

Implications and
considerations
for hospitals and
health systems

Evolving Physician-Practice Ownership Models



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Implications and Considerations for Hospitals and Health Systems

Physician practice acquisitions and/or equity investment by such nontraditional players as health plans, private equity investors, venture capitalists and large employers is an increasing trend. These new entrants give physicians new options for where and how to work.¹

As hospitals and health systems are considering their physician relationship strategies, this report provides current trends in physician–practice ownership models that could present threats to their current operating model as well as opportunities for different kinds of mutually beneficial relationships. Developing strong physician relationships has always been a required competency of health system leadership, and its importance will only grow in the current environment.

This report provides an overview of these trends and their driving forces, lessons from nontraditional physician practice arrangements, and implications for hospitals’/health systems’ organizational strategy, physician relationship strategy and provision of care to patients. It is informed by external research, discussions with physician leaders at the American Hospital Association’s (AHA’s) Health Care Leadership Systems Retreat and surveys of AHA members. ●

About This Report *The AHA Center for Health Innovation developed this Market Insights report for hospital and health system executives who are evaluating their physician relationship strategy in light of physician-practice acquisition trends that have implications for patient care in the community. This report is based on information and insights from interviews with hospital and health system leaders, physician leaders, private equity and venture capital firms. The report also is based on reviews of published health care reports, surveys, articles and research on emerging physician practice arrangements. A complete resource list is on Page 13. The AHA Center for Health Innovation thanks everyone for their contributions to this report.*



Executive Summary

Physicians play a dominant role in driving and influencing the quality of care and the utilization of health resources; therefore, a key responsibility for hospital/health system CEOs has always been to build and maintain strong and aligned relationships with physician practices. In recent years, physicians have increasingly migrated away from smaller independent practices and into employment models. Smaller physician-run practices have difficulty making the necessary technology, infrastructure and talent investments to efficiently adapt to increasing administrative practice burdens while at the same time meeting the pressure to achieve affordable high-quality outcomes. The desire for stability in compensation and work-life balance also are driving this trend among physicians.

Hospitals and health systems and physician groups have increasingly hired physicians and acquired practices critical to their core operations. Recently, nontraditional players like health plans, large employers,

private equity (PE) and venture capital (VC) firms have been acquiring and investing in physician practices. These players understand the central role physicians play in directing large portions of health care dollars and believe that tighter management, technology, data analytics tools and practice innovation can result in better care, better outcomes, better care experience and profitability. PE and VC investors also look for financial returns on investments through major liquidity events/cash-out scenarios (resale or public offerings). Physicians look to these entities for a variety of benefits that hospitals and health systems also provide, including: access to capital for key infrastructure investments and expansion; reduced administrative burdens; practice management services that optimize margins; contracting leverage; opportunities to innovate and influence new models of care; physician management of clinical care; and potential equity payouts (see below).

While these physician-practice acquisition trends vary by market, they do

Four emerging investor types



PRIVATE EQUITY

Private equity (PE) firms typically acquire controlling stakes in established high-potential specialty practices with physicians as minority shareholders. PE investors focus on providing efficient practice management, practice expansion, income growth and infrastructure investments. Physicians are often given the freedom to run the clinical operations.



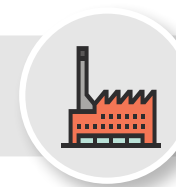
VENTURE CAPITALISTS

Venture capitalist (VC) investors look for innovative companies and practices with the potential for breakaway success. VC investments have spurred the development of telehealth and technology-enabled practice models that offer more flexible patient access and physician work environments. VC-backed, physician-driven companies offer physicians the ability to develop innovative, new models of care.



HEALTH PLANS

Health plans are shifting their focus to vertical integration with providers to achieve better care management and resource utilization. Some look to expand care venues (i.e., retail, post-acute care, ambulatory surgery) and to offer practice management, analytics and care management capabilities to improve operational and clinical performance.



LARGE EMPLOYERS

Large employers are moving toward directly contracting or employing physicians to ensure more efficient access to care for their employees. Digitally enabled virtual care has been an expanding interest for large employers.



