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THE WALL STREET JOURNAL

WSJ.com

HEALTH INDUSTRY | MAY 14, 2010

Doctor Pooling Plan Sparks Fear

By ANNA WILDE MATHEWS

(See *Correction & Amplification below*.)

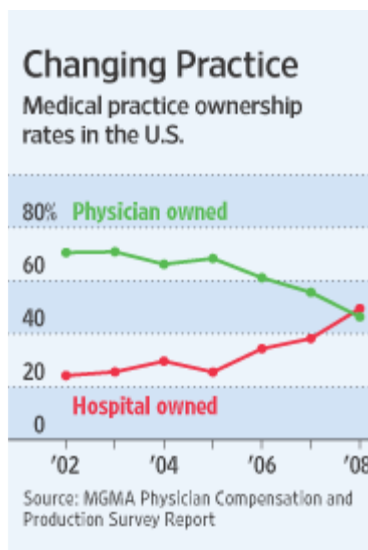
A hospital trade association is developing a plan for hospitals around southern California to form a foundation that would supply them with doctors.

Initially only about 20 of the association's 160 member hospitals are expected to participate if the foundation launches, but the idea is already sparking concerns that it might drive up medical costs.

Small and medium-sized hospitals are most likely to take part, the hospital association said. The goal would be to have at least 60 doctors at the start, but the foundation could grow to include several hundred physicians.

The entity would own clinics and centralize administrative matters including billing and electronic medical records.

The proposal by the Hospital Association of Southern California to create a joint medical foundation for its members is just one sign of the growing alignment between doctors and hospitals, a trend expected to be accelerated by the health overhaul. The new law encourages formation of health organizations that can coordinate the overall care of Medicare beneficiaries as a means of improving outcomes and efficiency.



But the mergers have also drawn worries that big, integrated health systems may be able to drive up prices because of their leverage in negotiations with private insurers and the higher reimbursement that hospitals often get even for outpatient services.

With this proposed joint foundation in California, some physicians worry that it could become "a way to control competition in a region," said Dustin Corcoran, chief executive of the California Medical Association. He fears it would drive out other medical groups not affiliated with the hospital entity.

Typically, the consolidation involves acquisition of doctor practices by hospitals, but in California and a few other states

hospitals aren't generally allowed to employ physicians directly. Instead, hospitals sometimes have affiliated foundations that contract with the doctors.

The proposal for a single foundation tied to multiple hospitals appears to be a first, though, according to health executives in California. The foundation would contract with doctor groups, each of which would be affiliated with an individual hospital. The hospitals wouldn't exclusively rely on the foundation-affiliated doctor groups, but would be expected to allow other doctors to retain privileges as well.

The association says its board hasn't yet voted to go forward with the plan, and that the new foundation would be an independent nonprofit not controlled by the group, which includes nearly all the hospitals in Los Angeles and its surrounding counties.

"We believe that cost and quality increase with integrated delivery systems," while the foundation structure will also help hospitals that struggle to recruit doctors, said Jim Barber, chief executive of the hospital association. Smaller hospitals often don't have the resources to form their own foundations, which must involve at least 40 doctors, among other requirements, he said.

One key question would be how the foundation, and the hospitals backing it, would negotiate prices with insurers. A centralized contracting structure, an option suggested in a hospital association document dated March, could amplify the hospitals' market leverage if it involved large numbers of physicians and hospitals.

Mr. Barber said the plan no longer involves a unified contracting entity. Instead, those negotiations would remain decentralized, with each local doctor group and hospital striking its own individual deals, he said. However, the shared foundation could advise doctor groups about their contracting with health plans, he said, and a hospital and its affiliated doctor group might coordinate strategy. Also, the foundation may later move toward more centralized contracting.

However, the shared foundation could advise doctor groups about their contracting with health plans, he said, and a hospital and its affiliated doctor group might coordinate on strategy, such as quality incentives.

Also, doctors may eventually choose to move toward more centralized contracting by the foundation down the road.

Not all hospitals would need such a foundation, since some already are able to coordinate care using their current structures. For instance, the giant nonprofit Kaiser Permanente system already integrates a health plan with doctors, hospitals and pharmacies. A Kaiser spokeswoman said it is working to "analyze the impact health-care reform will have on our overall care delivery system, ranging from staffing to facilities plans."

Still, the shared-foundation idea is drawing questions from doctor groups such as the California Medical Association, which supports the prohibition on hospital employment of doctors. And Donald Crane, chief executive of the California Association of Physician Groups, said he was worried that the hospitals' outlays to create the new foundation structure would mean "you're going to see added cost."

California has been an epicenter of the debate over rising medical expenses. A proposed rate increase of as much as 39% by WellPoint Inc.'s Anthem Blue Cross unit drew national fire before being withdrawn a few weeks ago. Anthem and other insurers have pointed to higher reimbursement demands from powerful hospital groups as a driver of premium hikes.

The California Association of Health Plans is "wary" about the foundation idea, said Patrick Johnston, the group's chief executive. Mr. Johnston said his members will be concerned about the possibility of "greater concentration of market power that evidence shows will increase costs."

Anthem said it was "hopeful that the proposed medical foundation could...reduce costs through quality and efficiency."

Concern over the influence of integrated hospital groups found some backing from a [study published](#) in the journal Health Affairs last month that said concentration among medical providers in California had led to "a definite shift in negotiating strength toward providers, resulting in higher payment rates and premiums."

—Suzanne Sataline contributed to this article.

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Correction & Amplification

Jim Barber of the Hospital Association of Southern California believes that the foundation plan the group is considering will decrease health-care costs and increase quality. In this article, he incorrectly says he believes costs increase with such plans.

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