



# How Are Health Care Prices Related to Physician Practice Consolidation and Integration with Hospitals?

## Why These Studies Are Important

Health care providers of all types are rapidly consolidating to form larger organizations. An extensive body of research has demonstrated that hospital consolidation is associated with significantly higher prices for hospital services, with little beneficial impact on quality of care. NIHCM grantee Dr. Laurence Baker and colleagues have

extended this provider consolidation research by looking at the price effects of the growing vertical integration between hospitals and physician practices and of the ongoing consolidation of physician practices into larger and larger group practices. Four papers have been published to date from this work.

## What The Studies Found

- An increase in the market share of hospitals owning physician practices was associated with higher hospital prices and higher spending for privately insured patients.<sup>1</sup>
- Depending on the specialty, the prices paid by private PPOs for office visits were 8 to 16 percent higher in counties with the highest concentration among physician practices than in those on the lower end of the spectrum. Markets that began the study period with less competition among practices also experienced larger price increases over the next 8 years.<sup>2</sup>
- Private prices for a range of common surgical and medical procedures were 8 to 26 percent higher in counties with the least competition among physician practices, relative to the counties with high levels of competition.<sup>3</sup>
- Increases in the degree of concentration of orthopedic practices over the 2001-2010 period were associated with an increase of about 7 percent in the prices paid by private insurers for total knee arthroscopy, largely offsetting the secular decline in physician fees occurring over the period absent changes in market concentration.<sup>4</sup>

## What These Findings Mean

- Individually, and collectively, these studies add to the literature raising concerns about growing provider consolidation.
- Unchecked consolidation by providers can confer appreciable market power that results in higher prices.

## More About The Studies

These studies used multiple years of commercial health care claims spanning U.S. markets and examined county-level or other market variation in provider integration measures and private prices. Full details on methods can be found in the articles cited below.

1. Baker LC, Bundorf MK, and Kessler DP. "Vertical Integration: Hospital Ownership of Physician Practices is Associated with Higher Prices and Spending," *Health Affairs*, 33(5):756-63, 2014.
2. Baker LC, Bundorf MK, Royalty AB, and Levin Z. "Physician Practice Competition and Prices Paid by Private Insurers for Office Visits," *The Journal of the American Medical Association*, 312(16):1653-62, 2014.
3. Austin DR and Baker LC. "Less Physician Practice Competition Is Associated With Higher Prices Paid for Common Procedures," *Health Affairs*, 34(10):1753-60, 2015.
4. Sun E and Baker LC. "Concentration In Orthopedic Markets Was Associated With A 7 Percent Increase In Physician Fees For Total Knee Replacements," *Health Affairs*, 34(6):916-21, 2015.

For more information about these studies, contact Dr. Laurence Baker at [laurence.baker@stanford.edu](mailto:laurence.baker@stanford.edu).

For more information about the NIHCM Foundation Investigator-Initiated Research Grant Program, contact Dr. Julie Schoenman at 202-296-4426.