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Clinical Co-Management Agreements as Part of Affiliation Strategy

Presented by Integrated Healthcare Strategies
as Authored by Chad Stutelberg

Direct employment of physicians has been a strategy used by many hospitals in recent years to more closely affiliate with physicians in their community. However, direct employment is not for every physician and may not be appropriate in every situation. This is particularly true for surgeons and sub-specialists. Therefore, many hospitals have begun using clinical co-management agreements as a strategy to become more closely affiliated with their community physicians and to actively engage these physicians in the improvement of the clinical operations and patient care outcomes of specific service lines in the hospital.

We have seen many different structures for these agreements. They range from those that are essentially a modified medical directorship program with a few limited physicians providing more medical administrative services, to those in a fully integrated model with management, clinical, and operational requirements for the physicians.

Through the evaluation of various clinical co-management structures, we have identified practices to avoid associated with the development and implementation of these programs. They include:

- **“Backing into” the services based upon a pre-determined payment**
 - In some instances, physicians come to the hospital with a pre-determined level of income before the services have been defined. It is critical that the hospital and physicians first identify the services before determining a reasonable payment for the physicians.
- **Paying for services based upon a percentage of net revenue**
 - The use of a revenue-based payment structure, while typical in agreements with most management companies, is inappropriate for clinical co-management agreements given that the management and other related services are provided for by physicians who are referring patients to the hospital. In our opinion this reimbursement structure brings into question issues around anti-kick back - allowing physicians to determine their income potentially based upon referrals (e.g. improve

revenue by shifting referrals and increasing management fees) and excess compensation as the payment may in no way tie to the actual level of services that are provided by the physicians.

- **Work expectations and expected outcomes that are ill-defined**
 - Many agreements do not have substantive duties and expectations for the physicians, nor sufficient definitions regarding the required performance to achieve the performance bonus. This can result in differences in expectations between the parties and bring into question whether the payments are within fair market value.
- **Not involving qualified healthcare counsel**
 - These structures can be very complex and involve a number of legal and regulatory issues. Having competent legal counsel involved in the process from the start will increase the likelihood that these structures can be developed and implemented appropriately.

We have worked with numerous clients to develop sustainable clinical co-management agreements in various service lines including orthopedics, cardiology/cardiac, neurosurgery, trauma, cancer and women's services. Some of the common components of these programs that we have helped our clients to develop include:

- Establishment of an organizational structure to house the community physicians that will provide the services.
- Development of measureable and actionable goals and objectives for the service line e.g., balanced scorecard.
- Development of committee structure/physician participation models to facilitate the co-management of service lines and achievement of objectives.
- Establishment of a reimbursement structure(s) to include a base rate for the physicians' involvement, plus an at-risk pool for their overall qualitative performance in improving the service line.
- Development of policies and procedures for the appropriate documentation of service to support ongoing payments as being within fair market value and commercially reasonable.

If you are considering developing a clinical co-management structure with your physicians, or would like to discuss options with a consultant in our Physician Services practice, please contact Chad Stutelberg at 612-337-1371 or at chad.stutelberg@ihstrategies.com.

About Physician Services

The Physician Services practice of Integrated Healthcare Strategies helps create successful relationships between not-for-profit healthcare organizations and their employed and affiliated physicians by providing unique consulting services that focus on physician total compensation plan designs, assessment of reasonable compensation (including Personal Service Agreements), organizational structure and physician leadership development.