

## Trends in Physician Practice Settings: Shift from Independent Private Practice to Hospital-centric

Some still consider the current US healthcare system to be a “cottage industry”, lacking in standardization and integration of care, which adversely affects the quality of medical care provided and acts as a barrier to healthcare reform initiatives (e.g., system-wide technology adoption).<sup>1</sup> The current shift in physician medical care, from independent physician and group medical practices to hospital employment of physicians and acquisition of physician group practices, is considered, by some, as a means of correcting the fragmented nature of the healthcare industry. This trend, however, is not entirely unprecedented. A 2007 study by the Center for Studying Health System Change, for example, found a significant decrease in the number of independent and two-physician practices from 1996/1997 to 2004/2005.<sup>2</sup> Many experts are hopeful that this growing trend in physician-hospital alignment initiatives will positively benefit healthcare delivery practices in the future.

A key driver of the increasing trend in physician employment and practice acquisition by hospitals is the downshift in reimbursement for physicians in general, and certain specialties in particular. The 21.2% cut to the Medicare physician fee schedule conversion factor, scheduled to take effect on March 1, 2010, and the additional bundling of specialty procedure codes (e.g., cardiology, radiology) are of major concern for physicians in private practice, as it is often more difficult for physician group practices to absorb losses in profitability and practice overhead costs than hospitals.<sup>3</sup> Hospitals are also eager to acquire physician practices in an effort to provide integrated “one-stop service” for patients, reduce market competition, firm up referral sources, and benefit from the higher revenues garnered by many specialties, such as gastroenterology, neurosurgery, and cardiology, among others.<sup>4</sup>

These increases in hospital acquisition of physicians and group practices will likely gain momentum as reimbursement continues to downshift for physicians and discussion regarding new initiatives in healthcare reform continue. However, the success of physician-

hospital alignment is not without its concerns, following the failure of physician employment initiatives in the 1990s.<sup>5</sup> As the mode of US healthcare delivery continues to evolve, driven by changes in reimbursement and regulatory reform, the success of physician-hospital relationships, and their effect on access and delivery of healthcare services, is still uncertain.

- <sup>1</sup> “Cottage Industry to Postindustrial Care—The Revolution in Health Care Delivery”, by Stephen J. Swensen et al., (January 20, 2010) *The New England Journal of Medicine*, Vol. e12, p. 1-2
- <sup>2</sup> “Physicians Moving to Mid-Sized, Single-Specialty Practices”, by Allison Liebhaber and Joy M. Grossman, (August 2007), *Community Tracking Study*, Center for Studying Health System Change, No. 18, p. 1
- <sup>3</sup> “ACC’s Lawsuit Against Medicare’s Physician Fee Cuts Dropped”, by Renee Tomcanin, (January 19, 2010), *Becker’s Hospital Review*, <http://www.hospitalreviewmagazine.com/news-and-analysis/legal-and-regulatory/accs-lawsuit-against-medicare-physician-fee-cuts-dropped.html> (Accessed 2/1/10); “American College of Cardiology sues HHS Secretary over Physician Payment Cuts”, by Chelsey Ledue (January 4, 2010), *Healthcare Finance News*, <http://www.healthcarefinancenews.com/news/american-college-cardiology-sues-hhs-secretary-over-physician-payment-cuts> (Accessed 2/1/10)
- <sup>4</sup> “Something Old is New Again: Structuring Physician Practice Acquisitions”, by Roger Strode and Carsten Beith, *Healthcare Financial Management Magazine*, July 2009, [http://www.hfma.org/hfm/2009archives/month07/HFM0709Feature\\_Strode.htm](http://www.hfma.org/hfm/2009archives/month07/HFM0709Feature_Strode.htm) (Accessed 2/1/10); “Scott Becker discusses 4 Key Trends in the Healthcare Industry”, by Scott Becker, *Becker’s ASC Review*, January 27, 2010, <http://www.beckersasc.com/news-analysis-asc/business-financial-benchmarking/scott-becker-discusses-4-key-trends-in-the-healthcare-industry.html> (Accessed 2/1/10); “Alignment Trends: Forces Driving Hospital and Physician Integration”, *Outpatient 100*, Executive Management Conference, 2009, [http://www.charishealthcare.com/op100/images/OP1002009\\_Trends.pdf](http://www.charishealthcare.com/op100/images/OP1002009_Trends.pdf) (Accessed 2/1/10)
- <sup>5</sup> “Physician Employment 2.0”, by Aaron DeBoer, Ryan Strattenfield, and Anita N. Iyenger, *H&HN Magazine*, (September 21, 2009) [http://www.hhnmag.com/hhnmag\\_app/jsp/articledisplay.jsp?dcrp\\_ath=HHNMAG/Article/data/09SEP2009/090922HHN\\_Online\\_DeBoer&domain=HHNMAG](http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?dcrp_ath=HHNMAG/Article/data/09SEP2009/090922HHN_Online_DeBoer&domain=HHNMAG), (Accessed 2/1/10)



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