FAQs on Consolidation

What is consolidation?

Consolidation is an umbrella term for several types of mergers and acquisitions among hospitals, payers, private practices, and other types of clinical service providers. The term horizontal consolidation is used to describe the mergers of hospitals with other hospitals or mergers of physician groups with other physician groups in the same or similar specialty, and the term vertical consolidation is used to describe the merging of hospitals with physician groups, ambulatory surgical centers, rehab centers, ancillary services, or other health care service providers.[1]

Why is consolidation on the rise?

From 2005-2017, the percentage of all hospitals that were part of a larger health system increased by 13%.[2] *As the share of U.S. gross domestic product (GDP) attributed to health care continues to rise—now at approximately 19.7%*[3]*—the opportunities for large health systems to capitalize on this trend by creating opportunities for greater market power and leverage in negotiations with payers is also growing.*

Though consolidation is often justified based on claims of efficiency and care coordination, data suggests this is rarely achieved in the hospital setting.[4] *Ideally, consolidation by health systems or physician groups aligning with payers may lead to greater participation in value-based care models, but the uptake of this varies greatly by region. Finally, while the impacts of the COVID-19 pandemic on the acceleration of consolidation remain to be seen, it is safe to anticipate that this trend will continue.*

As a counterbalance to health system consolidation, practice and payer consolidation is also increasing. For example, from 2013-2015 one study found a 5% decrease in the proportion of physicians in groups of nine or fewer while the proportion of physicians in groups larger than 100 physicians increased by a similar percentage.[5] *Among payers, consolidation has been increasing as well. Examples of this are well-publicized, with the*

[1] https://scholar.harvard.edu/files/cutler/files/jsc130008_hospitals_market_share_and_consolidation.pdf
[2] https://www.kff.org/health-costs/issue-brief/what-we-know-about-provider-consolidation/
[3] https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2020.00094; https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet
[4] https://www.aha.org/system/files/2018-04/Hospital-Merger-Full-Report-FINAL-1.pdf
[5] https://www.healthaffairs.org/doi/10.1377/hlthaff.2016.0130

attempted merger between Cigna and Humana[6] and the successful merger of CVS and Aetna.[7] Vertically, the consolidation within health systems through integrated payer-provider networks like UPMC[8] and the acquisition of physician practices by payer-aligned groups such as Optum[9] is also shifting the landscape of health care delivery.

What is the role of private equity in physician practice acquisition?

Private equity firms have also capitalized on the opportunities presented by the upward trends in domestic health care expenditures by identifying lucrative specialties, such as orthopaedics, and acquiring physician practices. This type of horizontal integration allows private equity firms to bring their business acumen to physician-led practices and decrease costs through the use of improved technology and other economies of scale. However, private equity firms typically view the acquisition of physician practices as short-term investments, and this often leads to increasing profit margins through layoffs and by raising prices.[10] In addition, the acquisition model of an immediate financial gain followed by a permanent reduction of compensation is a benefit to physicians close to retirement age but can create a long-term disadvantage to younger physicians. As a result, the long-term impacts of private equity on physician practices can range from consolidation and sale to a secondary entity to eventual dissolution of entire practices. The residual impacts on access to care in these scenarios could be devastating, particularly in rural and other underserved areas.

What are the impacts of consolidation on price and quality of care?

While entities that are consolidating will tout the advantages of efficiency and care coordination, data suggests these results are rarely achieved. But in virtually all cases the price of care in the market increases with consolidation and the patient experience is often compromised. According to various studies, the prices private insurers pay for services performed in consolidated hospital systems increases anywhere from 6-54%, depending on multiple factors.[11] Hospital consolidation can impact care in both negative and positive ways. Examples of positive improvements resulting from hospital mergers or consolidation include upgrading to new technology or implementing streamlined

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[6] https://www.axios.com/investors-itching-to-see-a-cigna-humana-deal-1513303203-1361e5eb-0a8c-4e46-b6a3-1a8d8dae4f17.html
[7] https://www.modernhealthcare.com/mergers-acquisitions/federal-judge-signs-cvs-aetna-merger-after-post-deal-review
[8] https://journals.sagepub.com/doi/full/10.1177/0046958020976246
[9] https://www.bloomberg.com/news/articles/2021-03-05/unitedhealth-s-deal-machine-scoops-up-covid-hit-doctor-groups
[10] https://www.aaos.org/aaosnow/2021/mar/managing/managing05/
[11] https://www.kff.org/health-costs/issue-brief/what-we-know-about-provider-consolidation/

processes which could theoretically improve clinical and nonclinical processes and quality of care. However, research published in the New England Journal of Medicine examining the impacts found the effects of hospital mergers to be inconclusive when looking at performance on clinical-process measures.[12] Moreover, this study found a decline in performance of post-consolidation hospitals on the measures of patient experience.

