BERKELEY CENTER
FOR HEALTH TECHNOLOGY

Physician-Hospital Consolidation: The Good, the Bad, and the Solution

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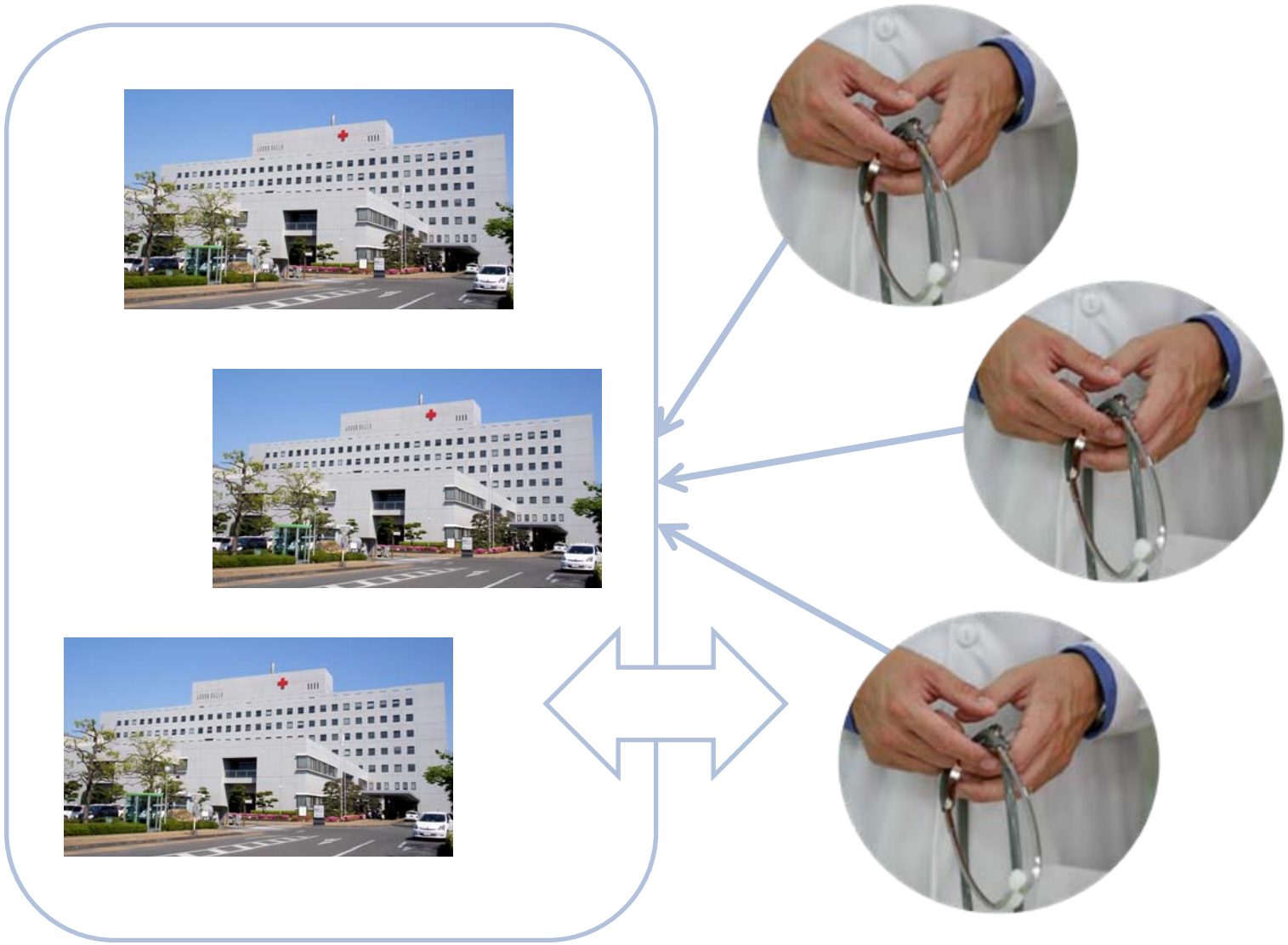
What are the **virtues** of consolidation?

