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Merger Movement: The Shifting Dynamic of Medicine in Orange County

Medicine is a highly diverse and complex field, at its core a practice aimed at providing patients with the highest quality of health care. In addition, the field involves a network aspect through which physicians, hospitals, and health plans are interwoven in a marvel hierarchy of organization and leadership. While an individual private practice remains the traditional model of medicine, physicians are increasingly choosing to consolidate with larger players: hospitals, health systems, and various-sized groups. The dynamic of medicine, as in life, has evolved in alignment with economic and societal trends. The shift, evident on a national basis, is similarly apparent on a smaller scale in the context of medical groups in Orange County, California.

Traditionally, physicians have been solo practitioners. In the 1900’s, physicians most often visited the patient in his or her home and was paid for his services with cash. Now, cost negotiations are done with large insurance companies, compelling physicians to consolidate with other practitioners, hospitals, or health systems for resources. In 2005, two-thirds of medical practices were physician-owned—today this number has dropped to less than half. A poll conducted in 2009 states that only 32% of physicians in the United States maintained a solo or 2-physician practice, the remainder choosing to be in
groups or hospitals of various sizes (Physicians Foundation 7). Small practices are now the minority, becoming almost a remnant from the much simpler past.

Several changes in the business aspect of the medical field may be cited as the stimulus that has shifted physicians away from the solo practice. The first may be attributed to the recent cuts in physician reimbursement. Reimbursement, the amount the insurance company pays the physician for provided services, has been steadily cut by Medicare since 1991. Cuts can be attributed to the fact that physician payment is based on the Sustainable Growth Rate formula, a formula which ties payment to the Gross Domestic Product. As the economy fluctuates, the GDP changes and affects physicians, often in a negative way. Hospitals are not subject to this formula, thereby motivating physicians to consolidate with them. (Lipthrott 1) Physicians also may share economic risk through a medical group or independent practice association (IPA), a legally organized alliance in which the physicians jointly own the practice. In this way, they may retain autonomy in their traditional practice while also receiving the benefits of a group model. IPAs contract with HMOs, corporations
that are financed by insurance premiums. Physicians also may organize themselves into single-specialty groups or become employed by medical foundations, health services corporations, integrated healthcare delivery systems, and similar health care organizations in order to alleviate financial burden.

Other shifts prompting physicians to seek the support of a staff or group practice are paperwork, a rise in malpractice insurance costs, and the implementation of new health technologies spurring a need to modernize a practice. (Cheung-Larivee 1) Finally and most notably, the movement towards mergers has also been recently accelerated by health care reform, namely the 2012 Affordable Care Act. 74% of physicians, according to a national survey of 2,400 physicians conducted in 2010, said they would take steps to change their current practice style in the next one to three years in response to the newly implemented Act. (Physicians Foundation 56) The Affordable Care Act expands access to health insurance and includes provisions to increase the number of physicians to support the recently insured (Physicians Foundation 74). Despite these provisions, there is still likely to be a shortage in primary care physicians over the next few years due to a cap on funding that the federal government provides for physician training. (Physicians Foundation 76)
This may create access issues for many patients, causing physicians to turn to delivery models to meet increasing demand.

Though the recent healthcare reform will most likely usher in increases in coverage and quality, the transition ominously looms over many physicians. According to a national survey, the majority of physicians responded unfavorably to its passage. In fact, 52% of the physicians surveyed reported “very negative” initial reactions to the 2010 passage of the Patient Protection and Affordable Care Act. Three or four months later, 39% of physicians reported that they felt more negative towards the law than they did initially (Physicians Foundation 52).

In California, however, this may not be the case. According to CEO of the California Medical Association Dustin Corcoran, “California’s experience is very different from the rest of the nation” (Lauer 2). Because the state has embraced the managed care model of care and has implemented considerable technology, it is experiencing fewer issues with transition.

California Permanente Medical Group, a branch of Kaiser Permanente, actually reported the highest level of satisfaction in their most recent survey. With 14,600 total physicians and 8.9 million health plan members, Kaiser is the largest managed care organization in the U.S. Beginning in 1996, it cycled through a series of mergers and acquisitions of health plans to set a foundation for its multilayered organization. With its early adoption of electronic health records and efficient integrated systems (Kaiser Foundation Health Plan, Kaiser Foundation Hospitals, and Permanente Medical Groups) patients and physicians are highly satisfied. It serves as an example of “integration done right,” as stated
by Corcoran(Lauer 2). Kaiser also employs the model of the accountable care organization (ACO), defined as a set of physicians and hospitals that accept joint responsibility for the cost and quality of care received by patients(Kaiser 1). According to their 2011 benchmarking study, the ACO model allows their health plan to be a national benchmark of cost-effectiveness when compared to other plans across the United States.

