

ACROinsights – Healthcare Consolidation

The goal of this series of articles is to ensure that radiation oncologists are aware of and provided with the knowledge to ensure day-to-day processes are being addressed in a compliant manner. This installment will discuss healthcare consolidation and what it means radiation oncologists. The information contained within this ACROinsights article is meant as general guidance and is not intended to replace appropriate legal or authoritative guidance.

Consolidation of Healthcare

It may be shocking to realize the United States spends more on healthcare per patient than financially and developmentally comparable countries (i.e., Austria, Belgium, Canada, France, Germany, Netherlands, Sweden, Switzerland, and the United Kingdom) and has worse health outcomes for many diseases. This can be attributed to many factors: hospital costs are significantly higher; the cost of prescription medications for the same drugs is higher in the US than other countries; rates for technical procedures are higher; and significantly higher administrative costs for hospital and insurers, including multi-million dollar executive salaries at for profit and non-profit health systems. An analysis by KFFⁱ in 2020 showed the US outspent on healthcare for inpatient and outpatient services (more than double), prescription drugs and medical goods, administrative costs, preventative medicine, and other services than comparable countries.

One immediately apparent reason for the USA outspending healthcare in other countries is cost, but is it enough to assume the higher cost is simply due to personnel, supplies, equipment, manufacturing, and the resource chain for services? A significant contributor to the high cost is the consolidation of healthcare markets, especially cross-market mergers. Cross-market mergers are the consolidation of hospitals and health systems within different geographic markets. Typically, health systems have significant market penetration in the geographic market where they are physically located, but not in distant geographic markets.

Over the past five years there have been several cross-market mergers valued at over \$5 billion that have been proposed and/or completed. These mergers tend to be popular for various reasons: they allow expansion by a health system into an area they do not currently have a presence, because most metropolitan markets have a high concentration of healthcare options, so expansion is limited.

Many chief executive officers (CEOs) of health care networks champion the idea of cross-market mergers as their belief is that they will increase access to healthcare and create more efficient health systems; when in fact financial analysis by various economicⁱⁱ and other healthcare entities have shown that this is not the case. In fact, often the results of cross-market mergers have been higher healthcare prices, reduced access to care for patients and communities, and increased compensation for system executives. This should raise the alarm of such practices with patients, providers as well as government entities.

Cost of Care

Prior to the 2020 pandemic and resultant public health emergency (PHE) health spending increased 4.3% in 2019, compared to approximately 10.3% in 2020 and then another 2.7% in 2021. The pandemic unquestionably had a significant impact on the cost of healthcare, but that increase is only applicable for a defined period. Outside the impact of the PHE, some of the cross-market mergers have resulted in an estimated 6-17% increase in healthcare costs.

Some health systems have considerable negotiating power, especially when it comes to payer contracts. The authors of the article, *Understanding Mergers Between Hospitals and Health Systems in Different Markets*, believe that even though the promise may have been for lower rates, the fear of health systems if they lower their rates in one geographic location, essentially undercutting another health system, that the competing health system in

their geographic location will retaliate by undercutting them in a different market. Other consolidations may cut services in smaller or harder to staff areas as a means of pushing patients to the larger entity or to decrease the overhead, liability, and cost of maintaining certain types of care. In the end, consolidations result in reduced competition, which is a major factor in the rise of healthcare costs.

Radiation Oncology Experiences

Radiation oncology has proven to be a target of frequent consolidation. A 2021 studyⁱⁱⁱ found that by 2017 nearly one-third of practicing radiation oncologists were employed by the 90 largest practices. This finding was further supported by the number of solo radiation oncology practices (those which had one radiation oncologist in the practice) decreased by 11 percent. At the same time large practices (11 or more radiation oncologists practicing together) increased by 50 percent.

Another impact on the marketplace is the number of private equity (PE) firms entering the healthcare sector. These short-term profit focused organizations have largely targeted other specialties, such as anesthesia, dermatology, emergency medicine and diagnostic radiology, but their interest in radiation oncology has increased in the past five years. A recent report by the American Antitrust Institute^{iv} reviewed results of a study which estimated that in 13 percent of metropolitan areas a single PE firm owned more than 50 percent of the physician market for selected specialties. There is also data to support that in some of these areas physician prices have increased 16.4 percent for oncology because of these PE acquisitions.