Closer alignment between **physicians** and **hospitals** offers great potential **advantages**

- Better scheduling and use of inpatient capacity
- Better collaboration on quality and safety
- Better discharge planning; shorter LOS
- Better supply chain purchasing
- Less duplication of ambulatory services
- Shift from bed-focus to population-focus

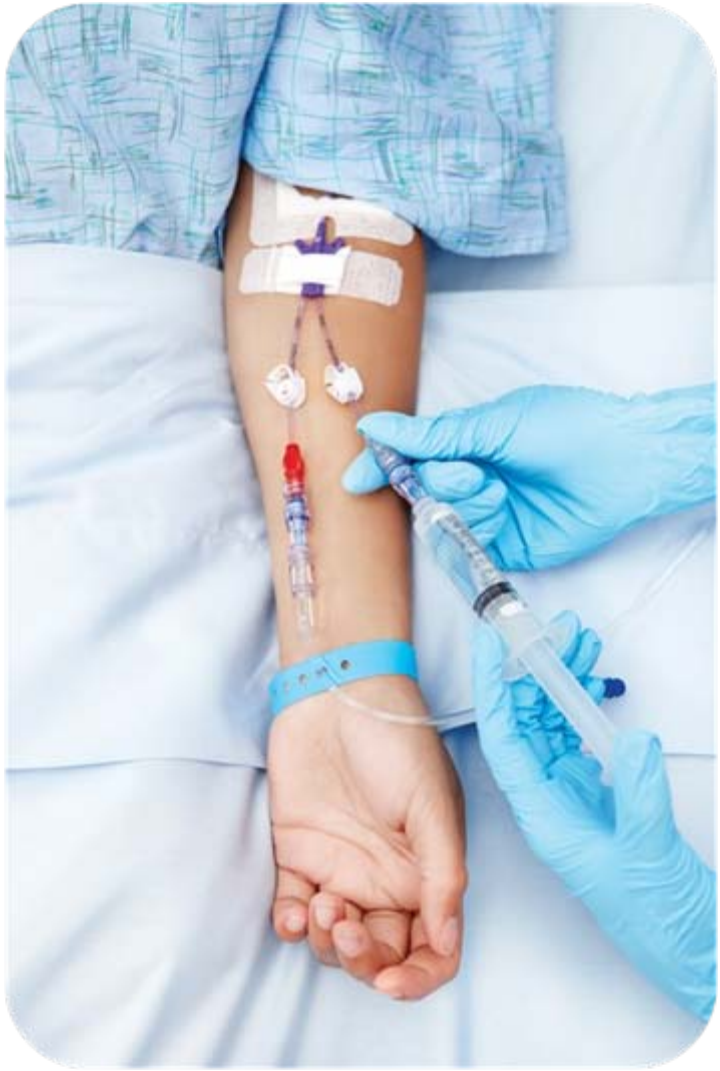
Alignment is most obviously accomplished by **organizational merger** and **physician employment**



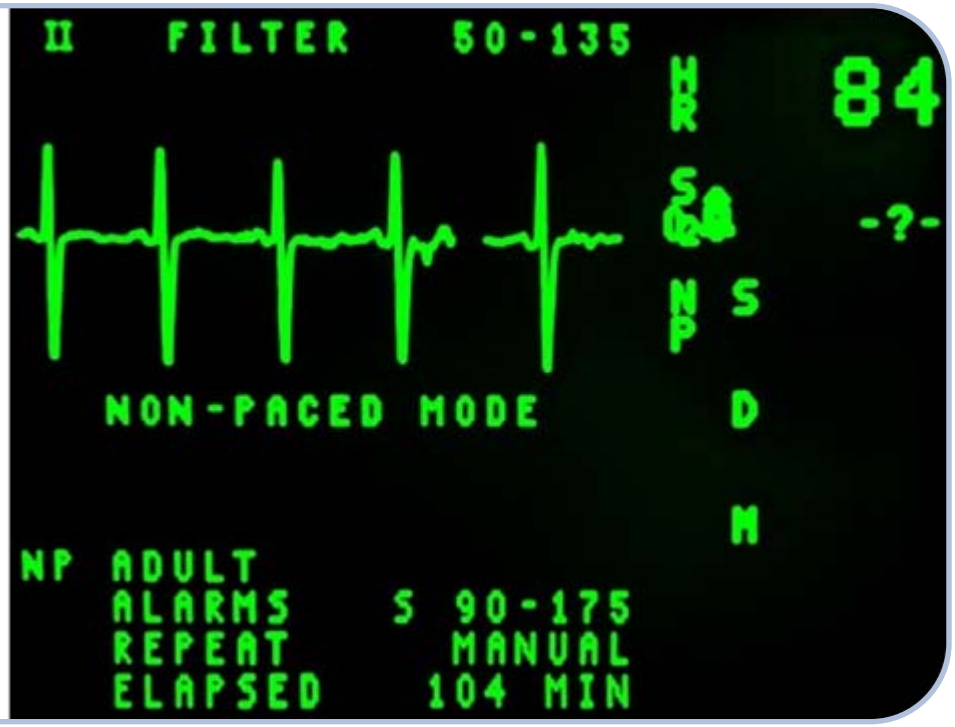
What are the **vices** of consolidation?