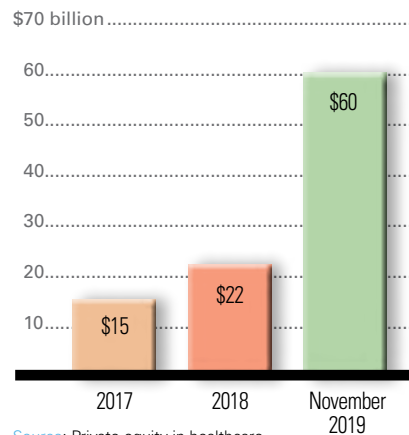
not appear to be slowing and, in fact, have been accelerating significantly over the last three years. Consequently, they potentially present both a threat and an opportunity for hospitals/health systems that should be considered. Physician groups owned or aligned with other entities can potentially redirect patients to those groups and away from services offered by hospitals and health systems, regardless of quality or cost differences. If, however, investors are able to develop innovative new models of care and streamline operations and expand

the continuum of physician practices, this could create opportunities to partner or affiliate. These developments in physician-practice ownership models are additional reasons for hospitals and health systems to develop thoughtful and targeted physician alignment strategies based on organizational goals, resources available, practice management competencies and market conditions. Regardless of the options for physician alignment, strong physician leadership and integration into practice governance models are key ingredients for success. ●

Physicians at the Center of the Health Care Value Equation

Physicians drive and influence the quality of care and utilization of health care resources both directly and through referrals — which, depending on the reimbursement arrangement you operate under (fee-for-service or value-based), can be a source of revenue (e.g., for

Private equity and venture investment in physician practices



Source: Private equity in healthcare, *Medical Economics*, Nov. 12, 2019

downstream ancillary, surgical or inpatient care providers in fee-for-service models) or a source of expense (e.g., for accountable care organizations (ACOs), payers or employers). Because of this pivotal role in the health care value equation, there is significant interest on the part of health systems, insurers and PE investors in aligning, employing or owning physician practices outright, leading some to describe recent physician affiliation and acquisition trends as an “arms race.”² The PE and venture investment in physician practices has increased from \$15 billion in 2017 to \$22 billion in 2018.

And by November 2019, the trend increased sharply to \$60 billion and is unlikely to be just a short-term fad.³

Part of the reason these investors have appeared attractive to physicians is because they offer physicians a variety of resources to meet their need for capital, scale or work-life balance, while allowing them

to remain unaffiliated with a health system or larger group practice.

Although large integrated systems are innovating and improving clinic/physician practice capabilities in data analytics and digital health, some hospitals and health systems may not be in a position to fund significant and costly improvements to a physician practice’s infrastructure. Emerging investor types may provide capital for expansion, data analytics infrastructure, digital health capabilities, team-based care and assist in efficient practice management functions through standardization and economies of scale. Larger physician practice groups also may try to help build these capabilities, but often lack resources and the skill set to effect necessary practice changes and, therefore, may turn to private capital partners.

Ultimately, successful physician practice partnerships need to support better clinical outcomes, more efficient operations, improved practice environment and stable compensation. Investors whose financial model would respect the clinical decision-making authority of physicians and enable them to play a leadership role in governance of clinical programs are likely to be the most successful long term. ●

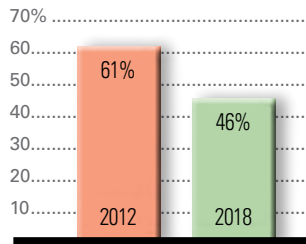
In the U.S., private equity investor deals related to physician practices amounted to \$22 billion in 2018, but then surged to **\$60 billion** by November 2019.



Market Overview and Trends

Historically, physicians entering the medical profession have had a variety of choices for where to practice, including: independent private practices; single-specialty group practices; multispecialty group practices; variants on multispecialty group practices like academic faculty practice plans, health maintenance organization staff and group models, and stand-alone groups; employment models through hospitals and health systems; Federally Qualified Health Centers; and

Percentage of physicians owning practices



Source: Employed physicians now exceed those who own their practices, American Medical Association, May 10, 2019

such governmental entities as the Department of Veterans Affairs health systems, the Department of Defense and Indian Health Service organizations.

Each setting offered physicians different benefits — independence; financial stability; access to collegial and system support; research opportunities; academic freedom and others. And until recently, many physicians went into private practice, practices that are entirely owned by physicians.

