

Recent trends reveal that Hospital / Physician partnerships remain first and foremost in the minds of hospital leaders and their physician counterparts. As laws in partnerships and reimbursement continue to change, and pressures increase to provide the highest clinical quality at the lowest possible cost, savvy leaders are wise to consider a formal arrangement with physicians in order to achieve or maintain excellence in care delivery and ensure operational efficiencies. Alignment strategies can also facilitate program and revenue growth, positively impact organizational reputation, and enhance competitive edge through market differentiation.



Historically, physicians used hospitals as a means to help patients. Simply, the hospital provided them with space to deliver clinical services and perform procedures and tests, along with staff, supplies, and equipment. Professional fees were paid to physicians for any tests or procedures performed, and technical fees were paid to the hospital for providing the space, staff, supplies, equipment, and overall hospital infrastructure.

As care delivery evolved, payors began decreasing physician payments. As a result, physicians began to offer services in their offices to garner both the professional and technical components. Thus began the era of service expansion in the physician office and the proliferation of non-hospital outpatient facilities operated by physicians.

After several years of doctor-owned and operated outpatient facilities, entrepreneurial physicians started to partner with hospitals in offering inpatient services, with revenues and expenses shared by both parties. Varied options for partnership models emerged across the country, with "hot beds" in certain regions. Such arrangements are still common today, albeit in vastly different forms, with most models focused on quality outcomes and service management.

Many viable options for hospital / physician alignment still exist, as outlined below:

Employment Arrangement: A physician employment arrangement can take two forms:

Traditional Employment Model – Hospital employs physicians and pays a salary based on a fair and commercially reasonable contracted amount. The contracted amount must not take into consideration, volume or value of referrals. The hospital is responsible for billing and collections of any professional fees associated with the physician's patient care activities.

Salary Guarantee Model – Hospital provides a salary guarantee with a possible bonus/incentive add-on for a predetermined amount of time (usually three years). Like other employment agreements, this model can involve certain standards that pertain to clinical quality benchmarks, collaborative practice requirements, or leadership and governance roles within the hospital setting.

RISK = Low; REWARD = Low

The Physician Enterprise: Physicians create a business entity, sometimes called a "Physician Enterprise," with the option to lease or sell practice assets and resources (i.e. equipment or space) to the hospital. The hospital is responsible for billing and collecting all technical fees related to the services, generally at the hospital's payment rate. The physicians can either remain in private practice, be leased under a separate professional services agreement, or employed by the hospital.

RISK = Low; REWARD = Moderate

Management Service Agreement: Physicians form a Management Company, sometimes jointly with the hospital, to provide specified management and administrative services in the delivery of quality clinical care. The Management Company can hire or lease personnel. The hospital is responsible for billing and collecting all fees and then reimbursing the Management Company a fair market rate for services performed. Bonuses to the Management Company can be offered by the hospital if defined metrics are met.

RISK = Moderate; REWARD = Moderate

Leasing Arrangement: Physicians, with or without hospital partners, own specific assets that are leased to hospitals at fair market value. Or, the hospital leases assets to a physician for a set amount of time so that the physician can bill both the technical and professional fees. These arrangements must be structured so that there is a defined lease rate paid that cannot be associated to volume.

RISK = Moderate; REWARD = Moderate

Under Arrangement Agreement: These arrangements are a viable option only to hospitals with a rural designation. Under these types of agreements, services, supplies or space (or combination of any of the three) are purchased by the hospital from an entity at a predetermined price. Hospitals may or may not be partners with the physicians in the entity that provide the services.

RISK = High; REWARD = High

While different laws pertain to different types of arrangements, there are regulations that govern any type of partnership.

Based on our work with clients across the country, Corazon believes that arrangements that focus on quality improvement and shared governance, rather than financial goals, are typically the most successful.

Why Consider Hospital / Physician Alignment?:

- Creates true collaborative practice
- Provides a foundation for quality improvement and operational excellence
- Develops shared governance for important clinical service lines
- Brings physicians to the table as engaged and active participants in care delivery
- Shares the risks of implementing a new model of care
- Increases patient access to physician expertise, innovative technology, or cutting-edge equipment
- Establishes opportunities for cost-savings and revenue growth

IMPORTANT LAWS AND TERMS TO KNOW ABOUT:

- Stark Regulations
- Anti-Kick-Back Statutes
- Regulatory Safe Harbors
- Rural Exceptions
- Designated Health Services
- Physician Enterprise
- Fair Market Value
- Compliance Audit

Corazon believes that hospitals interested in any type of formal relationships with physicians should investigate their options, and secure outside assistance to help ensure that the partnership is clinically viable, legally sound, and also operationally realistic in terms of implementation.

In today's ever-changing environment, hospitals and physicians must carefully investigate options, bring stakeholders to the table, and then diligently plan for the implementation of any new relationship. A clear understanding of potential changes in law and options for exit strategies are a must. By following Corazon's proven step-by-step process for creating a hospital / physician partnership, a win-win-win can be possible to benefit the hospital, the physicians, and the patient.

For a more detailed explanation of Corazon's process, or for more information on investigating, evaluating, or structuring a hospital / physician arrangement at your organization, call 412.364.8200.