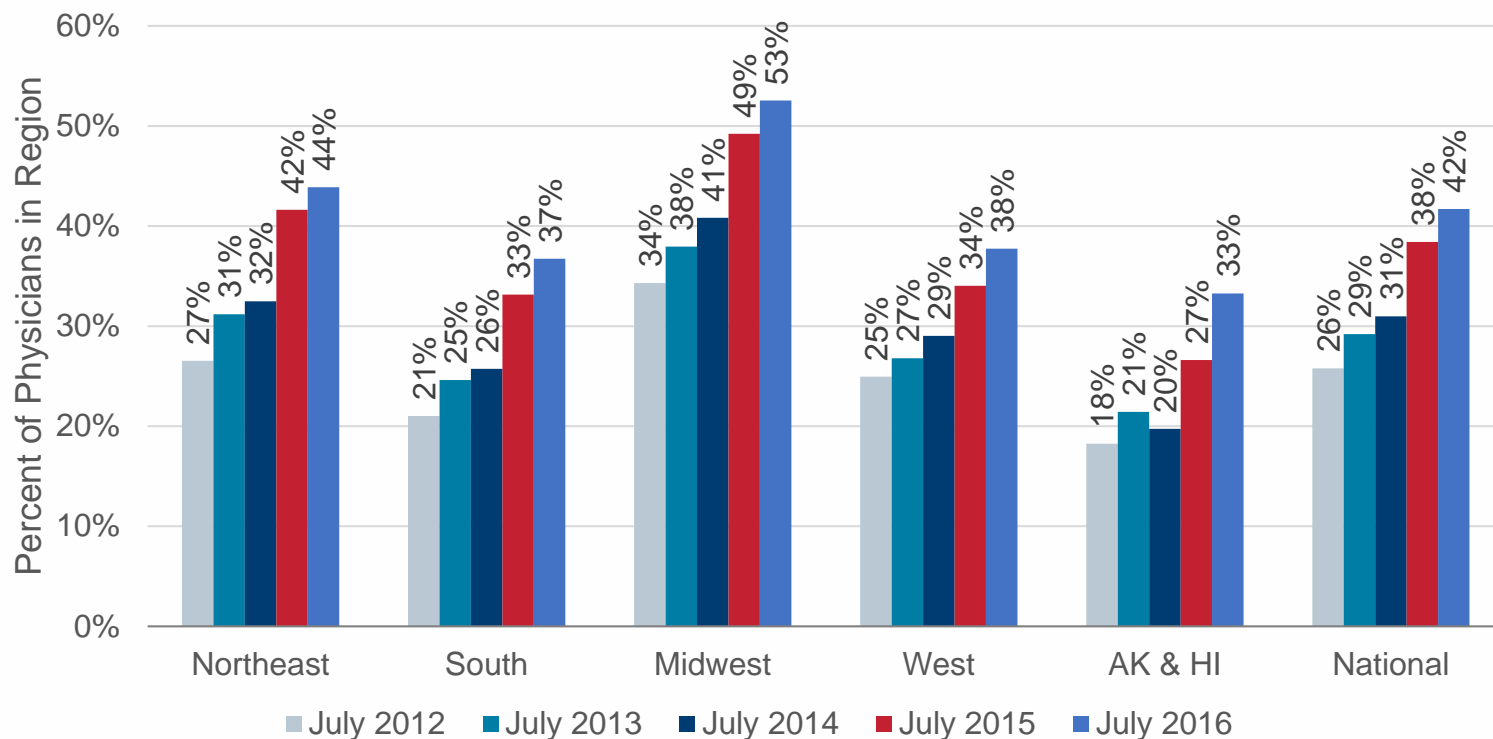
Regional Trends

Avalere also studied these trends by region. While there are differences across regions, there is a steady trend toward increased employment and hospital ownership of practices in every region of the nation.