Today, however, the independent private-practice model is under intense pressure to evolve, and many physicians are opting for different arrangements. In fact, 2018 marked the first year in which the percentage of employed physicians (47%) exceeded the percentage of physicians who owned their own practices (46%).⁴ And today, insurance companies or their subsidiaries and their affiliated groups, employ or are affiliated with large groups of physicians — the largest being, the Optum subsidiary of UnitedHealth Group that employs or is affiliated with more than 45,000 physicians.

5 major drivers shifting the market away from the private practice model

1 | Need for economies of scale. A variety of practice management issues lend themselves to scale economies, including such back-office functions as billing and revenue cycle management, supply chain, regulatory compliance and technology deployment. Population health

clinical management programs also lend themselves to scale economies. These programs require data and information systems to optimize preventive care, disease management programs, deployment of evidence-based care protocols, and quality reporting and improvement activities across large populations of patients.

2 | Consumers' expectations are evolving. Driven in large part by advances in other sectors, like banking, hospitality, logistics and other service industries, consumers expect to see the benefits of technology in the health care setting, including basic functionality — making appointments via an app, getting test results rapidly and on one's mobile device, and being able to communicate with the care team through multiple modalities of virtual communication. Access to 24/7 virtual care also is increasingly in demand, as is the availability of local urgent care services. There also are growing expectations that care will be data-driven, which is why there is so much investment in applications of artificial intelligence to health care. It is challenging to meet these expectations and make the necessary technology investments as a solo or small group practice.

3 | Progression to value-based payment and pressure to take on financial risk. Payers are pressuring providers to take on financial risk, which is only possible to manage across a larger risk pool and at scale. It requires sophisticated analytics and new approaches to care like team-based models, the costs of which are possible to sustain over larger populations. Additionally, fraud and abuse laws and other regulatory barriers make it difficult to integrate with physicians in a way that can lead to success in certain alternative payment models.

The Medicare program — for seniors and people with disabilities — is continuing to promote value-based models of care. There is evidence that physicians affiliated with hospitals are more likely to participate in medical homes and ACOs, according to a 2018 American Medical Association physician survey (see chart on Page 6).

Many state Medicaid agencies are establishing value-based purchasing requirements in their contracts with managed care organizations, and some commercial payers also are entering into accountable care or other value-based contracts with providers. Movement toward alternative payment

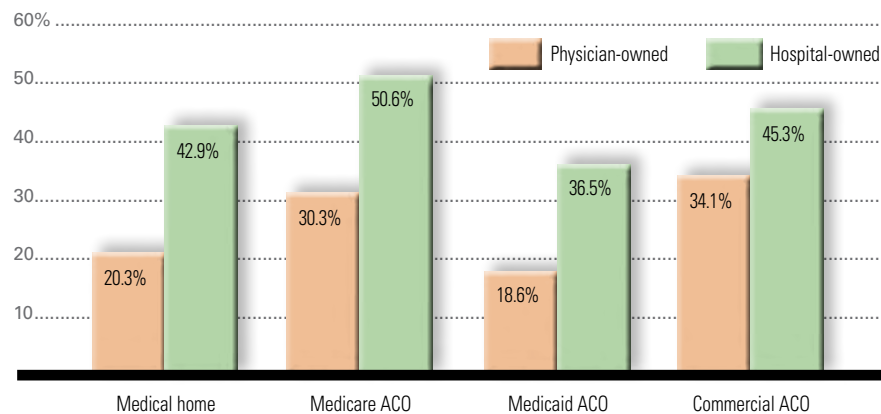


models also is accelerating in the commercial market — though pace and trends vary significantly by market — and in certain cases, public and private payers are working together to align payment models.

4 | High degree of physician burnout. In light of these increasing demands on the private-practice model, many physicians are experiencing burnout and looking for opportunities that bring joy and purpose back into their roles as doctors. Medscape’s National Physician Burnout, Depression & Suicide Report 2019 notes that 44% of physicians reported feeling burned out (defined as: “long-term, unresolvable job stress that leads to exhaustion, feeling overwhelmed, cynical, detached from the job, and lacking a sense of personal accomplishment”). The major factors contributing to burnout were too many administrative tasks (59%), working long hours (34%) and working with electronic health records. (32%).⁵

5 | Less appeal for young physicians. Recently graduated physicians experiencing higher medical school debt burdens are less drawn to the private-practice model and are more likely to opt for employment, which offers more financial stability and work-life balance.⁶ The percentage of medical residents who anticipate owning their own practices one day has declined over time.⁷

Percentage of physicians in medical homes and ACOs by practice ownership, 2018







Note: Responses to whether part of a medical home or ACO (yes, no, don't know) are significantly different across practice type ($p < 0.01$) using chi-squared test.

