

BURDA ON HEALTHCARE

Beware the Vertically Integrated Employed Physician

By David Burda

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What's the first thing you ask your doctor when you go in for a visit? Why does my throat hurt? Why am I coughing so much? What happened to the old receptionist?

A better question might be: who do you work for?

I know that's a typical interrogation question you hear in a spy movie. But in today's healthcare system, the doctor's answer may tell you what's going to happen to you before you go home or are discharged.

A growing body of research suggests that doctors who work for hospitals, health systems or big medical practices as employees tend to order more tests and refer patients for other in-network care compared with independent doctors who work for themselves.

Why? Have you ever gone into a clothing store to buy a tie and walked out with a suit? Or took your car in for an oil change and had your radiator flushed and your tires rotated? It's called upselling, and it's as common



in healthcare as it is in any other industry because healthcare, after all, is a business.

And it's only going to get worse as more and more physicians go to work for others who put the bottom line ahead of what's best for the patient.

Let's do our usual lit review to show you that I'm not making this stuff up.

PANDEMIC DROVE JUMP IN PHYSICIAN EMPLOYMENT

In late June, the Physicians Advocacy Institute published a report that looked at whether the COVID-19 pandemic accelerated the acquisition of physician practices as many industry experts predicted. You can download the 37-page report, prepared for the PAI by Avalere Health, [here](#). The answer to the PAI's question was a resounding yes.

Here are a few highlights from the PAI report:

- Over the report's two-year study period, the number of physicians employed by hospitals or other corporate entities like health insurers and private equity firms rose nearly 13 percent to 423,800 by January 2021 from 375,400 in January 2019.
- The biggest percentage jump came after the onset of the pandemic during the last six months of 2020 with the number of employed physician rising 5.7 percent from July 2020 to January 2021.



- By January 2021, 69.3 percent of all physicians were employees of hospitals or other corporate entities, up from 62.2 percent in January 2019.

"The practice acquisition trend has potentially serious implications for competition and healthcare costs, which have been shown to increase with this type of marketplace consolidation," the PAI said.

MORE THAN HALF OF ALL DOCTORS WORK AS EMPLOYEES

The PAI's report mirrors a report released in early May by the American Medical Association. You can download the AMA's 18-page report [here](#). It's the latest in a series of biannual reports on physician practice arrangements published by the AMA since 2012, and they do a nice job tracking employment trends.

Here are a few highlights from the new AMA report:

- The percentage of doctors working in a private medical practice wholly owned by physicians dropped to 49.1 percent in 2020 from 54 percent in 2018. It's the first time that the percentage dropped below 50 percent. It was 60.1 percent in 2012.

- The percentage of doctors working in a medical practice owned in whole or in part by a hospital rose to 30.5 percent in 2020 from 26.7 percent in 2018. It was 23.4 percent in 2012.
- The percentage of doctors who were employees rose to 50.2 percent in 2020 from 47.4 percent in 2018. It was the first time that percentage crossed the 50 percent threshold.
- And in 2020, 4.4 percent of physicians worked in medical practices owned by private equity firms. It was the first time the AMA asked that question.

"There are several contributing factors to the ongoing shifts in practice size and ownership that include mergers and acquisitions, practice closures, physician job changes, and the different practice settings chosen by younger physicians compared to those of retiring physicians," the AMA said.

EMPLOYED DOCTORS LIKE TO ORDER MORE TESTS

So why is all this a big deal? It's a big deal because when you're an employee, someone else is calling the shots, even in medicine. Employers directly or indirectly influence the practice patterns of doctors.

That's what two recent studies in Health Affairs suggest.

The first, by researchers from Northeastern University, Boston University, and Harvard Pilgrim Health Care, found a positive correlation between physician employment by hospitals and ordering of inappropriate diagnostic imaging tests by doctors. You can download the study [here](#).

"Most patients who received an MRI referral by an employed physician obtained the procedure at the hospital where the referring physician was employed," the researchers said. "These results point to hospital-physician integration as a potential driver of low-value care."

The second, by researchers from the Rand Corp., Boston University and Baylor University, found that physicians ordered more diagnostic imaging tests and more lab work for their patients after a hospital or health system bought their practice. You can download the study [here](#).

"This study highlights how the growing trend of vertical integration, combined with differences in Medicare payment between hospitals and nonhospital providers, leads to higher Medicare spending," the researchers said.

Men's Warehouse and Jiffy Lube would be proud.



In a fee-for-service world, volume is king. As long as health plans and other payers reimburse doctors for piece work, hospitals and health systems will buy their practices and benefit financially from their overly zealous practice patterns as employees. That's what vertical integration is all about.

What would be even more interesting and something health services researchers should start studying is how physicians practice after they become employees of health plans or private equity firms. Insurers and PE firms make money by not spending money.

It's not strep throat. Your cough will go away on its own. Oh, and we replaced the receptionist with a chatbot.

Thanks for reading.

AUTHOR



Dave Burda began covering healthcare in 1983 and hasn't stopped since. Dave writes his own column, "Burda on Health," for us, contributes to the weekly 4Sight Health blog and manages our weekly e-newsletter, 4sight Friday. Dave believes that healthcare is a business like any other business, and customers—patients—are king. If you do what's right for patients, good business results will follow.

Dave's personnel experiences with the healthcare system both as a patient and family caregiver have shaped his point of view. It's also been shaped by covering the industry for 35 years as a reporter and editor. He worked at Modern Healthcare for 25 years, the last 11 as editor.

Prior to Modern Healthcare, he did stints at the American Medical Record Association (now AHIMA) and the American Hospital Association. After Modern Healthcare, he wrote a monthly column for Twin Cities Business explaining healthcare trends to a business audience, and he developed and executed content marketing plans for leading healthcare corporations as the editorial director for healthcare strategies at MSP Communications.

When he's not reading and writing about healthcare, Dave spends his time riding the trails of DuPage County, IL, on his bike, tending his vegetable garden and daydreaming about being a lobster fisherman in Maine. He lives in Wheaton, IL, with his lovely wife of 35 years and his three children, none of whom want to be journalists or lobster fishermen.

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