SAM GRAVES, MISSOURI
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States

U.S. House of Representatives

Committee on Small Business

2361 Rayburn House Office Building

Washington, DC 20515–6315

Memorandum

To: Members, Small Business Subcommittee on Investigations, Oversight and Regulations
From: Committee staff
Date: July 16, 2012
Re: Hearing: *Health Care Realignment and Regulation: The Demise of Small and Solo Medical Practices?*

On Thursday, July 19, 2012 at 10:00 a.m., the Small Business Subcommittee on Investigations, Oversight and Regulations will meet in Room 2360 of the Rayburn Building for the purpose of receiving testimony on small and solo physician practice consolidation.

I. Introduction

The practice of medicine has always been evolving due to research, but also for technological, societal and legal reasons.[1] For many years, medicine seemed to be a cottage industry, with physicians typically opening or joining a practice after medical school.[2] Over the past ten years, however, increasing numbers of physicians, particularly those in small and solo practices, have found independent practices to be economically unfeasible.[3] For a number of reasons, they are affiliating with larger medical practices or hospitals. The result may be a dramatic shift in the delivery of health care.

This hearing will provide an opportunity for Members to learn more about the reasons for these changes, and some assessments of what they mean.

II. The Changing Medical Practice

---

[1] THE PHYSICIANS FOUNDATION, HEALTH REFORM AND THE DECLINE OF THE PHYSICIAN PRACTICE 4 (2010) [hereinafter Decline of Physicians] *at* http://www.physiciansfoundation.org/uploadedFiles/Health%20Reform%20and%20the%20Decline%20of%20Physician%20Private%20Practice.pdf.

[2] S. J. Swensen, M.D., M.M.M., G. S. Meyer, M.D., E. C. Nelson, D.Sc., M.P.H., G.C. Hunt, M.D., M.B.A., D. B. Pryor, M.D., J.I. Weissberg, M.D., G.S. Kaplan, M.D., J. Daley, M.D., G.R. Yates, M.D., M.R. Chassin, M.D., M.P.P., M.P.H., B. James, M.D., M.Stat., & D. Berwick, M.D., M.P.P., *From Cottage Industry to Postindustrial Care – the Revolution in Health Care Delivery,* N. Engl. J. Med. (Feb. 4, 2010), *at* http://www.nejm.org/doi/full/10.1056/NEJMp0911199.

[3] *See, e.g.*, Parija Kavilanz, *Doctors Going Broke*, CNN MONEY (Jan. 9, 2012), *at* http://money.cnn.com/2012/01/05/smallbusiness/doctors_broke/index.htm, and Gardiner Harris, *More Doctors Giving Up Private Practices*, N.Y. TIMES (Mar. 25, 2010), *at* http://www.nytimes.com/2010/03/26/health/policy/26docs.html?pagewanted=all.

In 2007-2008, there were about 741,000 physicians in the United States.[4] According to the American Medical Association (AMA), 78% of practicing primary care physicians[5] were in physician-owned offices, while 18% practiced in hospital or other institutional settings.[6] AMA counted 28% of physicians in physician-owned solo practices, 24% in practices of two to four physicians and 13% in practices of five to nine.[7]

According to the American Association of Orthopaedic Surgeons, the percentage of orthopaedic surgeons in small and solo practices has declined since 2004. In 2004, 76% reported practicing in small or solo practices; by 2010, the percentage was 64%.[8] In 2004, 17% of orthopaedic surgeons reported practicing in large multi-specialty groups, academic centers or hospitals; by 2010, it was 30%.[9]

The nonpartisan Center for Studying Health System Change found that the trend of physicians joining larger practices and small practices merging has been going on for over ten years.[10] Its physician survey reflects both hospital purchases of physician practices and individual physicians (including those completing residencies) accepting positions with hospitals.[11]

In 2011, Accenture reported that physicians were continuing to sell their businesses and seek positions with health care systems and hospitals.[12] Accenture recent analysis of its survey data predicts that by 2013, less than one-third of physicians will be in private practices.[13] Similarly, an article in the New England Journal of Medicine found that half of all practicing U.S. physicians are employed by hospitals or integrated delivery systems.[14]

A combination of factors has produced this apparent trend. Younger physicians want a stable income, a lifestyle free from being on call and the financial pressures of private practice, as well as financial assistance with medical school debt, malpractice insurance and health information technology.[15] Established physicians have found years of rising costs and meager increases in Medicare,

---

[4] DONALD BARR, M.D., PH.D., INTRODUCTION TO U.S. HEALTH POLICY: THE ORGANIZATION, FINANCING AND DELIVERY OF HEALTH CARE IN AMERICA (3rd ed. 2011).

[5] Primary care was defined in this AMA survey as encompassing family practice, general internal medicine and pediatrics. Some organizations also include geriatrics in the definition of primary care.

[6] American Medical Association Survey Data (2007-2008). Email from Aiken Hackett, Assistant Director, Congressional Affairs, American Medical Association, to Committee staff (May 30, 2012) (on file with recipient).

[7] *Id.*

[8] Email from Graham Newsom, Associate Director, American Association of Orthopaedic Surgeons, to Committee staff (June 6, 2012) (on file with recipient).