Source: Authors analysis of AMA 2018 Physician Practice Benchmark Survey from Policy Research Perspectives: Payment and Delivery in 2018: Participation in Medical Homes and Accountable Care Organizations on the Rise While Fee-for-Service Revenue Remains Stable, American Medical Association, August 2019

What appeals to physicians about investors?

Different physicians and physician practices may be looking for different things — some may find owning an equity stake motivating, while others may prefer a salary model in an environment that allows them to spend more time with patients. The table below describes the potential appeal to physicians of each of four nonhealth system investor types:

Investor type	Potential appeal to physician practices
 <p>PRIVATE EQUITY</p>	PE investors can offer physicians access to resources to optimize practice margins through consolidation, contract optimization, and supply chain and back-office efficiencies, as well as access to capital to scale programs and build out ancillary, surgical or other specialties. The opportunity for a buyout also may be attractive.
 <p>VENTURE CAPITAL</p>	While the value proposition will vary based on the company and its mission, VC-backed, physician-driven companies offer physicians the ability to innovate and influence new models of care. These companies often frame their missions in terms of fixing a broken system and providing better, more human-centered and more convenient care. These companies tend to be fast-paced and focused on growth so that they can offer a dynamic and stimulating work environment, and they may offer the ability to work flexible schedules, spend more time with patients per visit and less on paperwork.
 <p>HEALTH PLANS</p>	Physicians may be attracted to the potential for reduced administrative burden, the opportunity for back-office support, and support for population health care and care management functions (e.g., in the Optum model). Similar to PE and VC investors, health plans can offer access to capital to fuel practice growth.
 <p>LARGE EMPLOYERS</p>	Partnering with large employers may provide physicians the opportunity to engage in population health management models of care and develop more innovative approaches to keeping employees healthy. These arrangements may reduce administrative burdens by removing the insurance middleman, and may offer more flexible scheduling opportunities. ●



Emerging Investor Types

We profile four major new investor types: private equity, venture capital, health plans and large employers. While some physician practices align solely with one investor type, others may evolve their relationships over time, starting with venture backing and then transitioning to PE or a health plan partner, for instance.



PRIVATE EQUITY | In the past few years, PE investors have increased their attention to physician practices, with special focus on the following specialties: dermatology, behavioral health, ophthalmology, plastic surgery and urology.

Several more recent transactions show a migration into hospital-based medicine as well (emergency medicine, anesthesiology and radiology), surgical specialties like orthopedics, and even medical specialties like gastroenterology.

- **Investor interest:** For PE investors, physician practices may represent margin growth opportunities through both optimization of current operations (e.g., by achieving improved economies of scale for back-office functions) and through expansion of ancillary and clinical services. PE investors in general are motivated to develop the practice to enable a liquidity event/cash-out scenario (resale or public offering). Health care is considered countercyclical and recession-resistant, making it an attractive component in an investment portfolio.
- **Business model and economics:** PE investors typically acquire controlling stakes in practices, with physicians as minority shareholders. Reports show that PE investors will pay between \$1 million and \$2 million per physician, provide “market-rate salaries” to the physician owners, and engineer the economics so that the majority of revenue growth flows to the PE investors. The value creation efforts focus on practice expansion, income growth, consolidation to achieve scale and operational efficiencies. In general, their limited partners expect a minimum 20% return in a five- to seven-year timeframe.⁸ PE firms have the ability — in fact, the obligation — to their limited partners to be focused on financial results, while hospitals and health systems must consider service to the community as part of their mission. PE firms also tend to specialize in turning around underperforming assets.

