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A Hospital War Reflects a Bind for Doctors in the U.S.

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For decades, doctors in picturesque Boise, Idaho, were part of a tight-knit community, freely referring patients to the specialists or hospitals of their choice and exchanging information about the latest medical treatments.

But that began to change a few years ago, when the city's largest hospital, St. Luke's Health System, began rapidly buying physician practices all over town, from general practitioners to cardiologists to orthopedic surgeons.

Today, Boise is a medical battleground.

A little over half of the 1,400 doctors in southwestern Idaho are employed by St. Luke's or its smaller competitor, St. Alphonsus Regional Medical Center.

Many of the independent doctors complain that both hospitals, but especially St. Luke's, have too much power over every aspect of the medical pipeline, dictating which tests and procedures to perform, how much to charge and which patients to admit.

In interviews, they said their referrals from doctors now employed by St. Luke's had dropped sharply, while patients, in many cases, were paying more there for the same level of treatment.

Boise's experience reflects a growing national trend toward consolidation. Across the country, doctors who sold their practices and signed on as employees have similar criticisms. In lawsuits and interviews, they describe growing pressure to meet the financial goals of their new employers — often by performing unnecessary tests and procedures or by admitting patients who do not need a hospital stay.

In Boise, just a few weeks ago, even the hospitals were at war. St. Alphonsus went to court seeking an injunction to stop St. Luke's from buying another physician practice group, arguing that the hospital's dominance in the market was enabling it to drive up prices and to demand exclusive or preferential agreements with insurers. The price of a colonoscopy has

quadrupled in some instances, and in other cases St. Luke's charges nearly three times as much for laboratory work as nearby facilities, according to the St. Alphonsus complaint.

Federal and state officials have also joined the fray. In one of a handful of similar cases, the Federal Trade Commission and the Idaho attorney general are investigating whether St. Luke's has become too powerful in Boise, using its newfound leverage to stifle competition.

Dr. David C. Pate, chief executive of St. Luke's, denied the assertions by St. Alphonsus that the hospital's acquisitions had limited patient choice or always resulted in higher prices. In some cases, Dr. Pate said, services that had been underpriced were raised to reflect market value. St. Luke's, he argued, is simply embracing the new model of health care, which he predicted would lead over the long term to lower overall costs as fewer unnecessary tests and procedures were performed.

Regulators expressed some skepticism about the results, for patients, of rapid consolidation, although the trend is still too new to know for sure. "We're seeing a lot more consolidation than we did 10 years ago," said Jeffrey Perry, an assistant director in the F.T.C.'s Bureau of Competition. "Historically, what we've seen with the consolidation in the health care industry is that prices go up, but quality does not improve."

A Drive to Consolidate

An array of new economic realities, from reduced Medicare reimbursements to higher technology costs, is driving consolidation in health care and transforming the practice of medicine in Boise and other communities large and small. In one manifestation of the trend, hospitals, private equity firms and even health insurance companies are acquiring physician practices at a rapid rate.

Today, about 39 percent of doctors nationwide are independent, down from 57 percent in 2000, according to estimates by Accenture, a consulting firm.

Many policy experts praise the shift away from independent practices as a way of making health care less fragmented and expensive. Systems that employ doctors, modeled after well-known organizations like Kaiser Permanente, are better able to coordinate patient care and to find ways to deliver improved services at lower costs, these advocates say. Indeed, consolidation is encouraged by some aspects of the Obama administration's health care law.

"If you're going to be paid for value, for performance, you've got to perform together," said Dr. Ricardo Martinez, chief medical officer for North Highland, an Atlanta-based consultant that works with hospitals.

The recent trend is reminiscent of the consolidation that swept the industry in the 1990s in response to the creation of health maintenance organizations, or H.M.O.'s — but there is one major difference. Then, hospitals had difficulty managing the practices, contending that doctors did not work as hard when they were employees as they had as private operators. Now, hospitals are writing contracts more in their own favor.

"Hospitals are constructing compensation in ways that are based on productivity and performance," said Steve Messinger, president of ECG Management Consultants, which advises on physician acquisitions.

But the consolidation of health care may be coming at a hefty price. By one estimate, under its current reimbursement system, Medicare is paying in excess of a billion dollars a year more for the same services because hospitals, citing higher overall costs, can charge more when the doctors work for them. Laser eye surgery, for example, can cost $738 when performed by a hospital-employed doctor, compared with $389 when done by an unaffiliated doctor, according to national estimates by the independent Congressional panel that oversees Medicare. An echocardiogram can cost about twice as much in a hospital: $319, versus $143 in a doctor's office.

