Kurt Salmon

Alternatives to Employment for Achieving Physician-Hospital Alignment

Health care providers are in the midst of a fundamental post-reform transition that requires delivering high-value care to the communities they serve.

But this goal is impossible to achieve without integrating the disparate components of the health care system, chiefly physicians and hospitals.

In the past few years, many hospitals sought to realize this integration by employing physicians. In fact, nearly a quarter of U.S. physicians are currently employed by hospitals, according to the American Hospital Association.

But many hospitals are discovering that employment is not always the answer—each market and each physician and practice are distinct and require customized solutions. Leading hospitals are offering a number of non-employment alignment models in addition to employment so physicians have multiple options and can select the most appropriate model for their situation.

Additionally, certain alignment models are more beneficial than others, depending on the goals hospitals and physicians want to achieve together. In this piece, we describe three alternatives to employment that are becoming increasingly popular.

1 Full Clinical Service Professional Service Agreement (PSA)

Similar to employment, but physicians are able to preserve some autonomy by maintaining their own compensation model, benefits and governance structures. The hospital purchases the physician's practice and assumes responsibility for the operations. Typically, the practice's staff is converted to hospital employees, and the clinic is converted to provider-based status. (See Exhibit 1.)

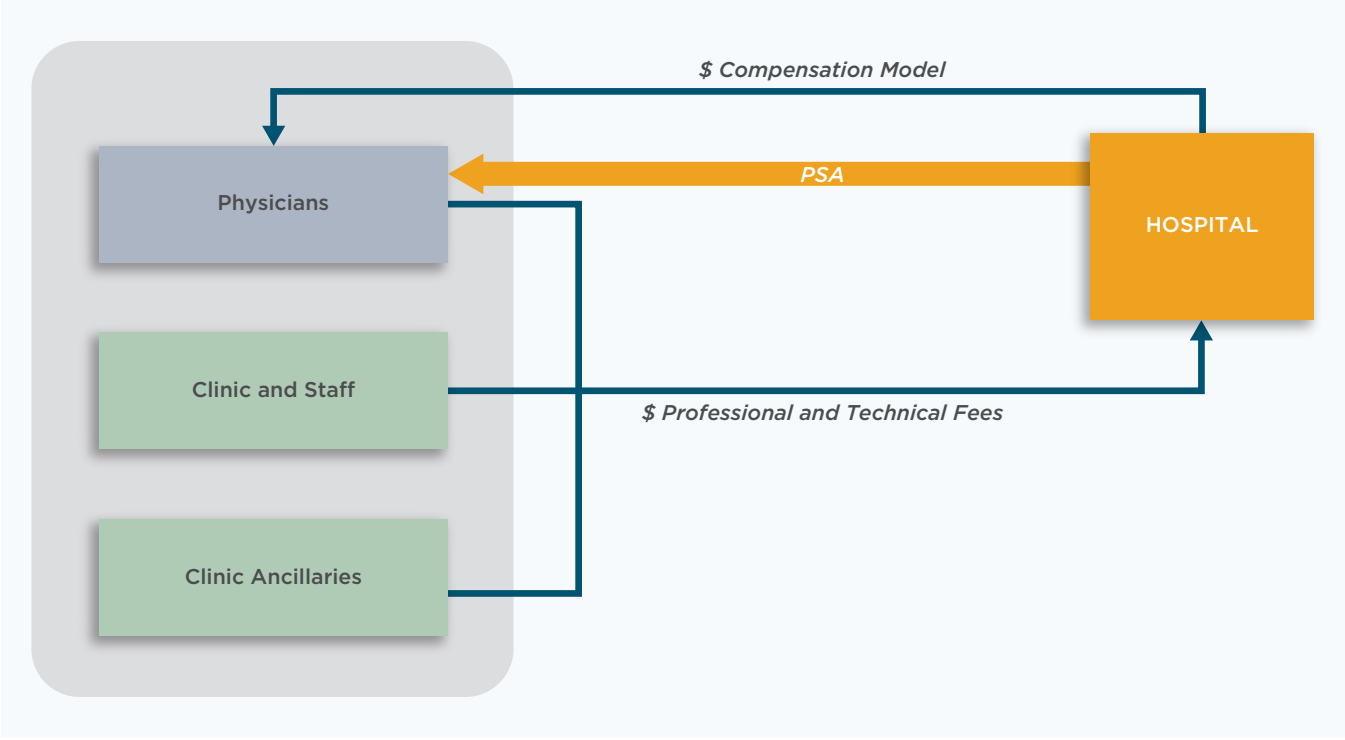
COMMON USES:

- Aligning with a single-specialty physician practice to develop or enhance a service line or institute
- Aligning with physicians in states with laws against the corporate practice of medicine
- Consolidating multiple physician-hospital financial agreements into one
- Providing a physician practice exclusivity for a service

IDEAL CANDIDATES:

- Physicians who want to shelter their income and increase their level of hospital integration yet maintain a higher level of autonomy than employment
- Physicians who want a trial partnership prior to employment
- Hospital-based physicians who provide service coverage

EXHIBIT 1: Traditional Full Service PSA



CASE STUDY

Kurt Salmon helped a Midwestern health system develop a network co-management agreement across its orthopedic service line, including the four hospitals it owns and its three affiliates. The organizational structure provides physician leadership at the service line level via the service area executive committee and the service line medical director. Additionally, the co-management agreement includes physician leadership for each facility and orthopedic subspecialty.

As a result, average length of stay dropped by a half day and operating margins improved 7.5%. Patient satisfaction scores and on-time surgery starts also improved.

