Risk Payment Models Will Fuel Growth of Equity-Backed Physician Practices

written by Theresa Hush | August 8, 2019

Risk payment models present a daunting challenge to the very cultural of medicine—for most physician practices. Physicians identify their practices as clinical enterprises more than businesses, although some have managed to achieve success solely by being excellent clinicians in their fields. Patients, however, are quick to see the flaws along with higher costs—hence complaints about customer service, poor billing practices, and difficulty communicating. But clinical practice success, up until now, has been measured by the yardstick of Fee-for-Service reimbursement: higher incomes through patient volume and services.

Hospital purchasers of physician practices adopted the same benchmarks of success. Even as hospital systems introduced modernizations like technology and improvements in clinical flow and patient billing, however, they often focused on the physician practice engine to achieve more productivity and greater volume of services.

That reliance on volume-driven revenues accounts for the fear of Medicare risk models. While many physician groups and health systems see the possibilities, they are slow to adopt risk.

Even ACOs have struggled with the concept of downside risk.

But there is one rapidly growing physician practice model that will actually be fueled by the expansion of risk: Equity-backed physician practices. Let’s examine how equity purchasers are influencing the landscape of health care providers.

Equity-Owned Specialty and Multi-Specialty Groups are Booming

Equity investors have been flocking to health care because of high revenues and opportunities to create efficiencies and growth. Another appeal is the recession-resistance of the health care industry; medical emergencies can’t be deferred, and utilization tends to rise as workers use up benefits before they expire.

More recently, those deals have increasingly involved physician practices. Dermatology and ophthalmology, followed by other specialties such as urology, gastroenterology, and orthopedics, have the highest number of equity investor purchases. Also targeted are subspecialty and emergency medicine practices, including urgent care. Some specialties have higher number of purchases because of a centrally active acquirer, such as EmCare’s acquisitions of emergency physician practices. In other specialties, multiple private equity firms are active acquirers.

According to *Bloomberg Law*, there have been 107 combined dental and physician practice transactions in the first half of 2019, alone, a stark increase over 2018. While many purchasers have consolidated smaller practices, two recent transactions may lead the wave of major group purchases. The recently closed purchase of DaVita Medical Group by Optum/United Health Group, along with that of Summit Medical Group by CityMD announced in June 2019, are both well positioned to play in the emerging value-based reimbursement environment. Warburg Pincus equity investment firm characterized the purchase by its CityMD partner as “creating the leading physician-centric and consumer-oriented integrated delivery system in the largest US healthcare market.”

Consulting firms active in practice acquisition forecast major increases of equity investment in physician practices, along with consolidation of equity companies and expansion into areas of specialization, such as ophthalmology into optometry.

Equity Deals are Perceived as Good for Practice and Physician Future

For some groups, selling to equity investors has distinct advantages over hospital sales. One advantage is maintaining ownership and a voice. Ophthalmologists and dermatologists, who have navigated a high number of practice acquisitions to an impressive volume of separate equity firms, share stories broadly of their experiences. These identify several key benefits of equity purchases:

- Physician ownership maintained, although with some loss of control;
- Investment in infrastructure;
- Practice value monetized immediately, so physicians financially benefit;
- Route to expansion and growth;
- Better physician incentives;
- Helping physicians practice medicine by off-loading practice burden.

Equity practice purchases are not without controversy among physicians, however. Just last week, an editorial in the *Journal of the American Medical Association* (JAMA) by two dermatologists portrayed the trend as possibly leading to the demise of medical practices in response to the urgency of cutting costs.

How Can Equity Investors Make Money While Squeezing Costs?

Many industry experts believe that the trend toward physician equity purchases will raise costs, not lower them. In a Fee-for-Service environment, there is little doubt that any purchaser will take advantage of the opportunities available for revenue.

But in the coming environment of risk reimbursement models, especially capitation or bundled per-case payments, there may be an advantage for risk-savvy companies: predictable revenues. Direct Contracting and Bundled Payments, in particular, offer practices opportunities to achieve guaranteed revenues and benefit from additional savings.

With good analytics and infrastructure, it is possible to target and moderate variations in cost of individual cases. It takes end-to-end flow of collecting risk data from patients, use of an efficient and effective clinical pathway that leads to the discussion and adoption of a treatment regimen, and execution of the regimen by the physician and patient. It is a job of technology, infrastructure, and process.

Of course, that is a glib summary of steps to accumulate savings. Most of those steps are not routine in the typical practice. Risk data are not always collected, and do not inform patient treatment plans, which are usually designed by the physician. The physician and patient don't have agreement on what is possible in the patient's life, or financially.

But that's the point. Physicians don't have the time to guide the development of a process toward risk, and practice staff are often not experienced enough to take on the task with confidence and power. Equity investors have the imperative to focus on business and its risks. They may be instrumental in helping businesses move toward profit in their markets, with the right relationships and incentives.

Business-focused practices are more likely to pay attention to consumers/patients as medical purchasers, delivering better customer service during service delivery and better outcomes to lower costs. That's rational decision-making for most businesses who understand that their customers have choice of providers. But under the current medical system, consumers are recipients of service, while payers have the purchasing power.

Purdue University could be an example of how the staunchest of enterprises, a university, adopted innovation through an equity investor mindset. That experiment resulted not only in frozen tuition for six years, but an investment program that helps fund students' education.

Physician Equity Will Leave a Mark on Medicine, Good or Bad

Experience will teach whether equity-purchased practices will indeed be consumer-focused and also help physicians realize their goals as clinicians. There are good reasons to question what will happen to clinical innovation and pushing the envelope of medical research and discovery, should health care enterprises privatize.

But business is finally coming to health care. It's not coming in the way everyone expected, through adoption of modest changes in business-like practices and modernizations, and more responsiveness to purchasers and patients. While those changes are also happening, the whole nature of the business of health care is changing.

Founded as ICLOPS in 2002, Roji Health Intelligence guides health care systems, providers and patients on the path to better health through Solutions that help providers improve their value and succeed in Risk. Roji Health Intelligence is a CMS Qualified Clinical Data Registry.

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