

Hospital mergers and acquisitions leading to increased patient costs

By [Sarah Yang](#), UC Berkeley Media Relations | October 21, 2014



A new study has found that patient costs are higher in hospital-owned physician groups compared with physician-owned organizations. (iStockphoto)

BERKELEY —The trend of hospitals consolidating medical groups and physician practices in an effort to improve the coordination of patient care is backfiring and increasing the cost of patient care, according to a new study led by a UC Berkeley health policy expert.

The counterintuitive findings, published today (Tuesday, Oct. 21) in the *Journal of the American Medical Association*, come as a growing number of local hospitals and large, multi-hospital systems in this country are acquiring physician groups and medical practices.

“This consolidation is meant to better coordinate care and to have a stronger bargaining position with insurance plans,” said study lead author James Robinson, professor and head of health policy and management at UC Berkeley’s School of Public Health. “The movement also aligns with the goals of the Affordable Care Act, since physicians and hospitals working together in ‘accountable care organizations’ can provide care better than the traditional fee-for-service and solo practice models. The intent of consolidation is to reduce costs and improve quality, but the problem with all this is that hospitals are very expensive and complex organizations, and they are not known for their efficiency and low prices.”

Robinson teamed up with study co-author Kelly Miller, program analyst at Integrated Healthcare Association, a non-profit organization that promotes healthcare quality improvement, accountability and affordability in California.

The researchers analyzed four years of data, from 2009 to 2012, on 158 major medical groups and 4.5 million patients in California. Groups were put into three categories: owned by physicians, owned by a local hospital or hospital system, or owned by a large hospital system that spans multiple geographic markets in the state.

The measure of costs included physician visits, inpatient hospital admissions, outpatient surgery and diagnostic procedures, drugs, and all other forms of medical care except for mental health services. (The researchers did not have data on mental health services since they are paid for separately.)

After controlling for such factors as the mix of severely ill patients and geographic differences in cost, the researchers found that per patient expenditures were 19.8 percent higher for physician groups in multi-hospital systems compared with physician-owned organizations. Groups owned by local hospitals were better, but per patient costs still ran 10.3 percent higher compared with physician-owned groups.

Why would consolidation lead to increased costs? It could be that once a medical group has been acquired, physicians in those groups are expected to admit their patients to the high-priced hospital, Robinson said.

“Hospital-owned medical groups usually are expected to conduct ambulatory surgery and diagnostic procedures in the outpatient departments of their parent hospital, but hospital outpatient departments are much more costly and charge much higher prices than freestanding, non-hospital ambulatory centers,” he said.

Robinson said that public policy should not encourage mergers and acquisitions as a means of promoting collaboration. Instead, he said, policymakers should consider supporting the use of bundled payments for hospitals and physicians to improve coordination of care.

“Hospitals are an essential part of the health care system, but they should not be the center of the delivery system,” said Robinson. “Rather, physician-led organizations based in ambulatory and community settings are likely to be more efficient and provide cheaper care.”

The study authors noted that their findings are limited to California, and that further studies should be done using data from other states.

“Nevertheless, these findings are important since California is the nation’s leader in terms of having physicians participate in large medical groups that already perform the functions ascribed to ‘accountable care organizations’ by the Obama administration,” said Robinson.

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