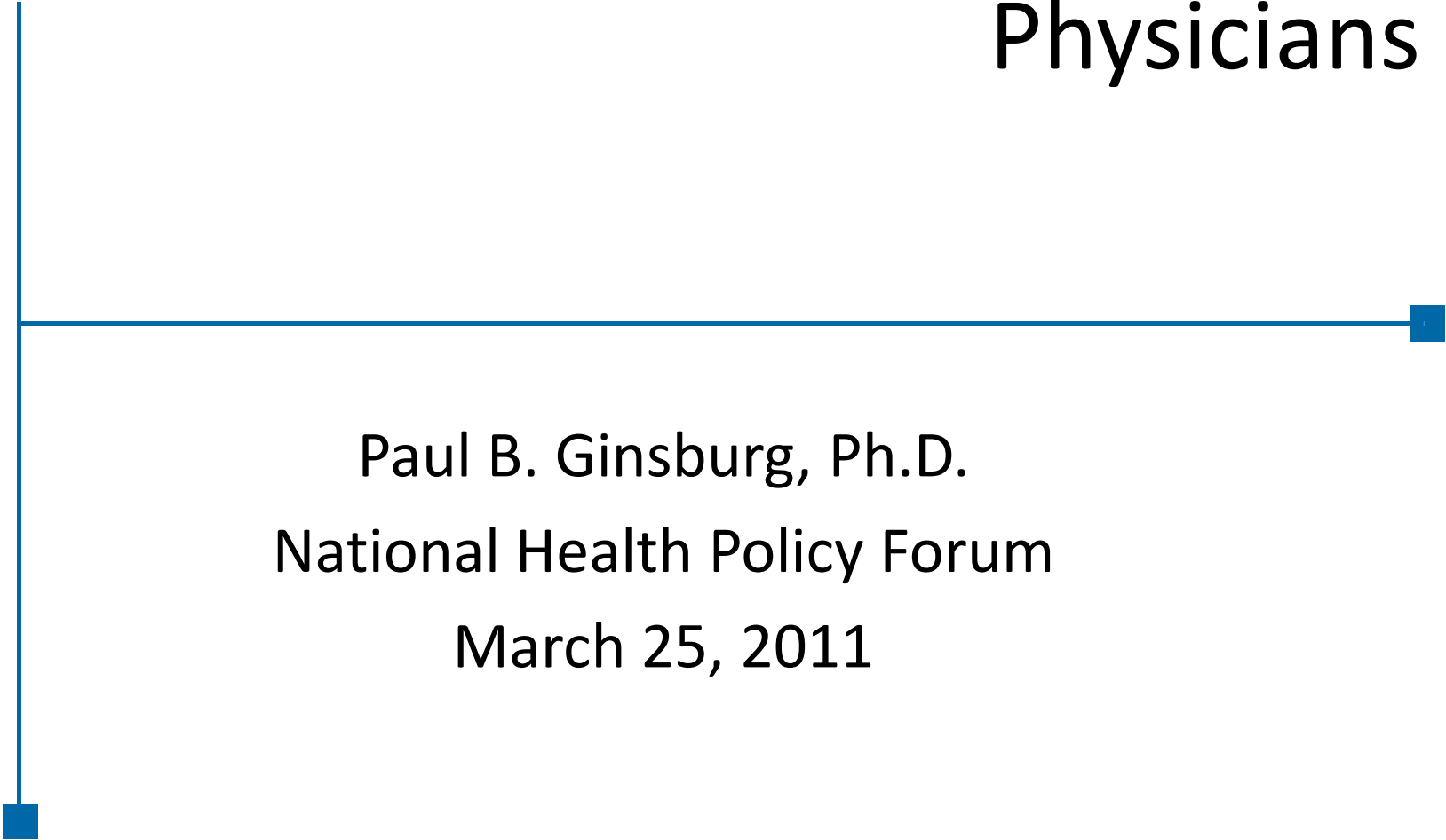




Hospital Employment of Physicians



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A Major National Development

- Seen in 10 of 12 CTS markets
- Striking change from 2007 to 2010
 - Greenville farthest along
- Additional markets where hospital employment the norm



Strategy Attractive to Hospitals under Two Distinct Scenarios (1)

- Fee for service
 - Build service lines
 - Align physicians to compete with other hospitals
 - Reduce competition from physician-owned outpatient facilities



Strategy Attractive to Hospitals under Two Distinct Scenarios (2)

- Integrated delivery
 - Potential to deliver higher quality
 - Potential to reduce costs through efficiency that can come from integration
- Both scenarios
 - Mechanism to attract more PCPs to the community



Differences from Early 1990s? (1)

- Lessons learned about need for productivity incentives
- Service line competition
- Perception that pressures to improve quality and efficiency will stick
 - Retreat from managed care undermined earlier efforts



Differences from Early 1990s? (2)

- More physician involvement in hospital governance
- Younger physicians' interest in employment



Reimbursement Issues (1)

- Payment rates for smaller practices lagging overhead increases
 - Tracking with Medicare in major metropolitan areas
- Hospitals obtain substantially higher rates for employed physicians



Reimbursement Issues (2)

- Higher rates for purchased outpatient facilities
 - The cardiology story
- Implications for society
 - Higher costs in short run
 - Potential for improvements over time



Physician Interest in Employment (1)

- Salaried platform
 - More control over hours and focus on patient care
 - Help navigating new demands around HIT
 - Decrease fears of malpractice risk



Physician Interest in Employment (2)

- Potential for higher compensation
- Attraction concept of integrated delivery
- Example of Kaiser Permanente in CA
- Declining profitability of some physician-owned facilities



Challenges for Hospitals (1)

- Achieving high levels of productivity from employed physicians
- Effective integration requires more than employment
 - Productivity incentives could get in the way
 - How to motivate coordination



Challenges for Hospitals (2)

- Risk of overpaying for practices
 - Competition with other hospitals
- Finding effective ways to increase physician leadership