2 Co-Management Agreement

In the typical structure, physicians form a new management company that contracts with the hospital to jointly manage a given program or service. The physicians and hospital share in governance and management through a joint operating committee. The management company receives base compensation for providing management services and incentive payments for achieving quality, satisfaction, efficiency or program development goals.

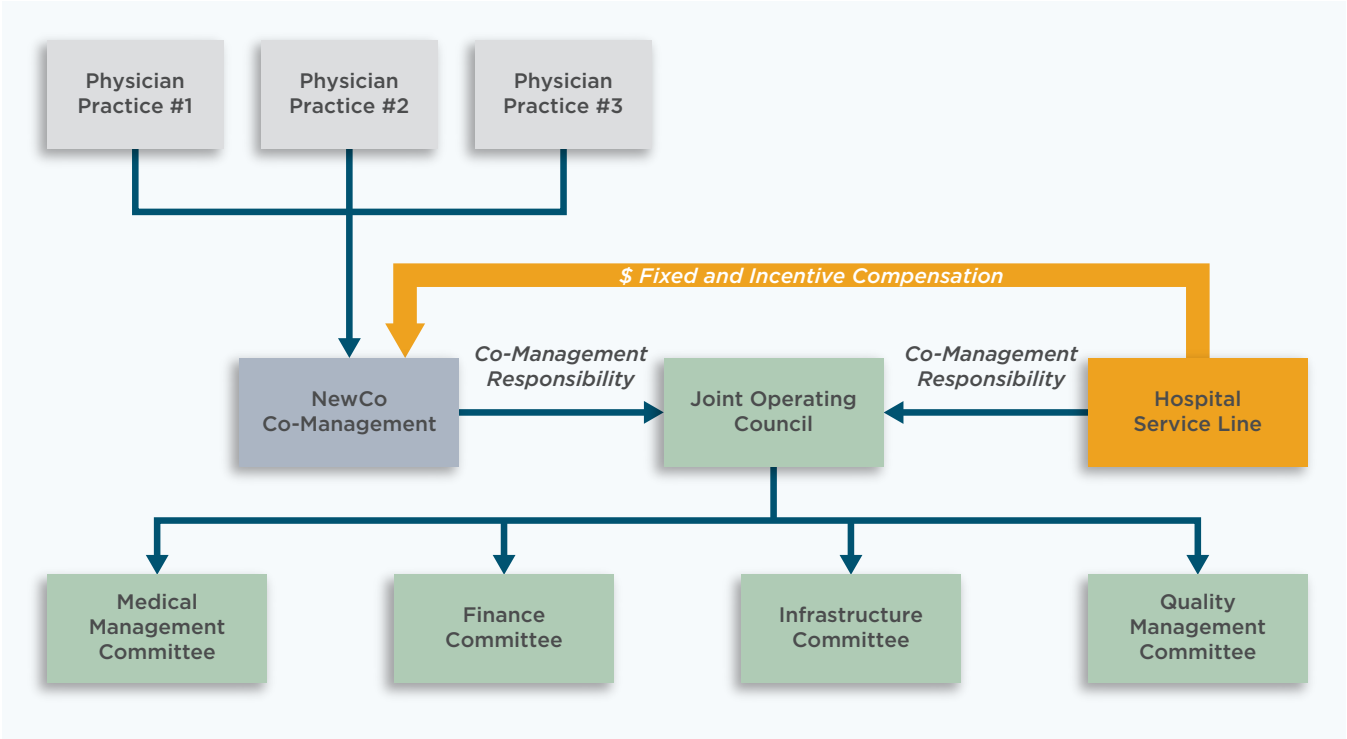
COMMON USES:

- Aligning with a single-specialty physician practice to develop or enhance a service line or institute
- Consolidating multiple physician-hospital financial agreements into a single agreement
- Developing a bundled payment program
- Enhancing the quality, patient satisfaction and efficiency of a program or service

IDEAL CANDIDATES:

- Independent specialists who are part of key hospital service lines
- Large single-specialty physician practices that have significant influence over a service
- Physicians with experience managing a similar service, such as a physician-owned hospital, ambulatory surgery center or imaging facility

EXHIBIT 2: Traditional Co-Management Model



CASE STUDY

Kurt Salmon worked with a Northeastern health system to plan a clinically integrated physician network. The objective of this network was to strengthen alignment with select community a nd faculty physicians to improve clinical outcomes and reduce total cost of care per patient.

Physicians embraced this model, as it offered a vehicle to coordinate care more effectively without giving up control of their individual practices. The health system supported this model as a cost-effective way to support its physicians and work with them in developing new care models and obtaining reimbursement for value versus volume.

3 Clinically Integrated Physician Organization

Clinically integrated physician organizations can include a number of legal structures, including independent practice associations (IPA), physician hospital organizations (PHO) or health system subsidiaries. While all these organizations are typically physician led, they differ in their degree of hospital ownership and involvement. According to the Federal Trade Commission, clinically integrated organizations must make investments in establishing the necessary infrastructure to control utilization and costs and ensure quality.

If an organization is able to achieve all of these requirements, it may be able to demonstrate the value necessary to develop single-source contracts for both managed care and PPO contracts.

COMMON USES:

- Developing accountable care organizations with independent physicians or a mix of independent and employed physicians
- Taking on financial risk for managing the health of a population
- Coordinating and standardizing care in a fragmented physician market
- Clinically integrating physicians who belong to "messenger model" IPAs and PHOs

IDEAL CANDIDATES:

- Physicians who want to remain independent but see value in being part of an integrated network
- Physicians in search of alignment who prefer to join a physician-led and -focused organization

EXHIBIT 3: Traditional Clinically Integrated Physician Organization