Physician-hospital consolidation…

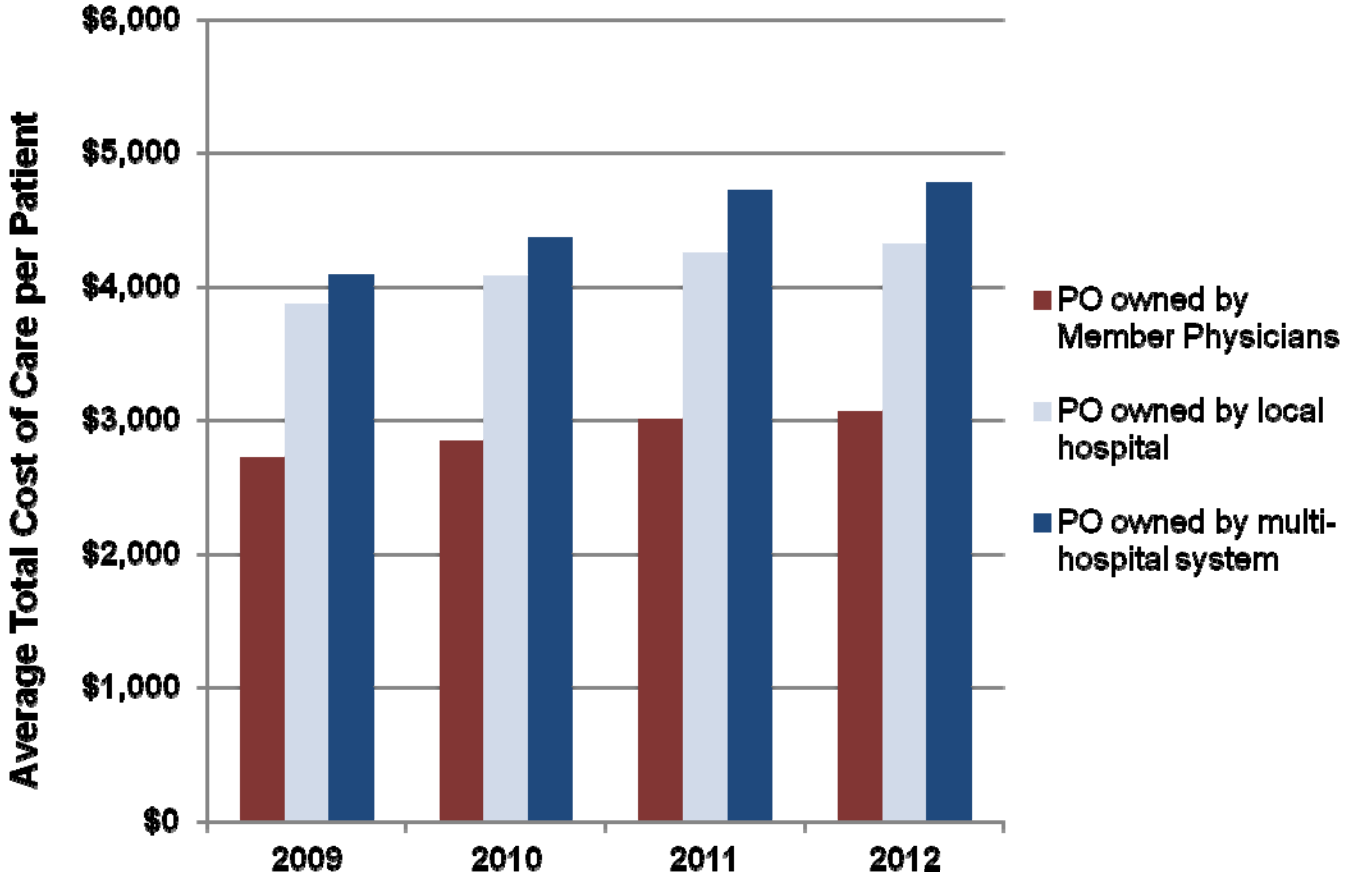
- sometimes falls short of the promise of efficiency
- can create higher prices than competitive markets
- creates large integrated delivery systems which can be complex, slow-moving, defensive, and costly
- may stifle innovation which often occurs in smaller, newer organizations



What do the **data** say?