Kaiser Permanente serves as just one example of the growing trend in organized medicine. Kidney dialysis services provider DaVita Inc. is also gravitating towards the accountable care model with its recent purchase of the medical group HealthCare Partners. HealthCare Partners consists of about 700 doctors and around 8,300 affiliated independent physicians, making it currently the largest operator of physician networks and groups in the U.S. In 2010, it acquired Talbert Medical Group, a move that expanded HealthCare Partners to Orange County. DaVita provides dialysis services to patients with a network of about 1,500 facilities and 700 hospital units(Matthews 1). The Wall Street Journal called the $4.42 billion union “one of the biggest bets so far that the health-care system is moving toward large, integrated medical providers that can manage patients under a budget”(Matthews 1). By participating in this merger, DaVita is depending on large healthcare companies and groups encompassing the future of the American healthcare industry.

A more recent example of the consolidations throughout California was announced on August 15th, 2012: the affiliation of St. Joseph and Hoag, two of Orange County’s premier health providers. Their six local hospitals, networks of
doctors, and outpatient clinics will now provide one-third of healthcare in Orange County. They believe that their new company will foster improved prevention of disease, wellness, coordination of services, and development of specialized care in the OC area. Executive vice president of the Hospital Association of Southern California James Lott commented on the budding joint healthcare company, encapsulating the future of medicine: “You’re going to see providers of all stripes and types coming together and forming these collaborative arrangements. That is the new model. That is tomorrow.” (Perkes 1)

The truth in his statement echoes through numerous other Orange County mergers, namely the recent brand unification of the provider UnitedHealth under the company Optum. Optum’s mission statement is to serve the broad healthcare marketplace with their divisions OptumHealth for health management, OptumInsight for innovations in technology, and OptumRx for prescriptions. The combined businesses serve more than 60 million people, employ more than 30,000, and reported revenues of $25 billion in 2010 (UnitedHealth 2). The collaboration between UnitedHealth and Optum reflects the movement towards positive coordinated change: their alignment is aimed at best serving clients and simplifying the way they access health services. In September 2011, UnitedHealth bought Monarch HealthCare, a multi-specialty independent practice association consisting of over 2,300 physicians. This effectively established UnitedHealth’s Optum health-services unit’s presence in the Orange County region.
Another microcosm of the merger movement occurred recently in Orange County between Memorial Health System and Greater Newport Physicians. Memorial, based in Fountain Valley, announced in February that it bought Nautilus Healthcare Management Group in Newport Beach, a management services provider for Greater Newport Physicians. Greater Newport, an independent practice association consisting of 400 physicians, now possesses the ability to expand its network of healthcare providers and hospitals as well as contract with more health plans (Reed 1). This move is a step further in MemorialCare’s ongoing expansion of its physicians, hospitals, outpatient services, programs and partnerships. In addition to the newly acquired Greater Newport, it also consists of MemorialCare HealthCare Foundation which encompasses primary care group MemorialCare Medical Group and Memorial Prompt Care. The growing health system now contracts with over 2,500 affiliated physicians and 11,000 employees.

Organizations affiliated with medicine are taking notice of the increase in mergers, acquisitions, consolidations, and affiliations. The Orange County Medical Association (OCMA) is a non-profit voluntary professional organization representing physicians of all specialties and modes of practice. The OCMA, a
county component of the California Medical Association, is the unified voice of physicians and their patients in Orange County dedicated to excellence in healthcare and public health. Similar organizations have focused their attention primarily on group representation. The California Association of Physician Groups (CAPG), one such organization, claims to be “the nation’s largest professional association representing physician groups practicing in the managed care model” (CAPG 1). Their mission statement is to assist accountable physician groups and support members through public advocacy, educational services, and collaboration with other stakeholders in California healthcare.

As rapidly and frequently as our society evolves, the practice of medicine similarly adjusts in an effort to provide high-quality cost-effective patient care. Steven Green, president of the California Academy of Family Physicians, aptly stated that “medical practice is changing and thriving in many models” (Lauer 2). In response to the physician-patient relationship being complicated by developments in society, technology, and government policy, medical practices must adapt by means of consolidation. As the layers of organized medicine become more defined, so does the future of health care in Orange County as well as in the United States.

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