[9] *Id.*

[10] Email from Paul Ginsburg, Ph.D., President, Center for Studying Health System Change, to Committee staff (June 6, 2012) (on file with the recipient).

[11] *Id.*

[12] CLINICAL TRANSFORMATION: DRAMATIC CHANGES AS PHYSICIAN EMPLOYMENT GROWS, ACCENTURE (2011) *at* http://www.accenture.com/us-en/Pages/insight-clinical-transformation-physician-employment_grows.aspx?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+AccentureHealth_and_Life_Sciences_Research+(AccentureHealth_and_Life_Sciences_Research) [hereinafter Accenture survey].

[13] *Id.*

[14] R. Kocher, M.D. & N. Sanhi, Hospitals' *Race to Employ Physicians – The Logic Behind a Money-Losing Proposition*, N. ENGL. J. MED. (May 12, 2011), *at* http://www.nejm.org/doi/full/10.1056/NEJMp1101959.

[15] MGMA PLACEMENT REPORT at 1. *See also* email from Paul Ginsburg, Ph.D., President, Center for Studying Health Systems Change, to Committee staff (June 6, 2012) (on file with the recipient).

Medicaid and private insurer reimbursement rates, changing regulations, an inability to recruit younger partners, and frustration with administrative tasks to be wearing on them.[16]

Some physicians also believe the share of patients from whom they cannot collect any money is increasing.[17] And they complain that Medicare reduced payments to doctors for certain tests or drugs by 10-40%, depending on the practice, but not hospitals.[18] For example, some physician offices that invested in diagnostic equipment, were subject to suspicion that they were sometimes ordering tests because they received a financial benefit. Once Medicare scaled back payments, some affected physicians could not make ends meet.[19] After Medicare's decision, the chief executive officer of the American College of Cardiology estimated that the number of cardiologists in private practice dropped by 50%.[20] Cardiologists who have a Medicare-heavy patient load, for example, may find that reimbursement cuts can destabilize their practices.[21] Oncologists were once permitted to profit from drug sales, purchasing quantities of drugs at wholesale prices and selling them to patients at higher prices, but Medicare later revised and lowered the reimbursement for those drugs.[22]

There have been reports of physicians facing bankruptcy.[23] Some say the economics of providing health care must change; that it's too expensive for them to practice, and they must turn away those who they can no longer subsidize.[24] Some are even taking on a second job.[25] Physicians have also cited the federal government's push for health information technology systems as a reason to sell or close their practice.[26]

At the same time, hospitals have seen lower levels of admissions as patients postpone non-essential (and sometimes essential) diagnostic tests and procedures due to the economic downturn. Hospital employment of physicians is seen as a way to increase referrals and admissions.[27] This increases a hospital's market share and may allow it to save on centralized and bulk purchasing of drugs

---

[16] ACCENTURE SURVEY at 2.

[17] Gardiner Harris, *More Doctors Giving Up Private Practices*, N.Y. TIMES (Mar. 25, 2010), *at* http://www.nytimes.com/2010/03/26/health/policy/26docs.html?pagewanted=all.

[18] Manoj Jain, *Doctors in Private Practice Are Now Joining Hospital Staffs*, WASHINGTON POST (March 12, 2012) at http://www.washingtonpost.com/national/health-science/doctors-in-private-practices-are-now-joining-hospital-staffs/2012/02/14/gIQAEFz07R_story.html.

[19] *Id.*

[20] Gardiner Harris, *More Doctors Giving Up Private Practices*, N.Y. TIMES (Mar. 25, 2010), *at* http://www.nytimes.com/2010/03/26/health/policy/26docs.html?pagewanted=all.

[21] Parjs Kavilanz, *Doctors Going Broke*, CNN MONEY (January 6, 2012), *at* http://money.cnn.com/2012/01/05/smallbusiness/doctors_broke/index.htm.

[22] *Id.*

[23] *Id.*

[24] *Id.*

[25] *Id.*

[26] *See* Gardiner Harris, *More Doctors Giving Up Private Practices*, N.Y. TIMES (Mar. 25, 2010), *at* http://www.nytimes.com/2010/03/26/health/policy/26docs.html?pagewanted=all; Gardiner Harris, *Family Physician Can't Give Away Solo Practice*, N.Y. TIMES (Apr. 11, 2011) *at* http://www.nytimes.com/2011/04/23/health/23doctor.html?pagewanted=all; and *The Family Physician's Practice Affiliation Guide* 3, Florida Academy of Family Physicians, *at* http://www.fafp.org/pdf/aco/FL_practice_affiliation_guide_2011.pdf.