Total Cost of Care per Patient in Physician Organizations in California



JC Robinson, K Miller. Total Expenditures per Patient in Hospital-Owned and Physician-Owned Physician Organizations in California. JAMA 2014; 312(16):1663-69

What are possible **solutions**?

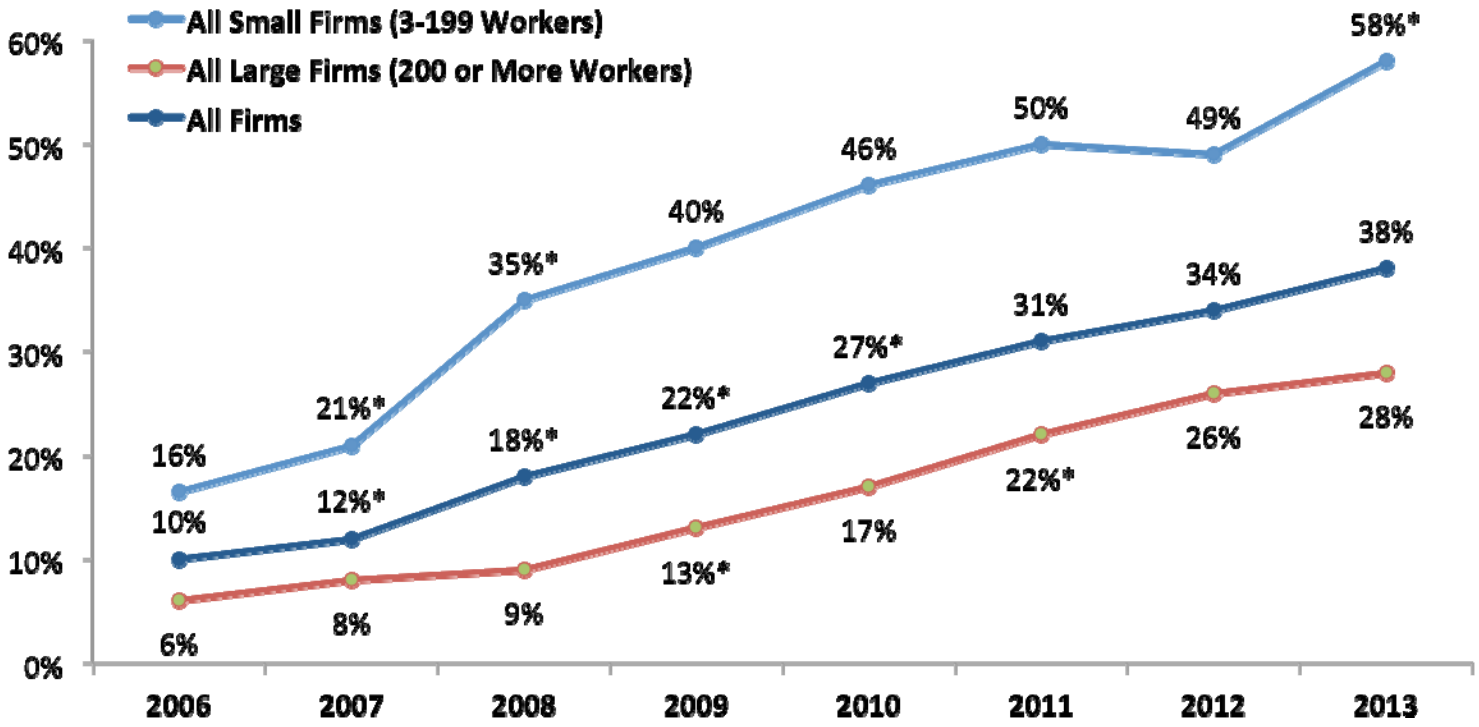
High deductible health plans?

Narrow networks?

Reference pricing?

Vivity? ACO?

Growth of High Deductible Health Plans in the Employment-based Insurance Market



Percentage of Covered Workers Enrolled in a Plan with a Deductible of $1,000 or More for Single Coverage

High Deductible Health Plans in California's Health Insurance Exchange

Metal Level	Subsidy Eligible	Unsubsidized	Total
Bronze	24%	36%	26%
Silver	66%	30%	62%
Gold	5%	13%	6%
Platinum	4%	14%	5%
Total Enrollment	1,222,320	173,609	1,395,929

Source: Covered California enrollment, 10/1/13 – 3/31/14.
Data includes individuals who finished applications and selected plans through April 15, 2014.

