MedPAC MULLS PAYMENT POLICIES' EFFECTS ON HOSPITAL MERGERS

Medicare payment policies are encouraging hospital systems to buy up physician practices, leading to higher costs for both the government and beneficiaries, according to data presented to the Medicare Payment Advisory Commission (MedPAC).

The share of physicians employed by hospitals increased from 26% in 2012 to 44% in 2018 — a result of the vertical integration of hospitals and physician practices, MedPAC staff told the commission. Medicare billing for various types of services, such as chemotherapy administration, echocardiography and office visits, also has shifted away from physician offices and toward hospital outpatient departments over the same period.

A lack of site-neutral payments in Medicare is partly responsible for the trend toward vertical mergers, MedPAC staff told the commission. Medicare often pays higher rates for services provided in a hospital setting than for the same services provided in a doctor's office.

CMS has attempted to implement site neutrality in its hospital outpatient payment rules, but the policy is being challenged in the courts.

Hospitals argue that consolidation improves care coordination and efficiency. But MedPAC staff said the medical literature does not suggest material improvements in quality stemming from vertically integrated health systems.

Vertical integration does increase Medicare costs, including through increased beneficiary cost-sharing, MedPAC staff said.

In contrast, horizontal integration — mergers between hospitals — does not generally increase Medicare costs, though it does lead to higher commercial prices because hospitals with greater market share can obtain higher prices from commercial plans.

MedPAC's research will be included in a report on the effects of hospital consolidation that was requested by Congress. ■