Among physician practices, a JAMA study presented evidence of increased prices paid for evaluation and management (E/M) visits in highly concentrated markets of physician practices compared to lower prices paid by commercial insurers for the same CPT codes in less concentrated markets.[13] Meanwhile, consolidation of insurers has led to increased premiums while hospital prices tend to decrease in concentrated markets.[14] Research on the impacts of these types of mergers on quality is limited.

How does consolidation impact the practice of orthopaedic surgery?

The positive aspects of consolidation mentioned above—including the otherwise less accessible availability of the technology and management platforms required to meet the demands of the shift to value-based care—are a primary factor driving the shift from independently-owned orthopaedic practices to hospital-owned or private equity acquired practices. Additional positive impacts include better care coordination and increased purchasing power for surgical supplies and other supply chain needs.

On the other hand, the consolidation of practices and integration with hospital systems can lead to increased prices for common orthopaedic procedures and decrease competition and opportunities among independent practices in the same market. For example, the cost for knee replacement and lumbar spine fusion were approximately 30% higher in concentrated markets versus competitive markets.[15] A recently published Health Affairs study found that hospital or health system ownership of physician practices were associated with 0.8% lower income than independent physician income on average. However, the study also found that this vertical integration was associated with a 2.1% increase in income for employed surgical specialists when compared to their nonsurgical colleagues who saw a 2.4% decrease in income.[16]

How does practice consolidation impact orthopaedic surgery?

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[12] https://www.nejm.org/doi/full/10.1056/NEJMsa1901383
[13] https://jamanetwork.com/journals/jama/fullarticle/1917436
[14] https://docs.house.gov/meetings/IF/IF02/20180214/106855/HHRG-115-IF02-Wstate-DafnyL-20180214.pdf
[15] JC Robinson. Hospital Market Concentration, Pricing, and Profitability In Orthopedic Surgery and Interventional Cardiology. Am J Managed Care 2011; 17(6):e241-e248
[16] https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2021.01007?journalCode=hlthaff

Beyond the impact of hospital consolidation, it is important to consider the role that private practice consolidation also plays in orthopaedic surgery. According to research published in JAMA, private equity firms acquired 355 physician practices from 2013-2016.[17] *While orthopaedic surgeons and their practices accounted for a slim percentage of the total acquisitions during that time, more recent data suggests that the pace of this is increasing. In 2020, 49 private equity transactions occurred in orthopaedics. These include deals to deliver health care services at locations including ambulatory surgical centers as well as orthopaedic urgent care centers.*[18] *A working paper published by the Federal Trade Commission on the effects of a merger of six orthopaedic practices found that while prices rose for some commercial payors, the increases were not the same across all payors and plans.*[19]

What is the role of the Federal Trade Commission and applicable antitrust laws?

The Federal Trade Commission (FTC) is charged with promoting competition and protecting consumers. In January 2021, the FTC announced the initiation of a study examining the effects of physician group and healthcare facility consolidation that occurred from 2015-2020. The study ordered six major commercial health insurers to disclose patient level data from 15 states to determine the impact that physician practice mergers and hospital acquisitions of physician practices has had on competition and the functioning of healthcare markets.[20] *Findings in this study are expected to affect how the FTC views consolidation in healthcare in the future, and how antitrust laws might be rewritten or interpreted.*

Federal antitrust laws are designed to protect consumers from the effects of anticompetitive behavior. They function by prohibiting several types of anticompetitive activity across industries, including healthcare. These include agreements between competitors that can limit competition, increase price, or crowd out other businesses from entering the market; as well as attaining monopolization of a market by excluding competitors or preventing new entry by unreasonable methods.[21]

[17] Gondi S, Song Z. Potential Implications of Private Equity Investments in Health Care Delivery. *JAMA*. 2019;321(11):1047–1048. doi:10.1001/jama.2019.1077

[18] Vector Medical Group, "Private Equity Driving Consolidation Across Orthopedic Healthcare: Q&A with Dana Jacoby and Gary Herschman" https://www.ebglaw.com/insights/gary-herschman-discusses-private-equity-driving-consolidation-across-orthopedic-healthcare-in-qa-with-dana-jacoby/

[19] https://www.ftc.gov/system/files/documents/reports/price-effects-merger-evidence-physicians-market/working_paper_333.pdf

[20] https://www.ftc.gov/news-events/press-releases/2021/01/ftc-study-impact-physician-group-healthcare-facility-mergers

[21] https://www.ftc.gov/enforcement/anticompetitive-practice

What is the outlook on consolidation?

While the pandemic has had an influence on the market factors that impact the pace of the consolidation of physician practices and hospitals, this is likely to shift yet again when the health care system enters a post-COVID era. Further study and evaluation will be required to understand the real world impact on surgeons, patients and other health care professionals going forward. The results of the FTC study may also impact future legislation and regulation of the healthcare market. AAOS continues to monitor the effects of consolidation and its impact on orthopaedic surgeons' and their patients.