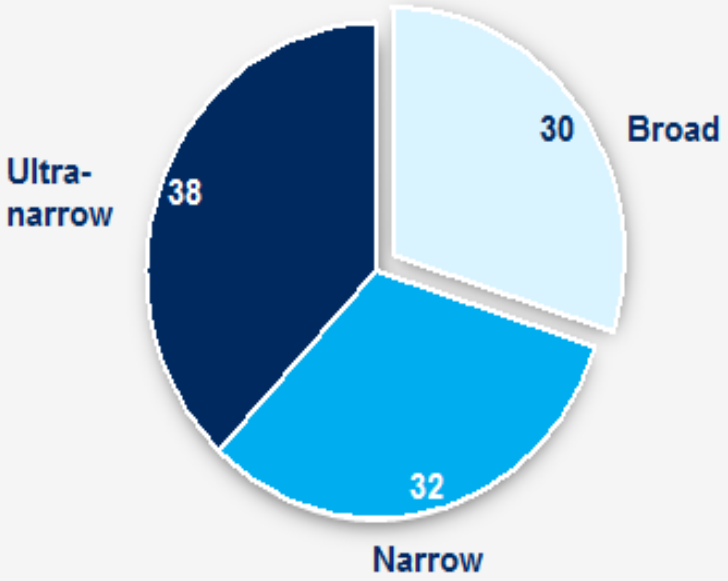
National Prevalence of Narrow Networks

EXHIBIT 1

70 percent of hospital networks on exchanges are narrow or ultra-narrow

Distribution of networks by network breadth[1]

2014 individual exchange – Percent of analyzed silver networks (n = 120[2])



1 Broad networks: less than 30% of largest 20 hospitals by number of beds are not participating, Narrow networks: 30-69% of largest 20 hospitals are not participating, Ultra-narrow networks: at least 70% of largest 20 hospitals are not participating

2 Networks offered in silver in Atlanta, Bridgeport, Dallas, Nashville, Houston, Salt Lake City, Miami, Tampa, Louisville, Indianapolis, St. Louis, Los Angeles, San Jose, Pittsburgh, Denver, Philadelphia, Seattle, Chicago, Washington D.C., and Portland, ME

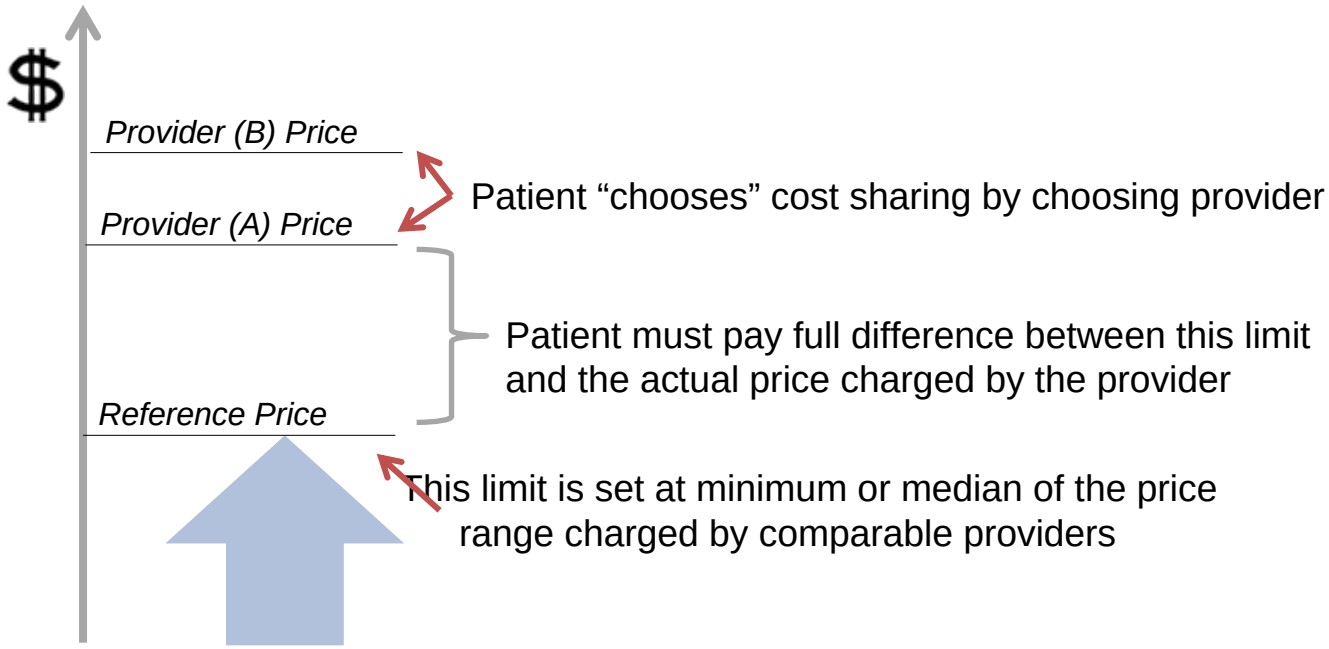
SOURCE: McKinsey Center for U.S. Health System Reform/McKinsey Advanced Healthcare Analytics analysis of publicly availablerate filings and carrier information; AHA database