As of July 2016, the Percentage of Hospital-Employed Physicians Increased Between 5% and 22% from the Prior Year in Every Region Across the Country

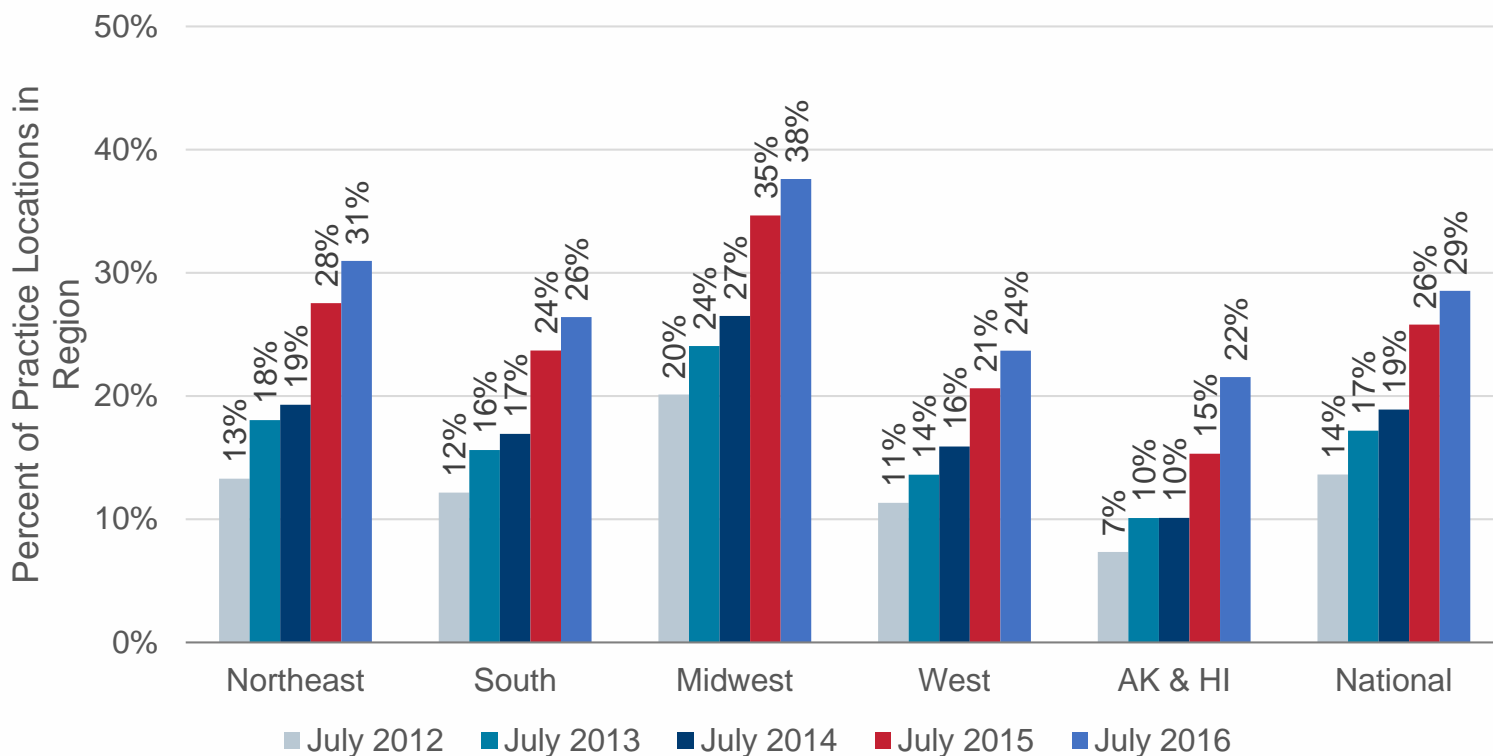
HOSPITAL-EMPLOYED PHYSICIANS BY REGION



More than half of all physicians in the Midwest are employed by hospitals. Rates of employment are lowest in the South, where 37% of physicians are employed by hospitals, and in Alaska and Hawaii, where 33% are employed.