Conflicts over the changes are numerous. One Florida primary care physician said he could earn a $5,000 bonus for keeping patients in the hospital for less than three days, according to a lawsuit he filed this year. Hospitals, which are typically reimbursed a fixed amount of money for treating a specific illness, can make more money if patients stay for shorter periods of time.

Last month, the Justice Department reached a $9.3 million settlement with Freeman Health System, a hospital group in Joplin, Mo., which was rewarding doctors it employed partly based on how many tests they ordered. Freeman says that it alerted regulators to the potential violations and that patient care was not affected.

Recently, the Office of Inspector General at the Health and Human Services Department sent a letter to emergency physicians across the country asking for information about inappropriate admissions. Federal regulators are also examining the higher numbers of physician contracts being created, searching for violations of laws that prevent hospitals from rewarding doctors for admitting patients or for ordering lucrative tests and procedures.

Health Management Associates, a for-profit hospital chain; EmCare, a Dallas-based emergency room staffing company for hospitals; and other hospitals have disclosed that they are the subjects of federal investigations. Regulators are looking into whether the hospitals improperly pressured physicians to admit patients.

Pumping Up Admissions

According to two emergency room doctors who worked at Carlisle Regional Medical Center in Pennsylvania, the message could not have been clearer: more patients needed to be admitted.

The doctors were employed by EmCare, whose parent company was later acquired by the private equity firm Clayton, Dubilier & Rice in 2011 as part of a $3.2 billion deal. EmCare, in turn, was under contract to provide emergency room doctors for the hospital, which is owned by Health Management Associates. In interviews, doctors said that hospital administrators created targets for how many patients they should admit. More admissions translated into more dollars for the hospital.

Dr. Jean-Paul Romes, one of the physicians, recalled getting phone calls in the middle of the night questioning why he had not admitted an older patient whose hospitalization he could easily have justified. "The pressure to admit was so high," he said. Dr. Romes left the hospital last year.

After another physician, Dr. Cloyd B. Gatrell, raised concerns that the hospital had too few nurses to keep patients safe, an EmCare executive warned him to "back off," according to a lawsuit Dr. Gatrell filed last year. EmCare later fired him at Carlisle's request, according to the suit. Dr. Gatrell's wife, Kathryn, a nurse at Carlisle, had been fired earlier and also filed a lawsuit. Both Gatrells maintained they were fired for bringing up patient safety concerns, according to Dr. Gatrell's lawsuit.

Health Management, which operates 70 hospitals, said United States attorneys' offices in seven states were investigating physician referrals, including financial arrangements and the "medical necessity of emergency room tests and patient admissions."

EmCare said in an e-mailed statement that it could not comment on continuing legal matters involving it or its clients, but that its "first concern is the well-being of the patient."

Health Management is also the target of a suit filed last year in Florida state court by a former executive who says there were improper admissions. The executive, Paul Meyer, an officer in the company's compliance office, was a longtime employee of the Federal Bureau of Investigation. He said in his lawsuit that he was fired from H.M.A. in 2011 in retaliation for raising questions about what he felt were improper admissions at four of the chain's hospitals. H.M.A. said its overall admission rate from the emergency department had remained constant in recent years and that its practices were in line with those of other hospitals. It also said there was no indication that Carlisle admitted any patients

unnecessarily. Admissions are "based solely on what is best for patient care," it said in an e-mailed statement.

The company said that it had addressed all of Mr. Meyer's concerns, and that he was fired for what the company said was a failure to cooperate in an internal investigation. Health Management fired the Gatrells, it said, "for performance issues," an accusation Dr. Gatrell strongly denied.

Doctors at other hospitals also say they have faced pressure to meet financial targets. Dr. Manuel Abreu said his contract with All Care Medical Consultants, a practice in Clearwater, Fla., allowed him to earn a bonus as high as $5,000 if he kept patients' hospital stays to an average of no more than three days, according to a copy of the contract included with a lawsuit he filed in Florida state court this year. The parties reached a settlement and the case was voluntarily dismissed, court records show. Calls to Dr. Abreu's lawyer and a lawyer for All Care were not returned.

Other physicians say they are pushed to ignore what is best for patients by referring them to doctors working for the same hospital. Dr. Victoria Rentel, a family practice doctor near Columbus, Ohio, recalled feeling pressured when she was employed by a local hospital to send her patients to doctors there for tests and procedures.

"I routinely got reports about the money I kept in the system," Dr. Rentel said, detailing how much revenue she was generating for the hospital through in-house referrals. "I tended to refer to specialists I knew who would deliver better care." The hospital eventually closed the clinic where she worked.