Data as of 11.15.2013

McKinsey & Company

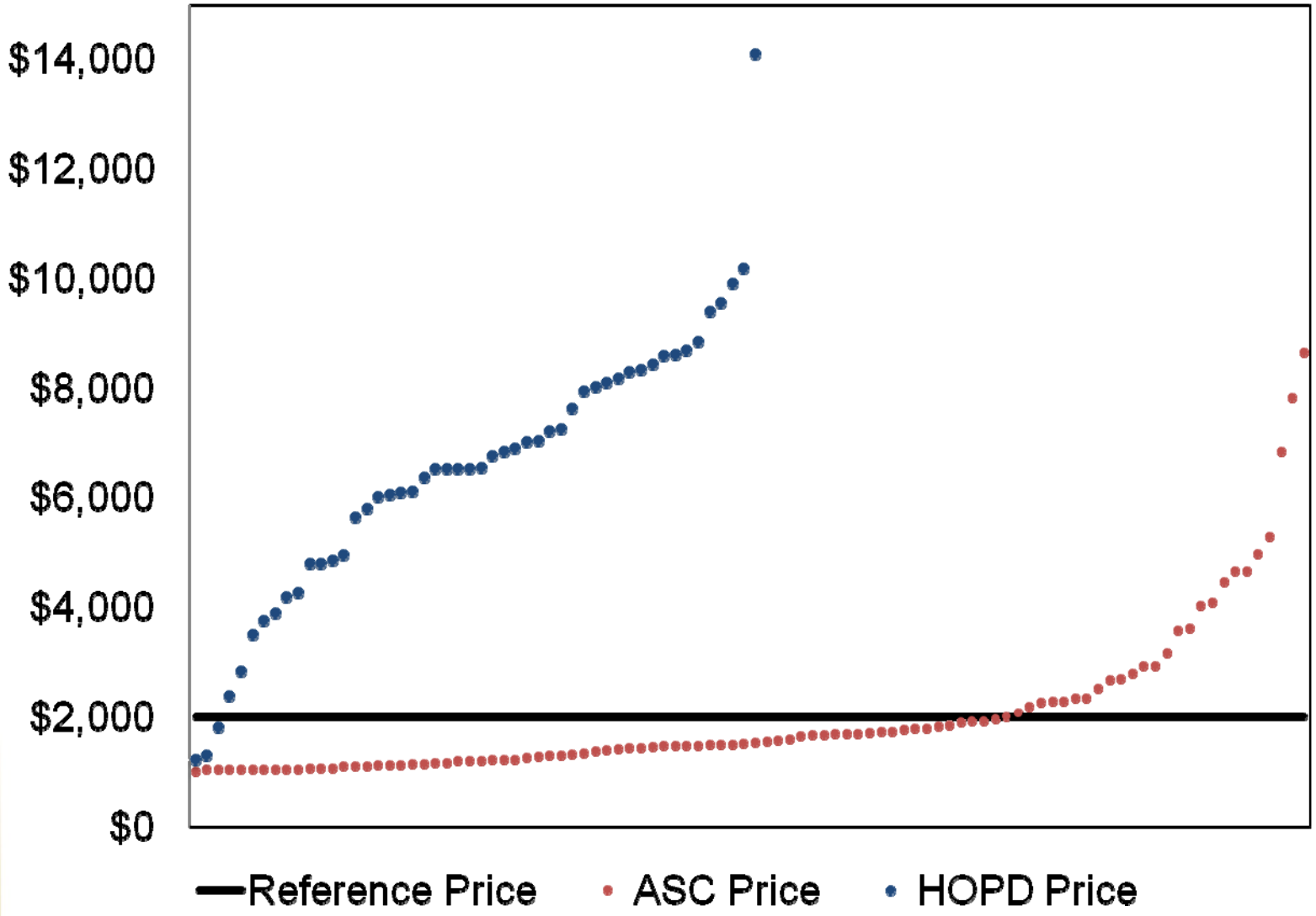
An explanation: **Reference Based Benefits (RBB)**