In July 2016, the Percentage of Hospital-Owned Practices Increased Between 8% and 47% from the Prior Year in Every Region Across the Country

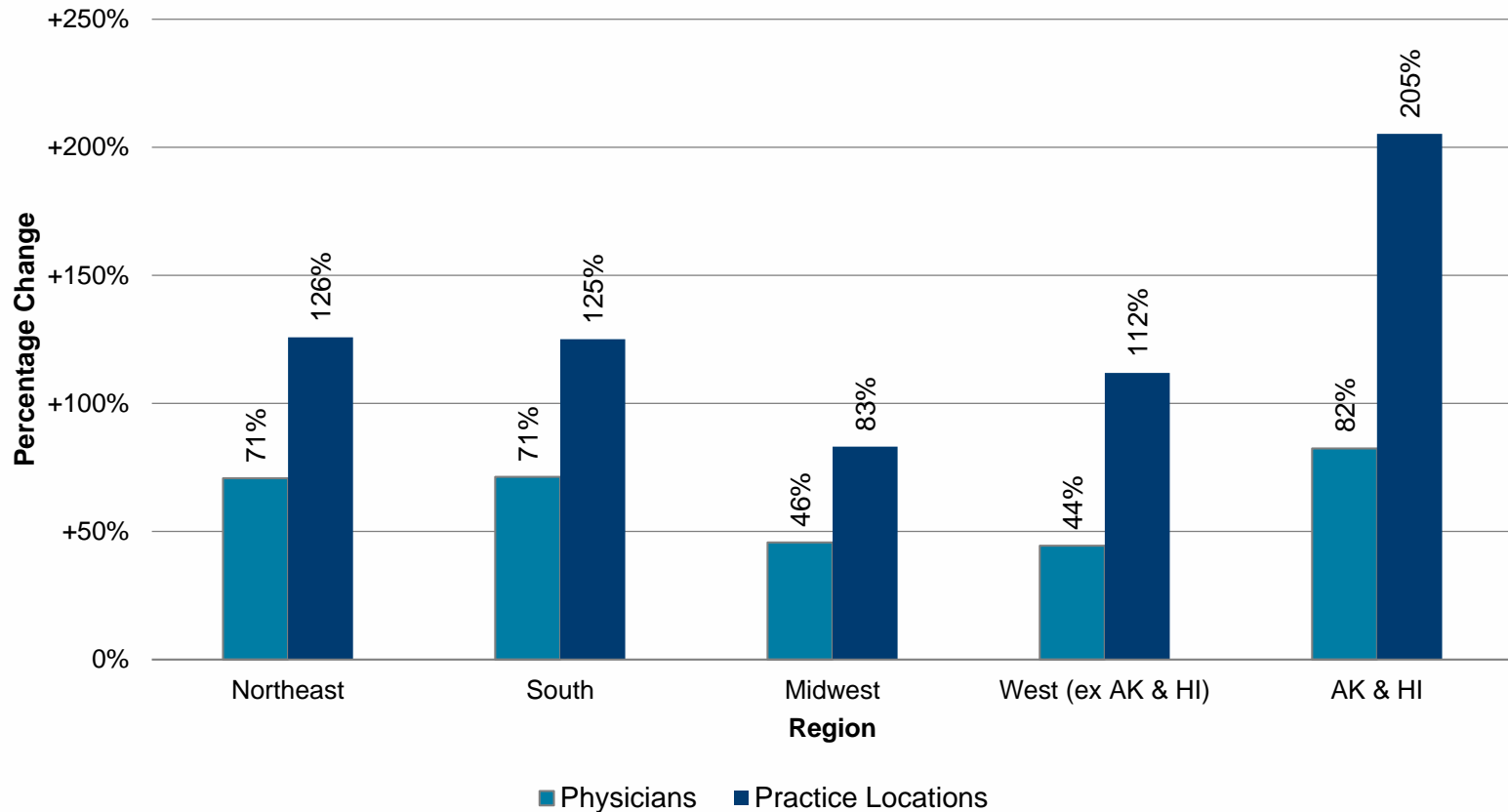
HOSPITAL-OWNED PRACTICES BY REGION



More than one-third of Midwest physician practices were hospital-owned in 2016. Rates of practice ownership increased in every region over the entire time period.

All Regions Have Seen Rapid Growth in Hospital Employment and Practice Ownership

PERCENT INCREASE IN NUMBER OF PHYSICIANS AND PRACTICES BETWEEN JULY 2012 AND JULY 2016



Avalere analysis of SK&A hospital/health system ownership of physician practice locations data with National Plan & Provider Enumeration System (NPPES) data on primary practice location by NPI

Impact of Increase in Physician Employment

The shift towards employment has significant implications for physicians, patients, and the health care system as a whole.