- **Recent examples:** In August 2019, CityMD, a leading urgent care provider in the New York metro area, and Summit Medical Group, an independent multispecialty medical practice, completed a merger that brought together more than 1,400 providers and 6,400 employees across almost 200 locations in New Jersey and New York. Warburg Pincus, a PE firm that was invested in CityMD since 2017, has a majority interest in the combined company, and Consonance Capital Partners, a health care-focused PE fund, also made an investment in the combined company.⁹

One Medical, a membership-based primary care practice offering convenient and lower-cost primary care in over 70 offices and 24/7 access to virtual care, is prioritizing partnerships with strategic health systems in new and established markets. Existing health system partnerships include Providence St. Joseph Health, UCSF Health, UCSD Health, Mount Sinai of New York, Dignity Health, Advocate Aurora and Emory Healthcare.



VENTURE CAPITAL | VC investment has helped spur the development of telehealth companies and technology-enabled intensive primary care programs for target populations (e.g., Medicare Advantage (MA) members or millennials prioritizing convenience). Many of these new companies — whether they have physical locations or are virtual — are eager to build out their network of providers to support rapid growth, regionally and even nationally. VC funding for digital health increased from slightly more than \$2 billion in 2010 to more than \$14 billion in 2017.¹⁰

- **Investor interest:** For VC investors, physician practices may represent high-growth, value-based care models supported by cutting-edge technology with the potential to scale rapidly in new and existing markets. VC investors look for leaders in health care with a combination of a focus on the consumer, the ability to scale and a compelling economic value that dramatically lowers the cost of care. The use of care teams and development of collaborative care technology enable a focus on relationships to improve individual and population health outcomes. Health care is considered a sector ripe for transformation.



- **Business model and economics:** VC investors look for innovative companies with the potential for breakaway success. Unlike PE investors who invest in long-standing businesses, VC investors focus on new businesses and bet on the business concept and on the leadership team's ability to bring that concept to market. Similar to PE investors, VC investors expect a major liquidity event, such as breakaway growth, an acquisition by another entity or an initial public offering.
- **Recent example:** Iora Health, a high-growth, value-based primary care provider with a focus on Medicare patients, secured \$100 million in Series E financing from .406 Ventures, Devonshire Investors, F-Prime Capital, Flare Capital Partners, GE Ventures, Humana, Khosla Ventures, Polaris Partners and Temasek.



HEALTH PLANS | A cycle of horizontal acquisitions resulted in the emergence of a handful of megahealth plans (in 2018, six health plans served more than 10 million members each and together served close to 50% of the total U.S. population^{11,12}). Health plans have recently shifted focus to vertical integration — seeking to acquire assets in the provider and care delivery spaces, with significant acquisitions such as the CVS-Aetna merger getting the most attention. More and more, health plans are aligning physicians either

through ownership, tight affiliation or contracting models.

- **Investor interest:** For health plans, owning physician practices may be a means to steer and manage care and reduce utilization. Health plans also may seek to invest in retail, urgent care and after-hours capacity so that members in their network have lower cost and more convenient options than using emergency departments. In addition to interest in managing the network, health plans can offer analytics and care management capabilities designed to improve outcomes.
- **Business model and economics:** Business models vary — the health plan may employ, acquire, joint venture or enter into partnership with physician practices.
- **Recent examples:** The most visible example is the rapid growth of Optum, a subsidiary of UnitedHealth Group that acquires physician practices. In 2019, Optum completed its acquisition of DaVita, expanding the company's network of owned and affiliated physicians to more than 45,000.¹³

To expand value-based care patient offerings, Humana acquired Family Physicians Group, one of the largest at-risk providers serving

HealthCare Partners growth timeline

From the three founding practices to being part of a network of 45,000+ physicians

1992

HealthCare Partners is formed

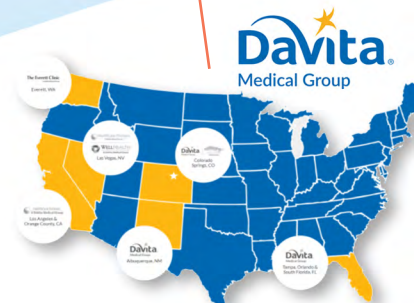


Between 1992-2012

HealthCare Partners grows through the addition of 10 medical groups

2012

HealthCare Partners merges with DaVita



2019

Optum completes acquisition of DaVita Medical Group

UnitedHealthcare



MA and Managed Medicaid HMO patients in Greater Orlando with a footprint that includes 22 clinics.