Many physician-owned practices have been purchased by hospitals; these provider-based departments have shifted their billing basis to the outpatient hospital setting. Medicare and Congress are aware of the increased costs related to conversion of independent free-standing facility charges to higher hospital out-patient charges and have long been considering equalization of point-of-service payments. The promise of the ability for less risk, reduced overhead, and ability to be competitive in tight markets has pushed many entities to consolidate.

Another market impact is the required reporting for programs such as the Quality Payment Program (QPP) which includes MIPS (Medicare's Merit-based Incentive Payment System). The administrative burdens in reporting, keeping up to date with changes, regulations, and the need to be able to deliver better quality care for small and solo physician practices has created a scenario where many practices can no longer sustain independence. Their only option is to consolidate with a larger health system or hospital. Other radiation oncologists may have no input, as they are already part of that hospital or system: the decision to merge and what it may mean for the specialty is out of their hands.

What is Being Done?

In July 2023, H.R.3284 - Providers and Payers COMPETE Act, sponsored by Rep. Michael Burgess (R-TX, 26th District), was proposed to two committees by the House, Energy and Commerce, and Ways and Means. While there was bipartisan support, there has also been concern raised regarding the elements of the bill. Generally, these concerns have been that management of enforcement should be by the Department of Justice (DOJ) Antitrust Division and the Federal Trade Commission (FTC) rather than Health and Human Services (HHS).

There is little argument from anyone in Congress or the Administration that there are concerns about lack of competition in broad markets, and healthcare specifically, due to the consolidation of hospitals and health systems. Other legislation has been introduced in Congress and an executive order was issued in 2021, for federal agencies to examine health care mergers and hospital consolidations more closely.

Even with such calls for oversight, the short-term decline in consolidations due to the pandemic is over, more will occur in 2024. There may be positives when hospitals and health systems consolidate. Some consolidations do result in a smaller hospital's ability to improve its financial situation, with access to more capital, resources, payer contracting ability, and shared expertise.

The Take Home Message

While there is no single solution to many of the issues in healthcare; every layer peeled back reveals many, many more. The purchase of physician practices by hospitals and private equity firms, as well as the consolidation of health systems has had a dramatic impact on the healthcare marketplace in general and radiation oncology, specifically. It is imperative that physicians remain involved in the development of public policy, now more than ever, to ensure that we can continue to provide the best care possible for our patients within an environment of ever increasing healthcare consolidations. As a specialty, radiation oncologists need to be certain they ask questions, raise concerns, and engage with ACRO and their Congressional representatives to advocate for themselves, their practices, and their patients. Without engagement, beneficial outcomes cannot be anticipated, and the future of cancer care may be radically different.

ⁱ Jamie Godwin, Zachary Levinson, and Scott Hulver, *Understanding Mergers Between Hospitals and Health Systems in Different Markets*, August 23, 2023, <https://www.kff.org/health-costs/issue-brief/understanding-mergers-between-hospitals-and-health-systems-in-different-markets/>

ⁱⁱ Lawton Robert Burns, Mark V. Pauly, *Big Med's Spread*, March 29, 2023, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1468-0009.12613>

ⁱⁱⁱ Michael Milligan, MD, MBA, Megan Hansen, BA, BS, Daniel W. Kim, MD, MBA, E. John Orav, PhD, Jose F. Figueroa, MD, MPH, Miranda B. Lam, MD, MBA, *Practice Consolidation Among U.S. Radiation Oncologists Over Time*, June 18, 2021, *International Journal of Radiation Oncology, Biology, Physics*, [https://www.redjournal.org/article/S0360-3016\(21\)00727-6/pdf#:~:text=By%202017%2C%20roughly%20one%2Dthird,period%20to%200.4865%20in%202017](https://www.redjournal.org/article/S0360-3016(21)00727-6/pdf#:~:text=By%202017%2C%20roughly%20one%2Dthird,period%20to%200.4865%20in%202017)

^{iv} Richard M. Scheffler, Laura Alexander, Brent D. Fulton, Daniel R. Arnold, Ola A. Abdelhadi, *Monetizing Medicine: Private Equity and Competition in Physician Practice Markets*, July 10, 2023, https://www.antitrustinstitute.org/wp-content/uploads/2023/07/AAI-UCB-EG_Private-Equity-I-Physician-Practice-Report_FINAL.pdf