Provider consolidation: The role of Medicare policy

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Three types of consolidation

- Horizontal consolidation
  - Hospitals merge into systems
  - Physicians merge into bigger practices
- Vertical financial integration: hospitals employ physicians
- Vertical integration of provider functions and insurance risk
  - Providers taking on insurance risk
  - Insurers purchasing provider groups

Effects of hospital consolidation

- Most markets are highly consolidated
  - No expectation of material unwinding
  - Market power is part of our environment
- Consolidation can lead to higher payment rates
  - Merger efficiencies limited to merger of operations
  - No clear evidence of quality improvement
- Rates commercial insurers pay hospitals can vary by a factor of five for the same service
- On average, commercial rates are about 50 percent above costs, well above Medicare

Horizontal consolidation: Implications for Medicare

- Higher commercial rates can lead to higher hospital costs and larger losses on Medicare admissions
- Losses on Medicare admissions creates pressure to increase Medicare rates
  - Medicare rates still exceed marginal costs— no short-term access problems
  - Long-term concerns
- Medicare's administered prices insulate taxpayers and beneficiaries from market power

Vertical financial integration

- Hospitals buy physician practices
- Bill physician services as hospital outpatient (HOPD) services
- Medicare: Facility fees result in higher Medicare spending
- Commercial: Higher rates and facility fees
  - Facility fees partially explain the increase
  - Negotiated rates also appear to increase

Growth of hospital-based physician services reflects distortions in the payment system

- Market share shifted to hospitals (the higher-cost setting) from 2012 to 2015
  - 22% HOPD E&M growth, −1% in physician offices
  - 20% HOPD echocardiology growth, −16% phys. offices
  - 1% HOPD Nuclear cardiology growth, −25% phys. offices
- In 2015, Medicare paid hospitals $1.6 billion more for E&M visits than if hospitals were paid physician office rates
- Beneficiary cost sharing was $400 million higher

Preliminary data subject to change

Limits on Medicare facility fees

- Going forward, new off-campus HOPDs will be paid the same rates as free-standing physician offices
- On-campus practices continue to be paid facility fees
- Potential for gaming
- MedPAC has a standing recommendation to equalize rates for certain services across all sites

Integrating provider functions and insurance risk

- MA plans
  - Some MA plans integrate providers via a group model or a staff model
  - Some plans contract with providers at close to FFS rates
- ACOs
  - Integrating provider functions and some insurance risk
  - True risk limited to two-sided models

Effects of insurer-provider integration

- MA plan performance
  - HMOs have better process measure scores than FFS
  - HMO and FFS about equal on patient satisfaction
  - HMOs can reduce service use below FFS
  - MA plans still costs the taxpayer more than FFS
- ACOs
  - Improving quality
  - About break-even for the taxpayer
- Greater success in high-use markets

Policy question: Do we pay for structure or outcomes?

- Goal: Better coordination of care that leads to higher quality and lower cost
- Legal and financial integration may not always lead to clinical integration
- Generating savings is more difficult than it appears
  - Taxpayers spend 5 percent more on MA than FFS in 2016
  - ACOs are at about break-even
  - Potential for savings under a level the playing field

Possible policy responses

- Horizontal consolidation response: Do not follow commercial prices
- Vertical integration response: Site-neutral pricing
- Provider insurance integration response: Premium support with a level playing field?
- Other considerations: ACOs may be a way make physicians more price conscious

Possible discussion questions

- Should we pay for results or corporate structure?
- Should we continue to advance site neutral policies?
- Should our premium support framework provide equal support for all models?