Some physicians also complain about quotas. Dr. Patricia F. White, an emergency room physician who worked at Baptist Health in Jacksonville, Fla., said that starting in 2010, her compensation was partly calculated based on the number of patients she saw an hour, according to a lawsuit she filed in August against the hospital and Emergency Resources Group, which provided emergency room staffing to Baptist.

The staffing group said it had no choice but to agree to the hospital's demands. "If we don't comply with their wishes as good partners, there is a termination notice in our contract," wrote Paul Davidson, administrator for the group, in a series of e-mails that were included with Dr. White's lawsuit.

In an e-mailed statement, Baptist Health said that patients expected timely access to quality care and that an emergency room physician's "productivity and efficiency are vital components to delivering good patient care as well as ensuring patient safety and

satisfaction." A lawyer for Emergency Resources Group echoed those sentiments in an e-mailed statement, adding that efficiency was only one component of physician compensation.

Doctors at numerous hospitals said it was often difficult to criticize the policies instituted by hospitals or investor-owned physician groups because, as employees, they could easily be fired.

"We all have families, and we have mortgages," said an emergency room physician. "If you get fired, it looks bad and it's hard to get another job."

Rising Medical Costs

It was about three years ago that Dr. Julie A. Foote, who has been an endocrinologist in Boise for 18 years, began noticing the ads in the local newspaper.

Each week, another advertisement appeared, heralding the hire of a physician or a practice group by either St. Luke's or St. Alphonsus, which is part of Michigan's Trinity Health, one of the nation's largest hospital systems. "The playing field wound up being divvied up pretty aggressively," Dr. Foote said.

In the last four years, St. Luke's acquired 22 physician practices in the area.

Dr. Mark Johnson, a family practice physician who has worked in Boise for about 25 years, was part of a five-person practice that sold itself to St. Luke's. Among the factors behind the decision were the high cost of adopting an electronic health records system, and a concern that the group members would not be able to find younger doctors willing to buy them out of the practice.

"But probably the driving reason was the changing landscape of health care delivery and the uncertainty around that," Dr. Johnson said. "The thought was that we were going to be in a safer position if we were aligned and affiliated with a network."

But as St. Luke's moved forward with its plans to acquire most of the Saltzer Medical Group — a practice of about 50 doctors in Nampa, Idaho, about 20 miles west of Boise — St. Alphonsus filed an injunction to block the purchase.

St. Alphonsus argues that St. Luke's dominance is hurting its business because it has experienced steep declines in hospital admissions and referrals from physicians acquired by St. Luke's.

St. Luke's says it is positioning itself to compete better by improving its ability to coordinate patient care. It recently filed an application with Medicare officials to become a so-called accountable care organization. Hospitals designated as A.C.O.'s can usually keep a portion of any savings they generate. They cut health care costs by avoiding unneeded procedures and tests or by keeping patients out of the hospital, while still meeting quality targets.

But St. Luke's remains under investigation by state and federal authorities for possible antitrust violations. While most physician group purchases are too small to draw regulators' attention, concerns have been raised about whether consolidation is resulting in higher prices and fewer choices for patients.

In 2009, the F.T.C. forced the sale of two outpatient clinics that had been acquired by Carilion Clinic, based in Roanoke, Va., saying Carilion's fee structure would have increased patients' out-of-pocket expenses for a brain imaging test, for example, to $350 from $40.

In another case, the F.T.C. and the Nevada attorney general ordered Renown Health in Reno to release 10 cardiologists from their noncompetition agreements after the hospital system bought the two largest cardiology groups in the area, giving it 88 percent of the market.

In Boise, doctors are pressured to refer only within their own system, according to St. Alphonsus in its complaint. It reported a 90 percent drop in admissions to its hospitals by physicians employed by St. Luke's. In one community, independent doctors often send patients 40 miles away for CT scans because prices at St. Luke's are 60 percent higher, the complaint said.

Mr. Pate, the St. Luke's chief executive, disputed the notion that physicians employed by St. Luke's were prohibited from referring patients to outside doctors.

"My own wife was referred by a St. Luke's physician to a St. Al's physician for her particular condition because he felt the St. Al's physician was the best for this problem," he said. "If the wife of the C.E.O. is being referred to a physician at another hospital, that should prove that our physicians send many referrals over there."

Mr. Pate acknowledged that prices for some services had risen, but he said this was only because they had been severely underpriced. In the long run, he argued, overall costs will decline as St. Luke's is better able to coordinate care, avoiding expensive emergency room visits and redundant tests.

But some people remain skeptical that patients will be better served.

"I'm not certain what all this means is that patients are getting cost-effective care, which is how the nation is painting this evolution," Dr. Foote said. "If this is better quality for less price, I want to see the less price."