LARGE EMPLOYERS | Recently, large employers have built out direct relationships with physicians to care for their employees, bypassing insurance and major local health systems. This trend is expected to continue as companies pilot new programs for employees.

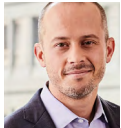
- **Investor interest:** Contracting or directly employing physicians may

be a means for large employers to ensure quicker, more efficient and less expensive access to care for their employees, without the overhead of insurance.

- **Business model and economics:** Business models vary; for instance, Discover's on-site health clinics are staffed and managed by Concentra, an independent contractor, while Apple chose to hire clinicians directly for its AC Wellness clinics. There also has been a significant uptick in large employers that offer telehealth services to

Expert insights from various physician-practice ownership models

ENABLING THE TROOPS



"Most primary care providers care about evidence-based medicine and health equity and putting patients first. We're able to say to them, 'If that's what you signed up for in medical school and you still want to do that, you can do it here.' Our providers

care for patients with a full team — a full-time scribe, a medical assistant, a nurse, a behavioral specialist, a medical social worker, a pharmacist, among other support roles — and our in-house technologies are built specifically to support this work. They have explicit time protected for direct and indirect patient care. Our primary care providers are the leaders of our teams, so we invest a ton in training and development, including executive coaching, to support them.

"We have a model that's built to span across the entire patient life cycle — it's built into the way we serve our community. We see patients more than three times as often for visits that are twice as long than national averages, and we provide transportation and a host of social and support services that we all know work. And the Oak Street Health model is working — we've had more than a 40% reduction in hospitalizations, elite quality ratings and the highest patient satisfaction scores we've seen in primary care."

GRIFFIN MYERS, M.D.

Co-founder and chief medical officer, Oak Street Health, a network of value-based, private equity-backed, primary care centers for adults on Medicare

A BETTER SYSTEM



"We are trying to do our part to create a health care system that is sustainable, affordable and accessible. Our goal is to weave together all of our assets (analytics, back-office support,

population health tools, care delivery platform, and hospital and health system partnerships) to create health care systems that work. That includes working with hospital partners who are interested in taking patients into value-based care.

"Some of you may still think of us as an insurance company that now is a medical practice. UnitedHealthcare is our sister company and an important partner and customer, but Optum is fiercely multipayer. We work with 80 different payers across health care.

"OptumCare is a physician-led, patient-centric, data-driven care delivery organization focused on delivering value-based, high-quality care and achieving the quadruple aim because for us to thrive, our physicians need to thrive. Within our physician executive council, quality, safety, the physician experience, recruitment and leadership development are vetted, designed, improved and funded — and that appeals to our doctors."

WYATT DECKER, M.D.

CEO, OptumHealth

WHO'S A GOOD FIT?



"Figure out ways to work with private equity, because, in thoughtfully constructed arrangements, hospitals and PE firms can be natural allies. There can be a large divide in knowledge between private equity funds that specialize

in health care investing and generalist funds that may invest in a variety of sectors such as agriculture and industrials. These latter firms may not understand all the nuances of payer revenue-cycle management, physician management, etc. Physician groups should really seek to understand the backgrounds and expertise of their potential investors.

"We have worked with hospital systems to plan the launch of their own Medicare Advantage plans, or to help co-manage those plans. Nobody has more power, reach and brand recognition in a marketplace than hospitals, and nobody has more influence in educating patients about the benefits of opting into MA plans than physicians who are highly invested in the success of those programs. Also, we created a partnership between a major academic medical center and our multidermatology practice that created a clinical collaboration and an academic relationship. Skin cancer patients benefited by getting expedited surgical and consultative referrals to the medical center, as well as a high standard of outpatient follow-up and ongoing skin screenings."

VANCE VANIER, M.D.

