Joint Implant Surgery & Research Foundation
Chagrin Falls, Ohio, USA

Physician Migration Toward Hospital Employment

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The Trend

A growing number of physicians are abandoning small private practice and becoming direct employees of large hospital systems.

The latest signs of the continued migration came from a number of surveys and reports generated over the past twelve months. An early 2011 Medical Group Management Association survey found that the share of physician practices that were hospital owned increased to 55% in 2010 – up from 50% in 2008 and approximately 30% in 2003. In addition, a large US-physician recruiting firm said the share of its doctor searches that were for positions with hospitals reached 51% for the 12 months ending in March of 2011, up from 45% from a year earlier and 19% in 2004. Concurrently, the number of searches for physician groups and partnerships dropped. Another national survey of 2,400 physicians found that nearly 3 out of 4 were planning on retiring, working part-time, closing their practices to new patients, becoming employed and/or seeking nonclinical jobs in the next 1 to 3 years.

Cleveland Clinic Main Campus

Studies conducted in late 2011 found that 70% of national hospitals and health systems plan to employ more physicians over the next one to three years, while 67% of hospitals and health systems are seeing more requests from independent physician groups about employment opportunities. The data follows another late 2011 report that showed 32% of first-year residents surveyed said they prefer to be employed by a hospital – up from 22% in 2008.

A Recent Example

One specific example of physician migration is in Memphis where the three major hospital systems (Methodist Le Bonheur Healthcare, Baptist Memorial Health Care Corporation and the Saint Francis hospitals) have significantly increased physician employment: to 400+ in late 2011 from 84 at the end of 2010.

Orthopaedic Surgeon Migration

Have orthopaedic surgeons followed the migration trend? Yes, but at a rate of less than half the overall physician population. An AAOS study in 2008 showed that only 16% of orthopaedic surgeons were employed directly by hospitals or an academic medical center. My best guess is that the number increased to slightly over 20% in 2010. The foundation of orthopaedics has always been the small group practice or solo practitioner. Orthopaedic surgeons seem to be continuing to relish their independence, at least as compared to the overall group – and at least for now.

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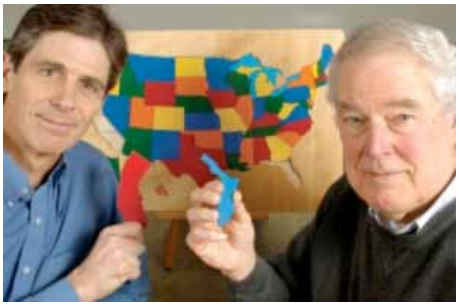
The Rationale & Benefits To Hospitals

The overall migration trend is tied to the needs of and potential opportunities for both the hospital and the physician. Hospitals are seeking to position themselves for a new business model for practicing medicine – Accountable Care Organizations (ACOs) – entities designed to change the incentives that influence how physicians and hospitals operate. ACOs will attempt to "organize" physicians, hospitals and other health care providers to deliver better and more efficient health care while reducing Medicare costs and improving care.



Elliott Fisher, shown here with Dartmouth Atlas founder Jack Wennberg, is credited with coining the phrase Accountable Care Organization.

In addition, proposed bundled payments will attempt to align payments for services delivered across an episode of care, such as a total knee replacement, rather than paying for services separately. Bundled payments will provide the physician and hospital with an additional incentive to coordinate care.

Acquiring physician practices may also benefit hospitals in the following ways:

- ability to lock-in inpatient and outpatient volume and revenue, including ancillary services
- maintain or grow share in existing markets; expand to new markets
- neutralize competition
- carve out more lucrative specialty niches
- reduce supply chain costs

Benefits To Physicians

For physicians, the frustrations resulting from the duties of practice ownership are increasing. Negotiating with insurers, securing payments from patients, and acquiring the latest technologies are becoming more burdensome. Government- backed loans to physicians offices have surged more than 10-fold (from $60 million to $675 million) in the past decade, a red flag that at least some physicians are in financial distress. The dynamic of reimbursement reductions, practice restrictions and investment limitations is facilitating a physician's decision toward hospital employment.

For physicians, the benefits of direct hospital employment may include:

- guaranteed salary; more regular work hours; retirement plans
- ability to focus on patient care rather than non-medical duties
- risk reduction from reimbursement cuts
- savings on malpractice insurance
- elimination of solo or small practice start-up costs and partnership issues
- possible repayment of medical school loans

Potential Issues For Physicians and Hospitals

However, "trade-off's" have been voiced by physician's who are considering becoming direct employees of hospitals. These include:

- lack of equity
- possible commitment to a long-term contract
- potentially heavier Medicare oversight
- role of "product champion" diminished; adoption decisions regarding innovative technologies may be ceded to hospital CFO
- fewer product choices
- less independence

Several risks were also identified for the hospital. These include lower production from physicians, reduced efficiencies and increased legal exposure.

What Does The Future Hold?

Despite the issues and risks identified, physicians will continue selling-out to hospitals. Boston Scientific management recently estimated that the migration for all physicians will top-off at between 70 and 75% in 2015.

My best guess is that 35 to 40% of orthopaedic surgeons will be employed by hospital systems or large medical groups by 2015. Some orthopaedic surgeons feel that number is conservative and could reach 60%. The bottom line: current regulatory

and economic changes are pushing physicians to join larger organizations; it may be the only way for many to afford the expertise, tools and systems required to remain viable in tomorrow's medical practice environment.

It is also expected that larger hospital organizations will become more powerful, gain greater leverage and continue to force price reductions. Further reductions in patient length-of-stays are also expected. Hospitals will practice "lean management" to improve operational effectiveness.

Delivery incentives will change. Team-based care -- including partnerships between primary care physicians, specialists, hospitals and non-physicians -- will be incentivized. Quality outcomes will be reimbursed – not volume. Outcomes data will be more transparent as providers' performance is expected to be measured against nationally accepted standards.

Comparative effectiveness, which compares the benefits and risks of different treatment methods, will increase the scrutiny on existing and potential future products.

Finally, device companies will become more proactive in driving cost out of the development process. Products commercialized in the future will be simpler, easier-to-use, clinically better and less expensive.

Implications For Device Companies

There are also implications for device companies. The migration trend has and will continue to translate into increasing price pressure, a consolidation of vendors (with further squeeze of smaller players), slower product adoption and a diminished "bond" between physician, rep and device company.