School of Public Health

Vertical integration is shaping the future of U.S. health care

By Carl Dimitri

With over half of America's doctors now employed by large health systems rather than physician-owned practices, a team of Brown researchers is examining how this trend toward consolidation impacts health care costs, patient access and market competition.

The future of physician-owned practices is rapidly changing, with an increasing share of independent medical offices being acquired by hospitals or health care systems. Over the last decade alone, the number of physicians working for larger health care entities, rather than maintaining independent practices, has more than doubled (https://radiologybusiness.com/topics/healthcare-management/healthcare-economics/nearly-80-physicians-now-work-hospitals-or-other-corporate-entities-private-practice-dwindles).

Today, over half (https://www.fiercehealthcare.com/providers/docs-shift-larger-hospital-owned-practices-have-more-negotiation-power-payers-ama) of U.S. physicians are employed by such systems—a shift that is fundamentally changing how health care is practiced and delivered in the U.S.

A new study (https://pubmed.ncbi.nlm.nih.gov/39099735/) led by **Christopher Whaley**, associate professor of health services, policy and practice at Brown, examines this trend—called vertical integration—and its impacts on patients and providers, through the lens of cost, access to care and market competition.

More specifically, Whaley and his team focused on the way services are billed in a vertically integrated medical system. Through both Medicare and commercial insurance, for example, services performed in hospitals are reimbursed at higher rates—often double—compared to the same services carried out in a physician's office, ambulatory surgery center or independent diagnostic lab.

"We've heard anecdotal evidence that vertical integration pressures physicians to change referral patterns, steering patients away from local facilities toward more expensive hospital settings, to essentially arbitrage that double payment rate and increase revenues," Whaley said. "That's really the type of behavior we wanted to look at in this study."

Professor Christopher Whaley (left) speaks at the launch of the Center for Advancing Health Policy through Research in 2023.

Examining Medicare data from 2013 to 2019, Whaley and his team focused on arthroscopies and colonoscopies, which are common among the Medicare population and are typically performed in hospital outpatient departments (HOPDs) and ambulatory surgery centers (ASCS). The researchers describe ASCs as "freestanding centers that are often independent from hospitals"; they are generally less costly and "have equivalent or higher-quality care" compared to HOPDs.

Importantly, the Medicare reimbursement rate for ASCs is significantly lower than it is for HOPDs. For a colonoscopy with a biopsy, for example, Medicare pays ASCs $805 while HOPDs are reimbursed $1,371 (https://www.medicare.gov/procedure-price-lookup/) for the same procedure.

The researchers calculate that if all physicians in the U.S. were to fully integrate into larger health systems, it would lead to more than $315M in increased Medicare spending and more than $63M in increased costs for patients for these two procedures alone.

Additionally, physician-hospital integration and the resulting changes in referral patterns, may negatively impact access to care. When a patient is directed to a HOPD by an integrated physician's office, they often have to travel further, bypassing nearby facilities that may be better-suited to their needs. "We call this being 'rerouted back to the mothership,'" Whaley said. "This leads to longer travel times and potentially reduces access to care."

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> **CHRISTOPHER WHALEY** — Associate professor of health services, policy and practice

Whaley and his team also examined the impact of consolidation on care quality and coordination. "Surprisingly, we did not find improvements," he said. "In some cases, care quality and coordination actually worsened."

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Most studies (https://onlinelibrary.wiley.com/doi/pdf/10.1111/1756-2171.12270) to date have focused on mergers between hospitals and their impact on market consolidation. Whaley's emphasis on the integration of physician offices into larger health systems highlights potential consolidation trends that may escape the attention of federal and state regulators.

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Whaley suggests that regulators should consider the cumulative impact of these smaller acquisitions. “While the first or second acquisition might fall outside regulatory scrutiny, reaching a certain threshold of consolidation could alter market dynamics significantly,” he said. “At that point, even smaller acquisitions might warrant more oversight.”

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