Founder/co-managing director, Chicago Pacific Founders



their employees — from 27% in 2015 to 74% in 2018.¹⁴

- **Recent example:** In 2019, Amazon launched a virtual care clinic called Amazon Care as a pilot for its Seattle employees, including a virtual care platform, in-person follow-up doctor visits at an employee's home or office, and at-home prescription drug delivery. It contracted with Oasis medical group, which may have been created for the purposes of this pilot.¹⁵

A variety of physician-led companies are emerging, aimed at helping phy-

sician practices remain independent. Three such examples are: Aledade, a venture-backed company that partners with primary care physicians to build ACOs; Privia, a PE-backed organization that supports independent practices; and the recently announced Altas from Blue Shield of California. They seek to provide physician practices with the tools and technologies to be successful in today's environment, including value-based contracts, eliminating some incentives for those practices to be acquired by or align with others. ●

Investors Impact on Health Care

It is too early to assess the overall impact of these trends on the quality, cost and convenience of care. In the shift to value-based care, private-equity firms and new investors can provide physician practices with capital for investments, streamline administrative tasks, use economies of scale for purchasing, improve billing practices, bring in new vendors and provide experienced executive leadership. What they promise to deliver is similar to what hospitals and health systems are trying to achieve in the transition to value-based care.

Are these investors in a better position to move from a fee-for-service base to risk contracts? They can take high-performing practices and set them up for success in risk-based models in about three years. During the shift to value-based care, they use analytics and tools to reveal opportunities to close gaps in care. The standardization in risk models focuses on the delivery of clinical and financial results.

- **Higher-quality outcomes** as a result of tighter clinical integration powered by common IT and practice support tools, adequate team-based staffing and shared evidenced-based clinical protocols.
- **Increased efficiency** by allowing practices to achieve more scale, increased revenues, administrative savings and operational efficiencies if supported by investments in practice infrastructure.
- **Improved patient convenience**, a major focus of the new telehealth and technology-enabled care delivery companies. There is evidence — including from hospitals and health systems — that telehealth and virtual care platforms can improve access to care.¹⁶
- **Focus on the whole person** with some new provider groups coordinating medical, behavioral health and social needs for members (especially for MA and Medicare-Medicaid dual-eligible patients).

There may be some adverse consequences of increased private-equity ownership on the health care system. Some observers have raised concerns about private-equity investors' focus on short-term returns, potentially at the expense of quality of care.^{17,18} ●

Private equity-backed physician practices and the link to surprise billing

There is growing concern over emergency health care companies owned and operated by private-equity firms and their role in surprise billing. Surprise medical bills are the unexpected and sometimes unreasonably high medical bills patients receive after being treated by doctors or medical facilities outside their health insurance network. Surprise bills are difficult to avoid if patients face a medical emergency and must go to the emergency department (ED), or if they are hospitalized and require access to specialty medical services.

In the past, hospitals contracted for emergency, radiology, pathology and anesthesiology services with small, local doctors' groups to provide coverage. Now, private-equity firms are buying physician practices and rolling them into large, corporate physician-staffing firms that provide services to outsourced emergency EDs, anesthesiology and radiology departments and other specialty units. Private-equity firms find these acquisitions financially attractive because there is a large and growing demand for these specialties, and they can charge higher fees for out-of-network physician services. ●



Strategic Implications for Hospitals and Health Systems

Hospitals and health systems can expect further competition from private equity firms in numerous outpatient specialty areas when it comes to recruiting new physicians and purchasing existing practices.

5 ORGANIZATIONAL THREATS

While the impact of these trends will be highly market dependent, there are some significant business implications for hospitals and health systems.

THREAT 1 | Increased competition and cost for physician recruitment, which may hamper a health system's ability to develop desired services along the continuum of care.

Actions for leaders: Explore alternatives to compensation to meet physicians' other needs — flexible scheduling, opportunity to participate in research or academic activities, opportunities to serve in clinical leadership roles.

THREAT 2 | Physician groups owned by or aligned with insurers, private-equity investors or venture capital groups may redirect patient care to those groups away from hospitals and health systems, including surgeries and inpatient admissions.

Actions for leaders: Identify ways to execute on the benefits of a comprehensive and integrated system of care to patients, including better care transitions across the care team within the same system.

THREAT 3 | Physicians in the new models may seek to develop competitive physician-led alternative payment models directly with insurers rather than participate in hospital-led initiatives.

Actions for leaders: Partner with physician groups to manage the cost risk of inpatient utilization.

THREAT 4 | Groups targeting special populations, special services, and subacute and urgent care may fragment care further and create a barrier to health system-driven integrated care models.

Actions for leaders: Identify ways to execute on the benefits of a comprehensive and integrated system of care to patients, including better care transitions across the care team within the same system.

