

Co-management: A Win-Win Model for Hospital and Physician Relationships

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A recent announcement by Independence Blue Cross (IBC) emphasizes the importance of hospitals and doctors continuing to develop win-win mechanisms for working together in response to payment reforms and quality initiatives that affect the future for both of them. In July IBC announced that its accountable care organization (“ACO”) payment model has been accepted by more than 90% of the healthcare systems in the region. Under its program, IBC provides incentive payments if hospitals achieve cost reductions and quality improvements. An essential element of the program is that the hospitals are required to share incentive payments with physicians.

IBC’s ability to achieve 90% participation signals an important transition away from fee-for-service payment mechanisms to payment arrangements that hold hospitals and doctors responsible for quality and costs. IBC’s market share provides it with considerable leverage in the region and while the model may change and evolve, it is unlikely that the clock will be rolled back. The same holds true for physicians; the ACO incentive arrangement means their future revenue increases are tied to performance improvements.

Other health plans such as Aetna, Cigna, United Healthcare and Horizon Blue Cross have their own ACO programs emphasizing quality and cost control. Medicare is equally committed to moving away from fee-for-service with its own ACO program and with its bundled payment initiative.

The ACO model is linked to another reform tool promoted by most health plans, the patient centered medical home, PCMH. PCMH incentive arrangements reward primary physicians for reducing health plan expenditures for hospitalizations and specialist services. The expansion of ACOs and PCMHs provides the rationale for hospitals and doctors to work together. Under the ACO incentive arrangement, hospitals are placed in the leadership role for aligning with their physicians.

Employment has been a popular way for hospitals to integrate with doctors, but in many cases employment is not a realistic option. There are many situations and specialties where the private-practice model works for both doctors and hospitals. Moreover, there is increasing concern about the sustainability of the physician employment model; employment has added significant costs to hospitals at a time when payment increases are difficult to negotiate.

In circumstances where hospitals are interested in aligning with private practice groups, co-management has emerged as a successful model. A co-management program is a contractual relationship between a hospital and its physicians. The legal structure and details of this relationship can be tailored to the unique aspects of each co-management program. The centerpiece is a set of performance targets and measurement metrics that have been developed jointly. Those measures are consistent with an ACO’s performance requirements and are linked to a physician incentive pool that will be paid out to the doctors based on the extent to which the performance targets are achieved.

For example, one of our hospital clients recently implemented a cardiology co-management agreement that achieved almost \$1 million in net savings to the institution in the first year, while providing the cardiologists over \$350,000 in additional incentive compensation for their role in effectuating those savings and quality improvements.

Each co-management program must be tailored to fit the unique aspects of each hospital, the unique nature of the clinical program and the unique characteristics of participating physicians. In our experience there are several items that are key to the success of a co-management program:

- Jointly selecting the performance measures and realistic performance targets;
- Clearly defining the roles and responsibilities of the participants. For example, operational improvements may fall more on the shoulders of the hospital, and physicians may be more involved in quality measures and improvement;
- A willing attitude on the part of all participants to make changes in operations and practice patterns;
- Identifying and taking time to fully resolve the concerns of the participating physicians; and
- Setting up and maintaining committees and other effective mechanisms for jointly identifying and analyzing problems, jointly creating solutions and evaluating outcomes.

We have seen co-management programs across several different medical and surgical specialties that have been successful in the eyes of the hospital and its physicians. Co-management should be one of the options for hospitals and doctors to consider as a tool to respond to payment reforms that are expanding rapidly.