[27] Ann S. O'Malley, Amelia M. Bond & Robert A. Berenson, *Rising Hospital Employment of Physicians: Better Quality, Higher Costs?* Center for Studying Health Systems Change, *at* http://www.hschange.com/CONTENT/1230/.

and supplies.[28] In fact, some believe hospitals' employment of physicians is a kind of loss leader, with hospitals losing money on physician employment and recouping it on referrals to specialists who use their facilities.[29]

Hospitals must attract and employ the right combination of physicians from high-growth and revenue-producing specialties, such as cardiology, radiology and oncology, to bolster their patient volume.[30] Some hospitals have found financially-strapped physician practices to be good values and offered to purchase them, promising the physicians attractive salaries in part because hospitals can sometimes qualify for higher Medicare reimbursements.[31]

III. The Trend's Effect on Small Businesses

A. *Small and Solo Medical Practices*

The shift away from private practice to larger practices and hospitals means that physicians, depending on their resources and geographic location, may have more choices.

Physicians considering hospital or larger practice employment may find they need solid medical training and decision-making skills, as well as a team player attitude and knowledge of health information technology. Hospitals typically lose money when physician productivity falls, so some have replaced salaries with productivity- and quality-based[32] compensation.[33] Some physicians report feeling rushed with patients.

Hospitals often invite physicians employed there to take roles in management and governance to strengthen loyalty and improve clinical care.[34] The doctors who find this type of employment rewarding value its stability and feel relieved of private practice administrative burdens so they can concentrate on patient care.[35]

There are physicians who become hospital employees and regret their decision. Although they once felt burdened by administrative tasks, for example, as employees they may feel frustrated by the lack of control. Some private practice physicians who are feeling financial pressures don't want to

---

[28] Manoj Jain, *Doctors in Private Practice Are Now Joining Hospital Staffs*, WASHINGTON POST (March 12, 2012) *at* http://www.washingtonpost.com/national/health-science/doctors-in-private-practices-are-now-joining-hospital-staffs/2012/02/14/gIQAEFz07R_story.html.

[29] R. Kocher, M.D. & N. Sanhi, Hospitals' *Race to Employ Physicians – The Logic Behind a Money-Losing Proposition*, N. ENGL. J. MED. (May 12, 2011), *at* http://www.nejm.org/doi/full/10.1056/NEJMp1101959.

[30] ACCENTURE SURVEY at 2.

[31] Manoj Jain, *Doctors in Private Practice Are Now Joining Hospital Staffs*, WASHINGTON POST (March 12, 2012) *at* http://www.washingtonpost.com/national/health-science/doctors-in-private-practices-are-now-joining-hospital-staffs/2012/02/14/gIQAEFz07R_story.html.

[32] NEW ENGLAND JOURNAL at 3.

[33] Ann S. O'Malley, Amelia M. Bond & Robert A. Berenson, *Issue Brief No. 136: Rising Hospital Employment of Physicians: Better Quality, Higher Costs?* Center for Studying Health Systems Change, *at* http://www.hschange.com/CONTENT/1230/.

[34] *Id.*

[35] *Morning Edition: Hospitals Lure Doctors Away from Private Practice* (NPR radio broadcast, October 13, 2010) *at* http://www.npr.org/templates/story/story.php?storyId=130237412.

become hospital employees or sell their practice. They but want to keep practicing, but can't afford to, and sometimes can't even give away their solo practices.[36] The recession has made owning a small business more difficult, perhaps even more so for physicians, who have not trained to run a business.

Small and solo practices can be disadvantaged in negotiating with pharmaceutical companies and insurers. Large group practices can often negotiate higher fees from insurers and better prices from pharmaceutical companies because of their high patient volume.[37]

For a physician, the decision on what type of employment is best may be the model that provides the best trade-offs between autonomy and employment.[38] Many physicians are considering leaving the practice of medicine at a time when the United States is experiencing a continuing physician shortage, especially of primary care physicians.[39] To meet the demand needed by an aging population and the expansion of health insurance provided by the health care law, we must enact policies that will encourage more students to study medicine.

B. Small Stakeholder Companies

Stakeholder small businesses include the medical device, health IT systems, pharmaceutical and office supply companies, for example, which call on physician offices as customers. These businesses, whose customers are physicians now employed by hospitals or larger practices, may find that they need different sales strategies.[40] Instead of the physician who owns a small practice, or the physician's office manager, the stakeholder may now be dealing with a hospital or large practice's corporate purchasing officer. That organization may already have a long-standing sales relationship with another company. These arrangements may have implications for negotiating, pricing and competition.[41]

IV. Issues for the Subcommittee

The Subcommittee Members may want to consider the following issues:

A. Are there real trends from small and solo practices to larger practices and hospitals?
B. What is the economic impact of fewer small and solo practices?
C. Will the health care law accelerate this trend?
D. Can small and solo practices survive?

V. Conclusion

This hearing will provide an opportunity for Members to learn more about the current physician practice arrangements, the reasons for them, and their implications.

---

[36] Gardiner Harris, *Family Practice Physician Can't Give Away Solo Practice*, N. Y. TIMES (April 22, 2011) *at* http://www.nytimes.com/2011/04/23/health/23doctor.html?pagewanted=all.
[37] *Id.*
[38] ACCENTURE SURVEY at 3.
[39] Suzanne Sataline and Shirley S. Wang, *Medical Schools Can't Keep Up*, WALL ST. J. (April 12, 2010) *at* http://online.wsj.com/article/SB10001424052702304506904575180331528424238.html.
[40] ACCENTURE SURVEY at 2.
[41] *Id.* at 3.