THREAT 5 | New care delivery models by these new types of practices — supported by technology, data analytics infrastructure and patient-centered teams — may create heightened expectations for convenience, ease of access and care management that hospitals and health systems may find hard to match.

Actions for leaders: Pay close attention to the patient experience, and adopt new technologies to support that journey.

5 ORGANIZATIONAL OPPORTUNITIES

These trends also present opportunities with potential benefits to hospitals and health systems.

OPPORTUNITY 1 | Explore opportunities for joint ventures: If investors are able to enhance the sophistication of physician practices in the community, it creates opportunities for hospitals and health systems to partner on service line development, population health and/or risk-based models of care.

OPPORTUNITY 2 | Explore clinical integration and affiliation models: Affiliating with well-run, established physician practices on clinical integration programs may yield better returns than traditional employment or ownership models.

OPPORTUNITY 3 | Expand sites of care: New capital may allow physician practices to create new sites of care that can decompress demand at the main hospital, allowing the health system to focus on higher-acuity patients.

OPPORTUNITY 4 | Fill gaps in care continuum: New practice models provide hospitals and health systems with access to a more robust continuum of care (telehealth/digital health services, specialty services, hospital-based physician services) that otherwise would be difficult to adequately recruit and staff.

OPPORTUNITY 5 | Divest costly management services organization (MSO) functions: These opportunities allow the hospital to divest costly MSO functions while allowing the hospital to maintain affiliation with physicians.





SNAPSHOT: Partnership between John Muir Health and Optum

In July 2019, John Muir Health, an integrated health system with three hospitals and multiple ambulatory sites in Northern California, announced a novel comprehensive partnership with United-Health Group's Optum. John Muir has contracted with Optum to run the health system's information technology, revenue-cycle management, analytics, purchasing, claims processing and other nonclinical functions. As part of the partnership, 540 John Muir staff will become Optum employees. The goals of John Muir Health and Optum are to increase efficiency of administrative operations to focus on patient care.

"This is the largest comprehensive relationship between a health services company and a hospital system that we are aware of. Basically, John Muir Health is saying, 'We want to really double down and focus our assets, skills and management team on delivering care in our hospitals. We want to be unburdened by revenue cycle, we want to be unburdened by IT and we want to be unburdened by a whole bunch of stuff,'" says Wyatt Decker, M.D., CEO of Optum Health.

George Sauter, chief strategy officer at John Muir Health adds, "The Optum relationship is focused on supporting patient care, not providing it. Optum has proven tools and processes for doing things we've been challenged by for a while, like improving our Risk Adjustment Factor scores."¹⁹

This model may lend itself well to independent hospitals. ●

These developments in physician-practice ownership models increase the importance for hospitals and health systems to develop thoughtful and targeted physician alignment strategies based on organizational goals, resources available, practice management competencies and market conditions. Acquiring or affiliating closely with physician practices can allow health systems to create a network of providers who collaborate on population health initiatives through common IT care management systems and ensure sufficient scale and control along the care continuum to enter into alternative payment arrangements.

Health systems will need to strengthen their value proposition to physicians to attract them to employment or affiliation models, and will need to think about offering tangible benefits beyond the value of their brand. But employment is not the only path — health systems also should consider how contracting with new providers, including virtual providers, may complement their network of physical clinic locations and physician practice partners. These may represent a new option for providing access to services while keeping them within a health system-branded experience and network. ●

Conclusion

There has been significant and growing investment in physician practices by a variety of nontraditional players including PE investors, VC investors, health plans and large employers. While some of it may feel threatening to hospitals and health systems — as their longtime partners are being invested in by organizations that may have divergent interests — the activity also can be a source of new opportunity and mutually beneficial partnerships. A culture that respects physician input and leadership ensures relationships with physicians are a win for consumers and clinicians.

If PE firms are able to relieve the administrative burden of running a physician practice and allow physicians to focus on patients that may yield more appetite for constructive partnerships on service lines, institutes or other clinical initiatives. If PE- or venture-backed practices are able to be more sophisticated partners in managing health under value-based arrangements, hospitals stand to benefit. And if they elevate the bar for quality and convenience, the community stands to benefit.

As health system leaders look at the physician practice merger and acquisition activity in their local markets and reassess their own physician alignment strategies, they may offer a competitive value proposition or otherwise consider what may be more options for fruitful partnership than previously thought. ●



Resources

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