- For physicians, the trend brings challenges but can alleviate certain burdens of independent practice. Government and private payer payment policies increasingly favor integrated health systems and make it challenging for physician practices to remain independent.
- When physicians are employed by hospitals or health systems, they perform more services in a HOPD setting than independent physicians.
- The higher proportion of services performed in a HOPD setting increases both costs to the Medicare program and financial responsibility for patients.

How does the site of service delivery impact spending?

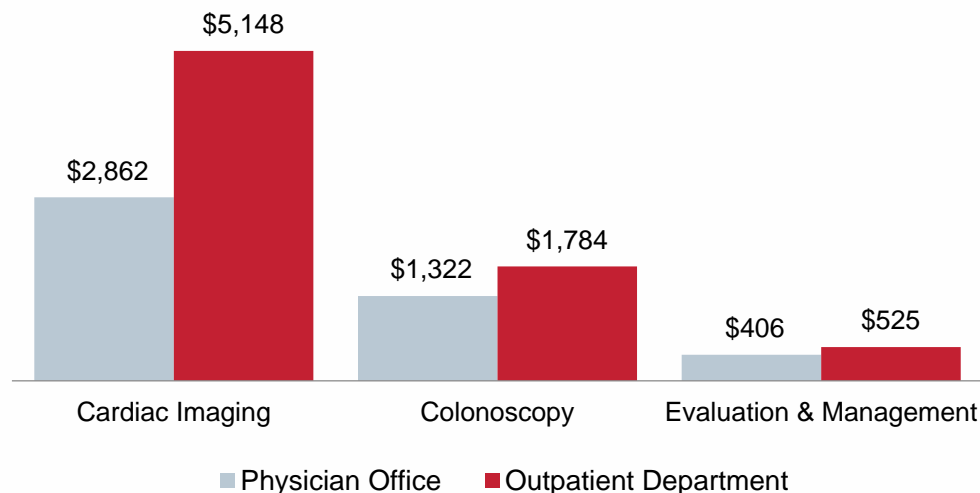
Medicare Payment Differentials Across Outpatient Settings of Care

In 2016, Avalere released a study in collaboration with PAI that documented the differential in Medicare payment for services routinely performed in hospital outpatient department (HOPD) and physician office settings.

This study underscores the impact that the ongoing shift towards hospital employment/hospital ownership of physician practices could have on spending, should this payment differential persist.

Risk-Adjusted Payment Differences Between Physician Office and Outpatient Department by Episode of Care

For the three types of services studied—cardiac imaging, colonoscopy, and evaluation and management services—Medicare pays more across an episode of care when patients receive services in a HOPD setting (even when it is in a stand-alone or “off-campus” building) than in a physician-owned office.



Data reflects 22-day episodes for cardiac imaging and colonoscopy and profile 2 for E&M. For detailed results and methodology please see complete paper.

Methodology

Methodology: Trends in Hospital Ownership of Physician Practices with Medicare-Billing Physicians

- Avalere used an SK&A¹ database that contains physician² and practice location information on hospital/health system ownership:
 - Each record in the database corresponds to a unique physician in a specific practice location
 - The database identifies each physician-practice location combination as “employed”—part of a hospital or health system-owned practice—or “independent”
 - These data include solo and single-location small practices as well as large, multi-specialty multi-location group practices
 - The dataset covers nine different points in time from July 2012 to July 2016 for each physician-practice location combination
 - SK&A develops the physician affiliation flag through conducting bi-annual phone surveys with individual practice locations

¹ SK&A is an organization that provides health care provider information and data solutions. <http://www.skainfo.com/about#ims>

² Physicians are defined as MDs and DOs and does not include nurse practitioners or physicians assistant

Methodology: Trends in Hospital Ownership of Physician Practices with Medicare-Billing Physicians

- Avalere linked the data from SK&A to the CMS National Plan & Provider Enumeration System (NPPES) by NPI³ to identify the primary address for the providers
 - Each record in the database corresponds to a unique physician in a specific practice location

³ NPI = National Provider Identifier

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