- Sponsor establishes a *maximum contribution*—**reference price**—it will make towards paying for a particular service or product

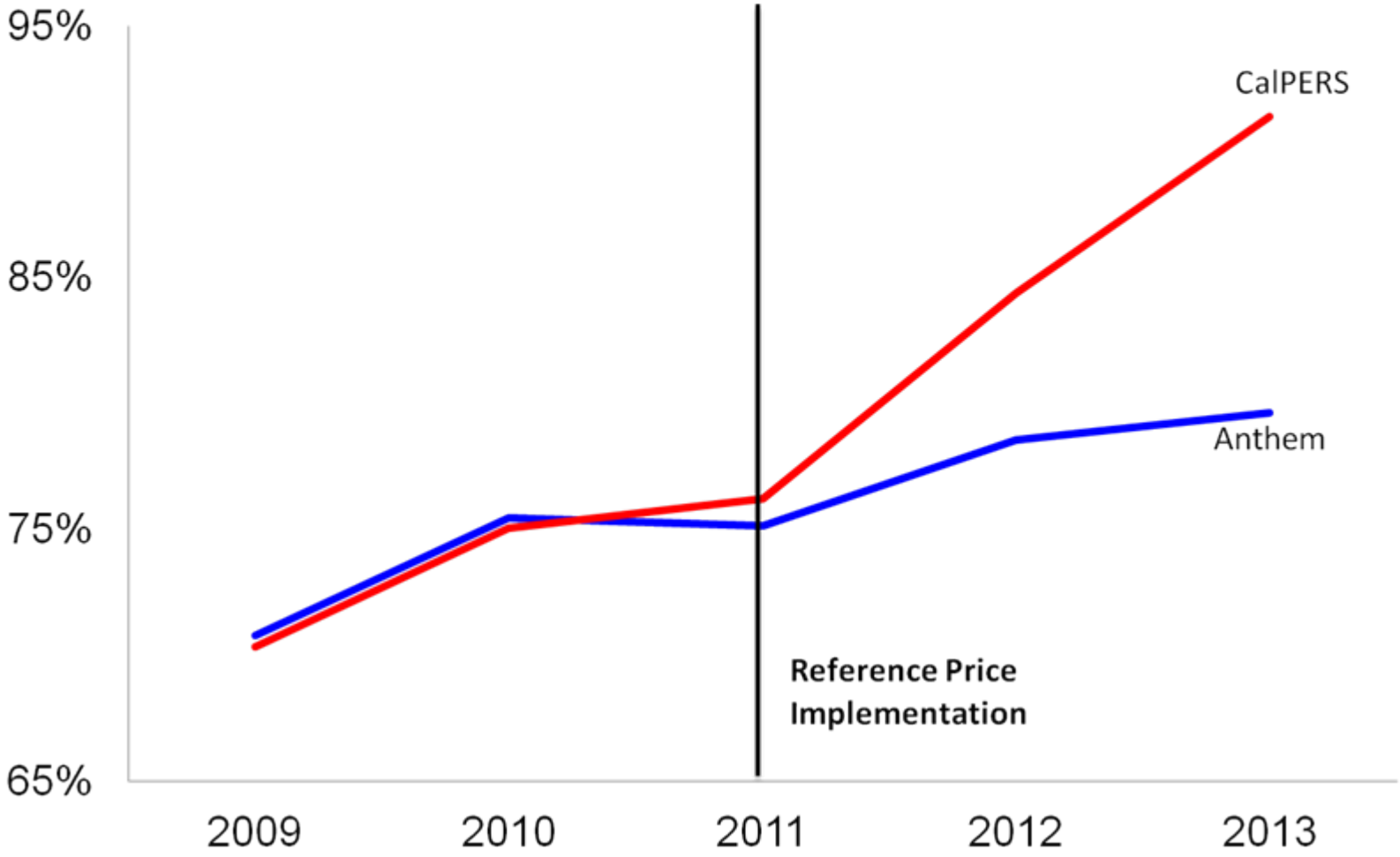


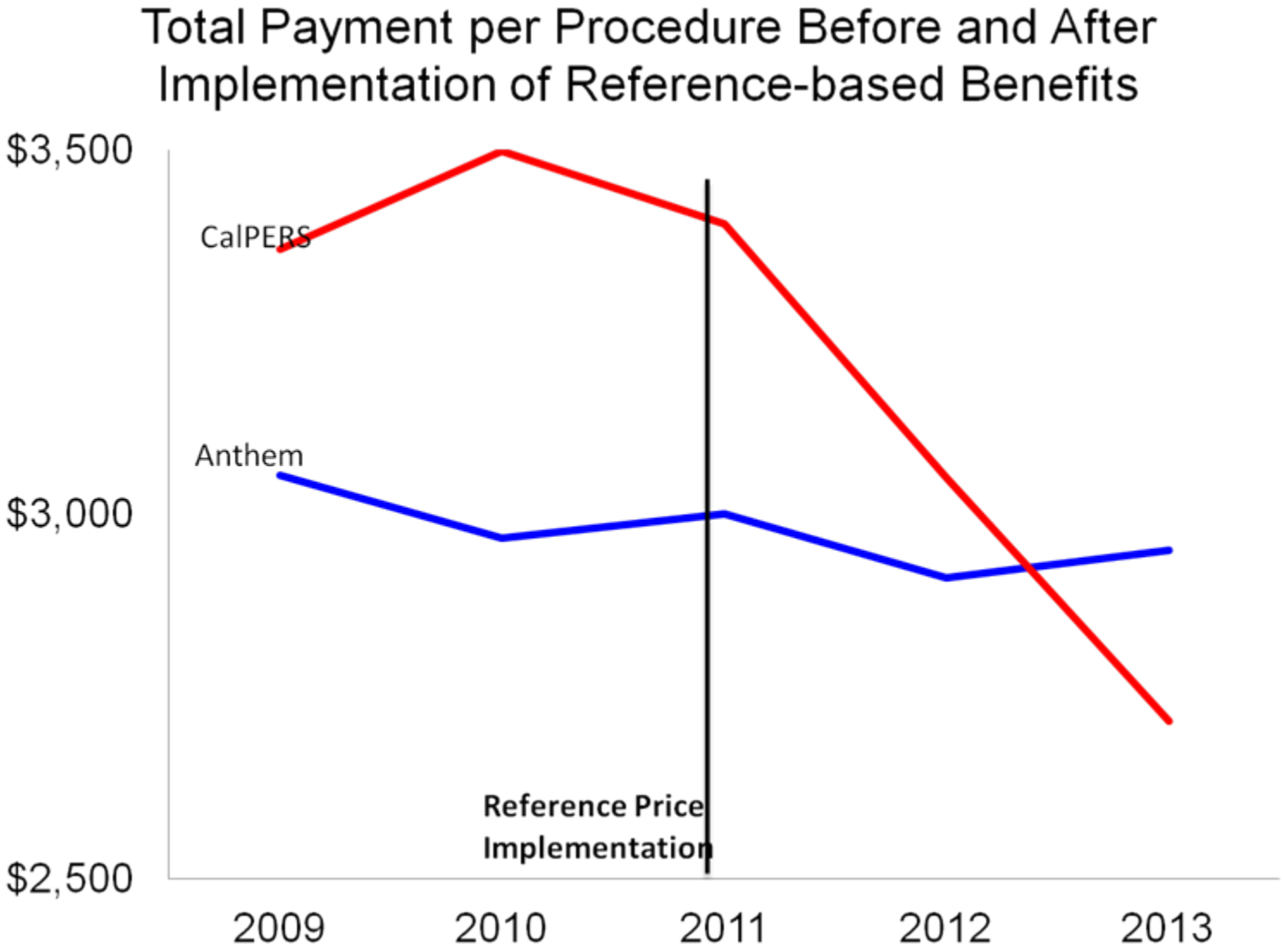
- Patient has good coverage for low-priced options but **full responsibility for choice of high-priced options**
- RBB has been applied to inpatient procedures, ambulatory procedures, imaging, lab tests, drugs

Prices in Hospital Outpatient Departments (HOPD) and Freestanding Ambulatory Surgery Centers (ASC) Prior to Implementation of Reference-based Benefits



Percentage of Patients Selecting Ambulatory Surgery Centers (ASC) over Hospital Outpatient Departments (HOPD) Before and After Implementation of Reference-based Benefits




Total Payment per Procedure Before and After Implementation of Reference-based Benefits
$3,500
$3,000
$2,500
CalPERS
Anthem
Reference Price Implementation
2009
2010
2011
2012
2013

Can plans and providers **collaborate** for efficiency and price moderation?

Vivity Model

- Center the network around major hospital systems, but agree on price and cost targets to achieve market-driven premiums
- Anthem Blue Cross and UCLA Medical Center

ACO Model

- Put medical groups and IPAs at the center of broad PPO networks
- Anthem PPO and Brown & Toland Physicians