

## Co-Management Arrangements – Aligning Physicians and Hospitals

This is the first in a series of articles regarding new models and arrangements for emerging healthcare organizations (EHOs) in light of the continuing efforts towards healthcare reform. Future issues will address such topics as Accountable Care Organizations and the Medical Home Model.

Alignment, integration, and engagement of physicians is a key strategy for health systems seeking to create high-performing, high-quality, and high-efficiency organizations. Yet aligning physicians' interests with those of hospitals and health systems has been an ongoing struggle, particularly since the shift from small, physician/provider-owned, independent private practices to captive practices within larger integrated health systems, i.e., *the corporatization of the practice of medicine*. Successful hospital enterprises have understood that *"to effectively respond to the economic incentives of reform, a hospital must achieve a deeper level of integration with the physicians that practice there."*<sup>1</sup> One way physicians and hospitals are trying to achieve this common goal is through co-management arrangements, which have re-emerged in recent years as an alternative to joint ventures or strict employment arrangements between hospitals and physicians, who share mutual interests to lower costs, increase efficiency, and improve quality.<sup>2</sup>

### *Development of Co-Management Arrangements*

The first generation of co-management arrangements evolved from gainsharing integration methods, where hospitals gave physicians a share of any reduction in the hospital cost for patient care attributable, in part, to the physicians' efforts.<sup>3</sup> However, with extreme scrutiny from the OIG, who in 1999 issued a Special Advisory Bulletin which *"flatly prohibited"* gainsharing arrangements involving payments to physicians to induce a reduction or limitation of services to Medicare and Medicaid patients, physicians and hospitals have in the past avoided these types of arrangements.<sup>4</sup> Additionally, gainsharing arrangements have certain implementation challenges related to measuring productivity and quality metrics.<sup>5</sup>

### *Current Co-Management Arrangements: Definition and Description*

As regulators further tighten Stark and Anti-Kickback regulations, the emerging structure of co-management agreements have the potential to offer substantially more value than previously attempted integration models, and a number of entities across the country are experimenting with the co-management arrangement strategy.<sup>6</sup> Under the new co-management model, a hospital may enter into a management agreement with

an organization that is either jointly owned or wholly owned by a physician to provide the daily management services for the inpatient and/or outpatient components of a medical specialty service line.<sup>7</sup> A co-management arrangement incentivizes physicians for the development, management, and improvement of quality and efficiency, as well as for making the service line more competitive in the target market.<sup>8</sup>

### *The Clinical Co-Management Structure*

Typically, the key components to consider when developing a co-management model are ownership structure and compensation structure.<sup>9</sup> Often, the hospital and the physician develop an agreement between the health entity and a management company formed for the purpose of providing the service line management services; the management company is typically organized as a limited liability company (LLC).<sup>10</sup> The agreement with the hospital typically requires: *"direct physician participation in the design and oversight of annual clinical capital and operating budgets, the development and implementation of clinical strategies and business plans, the efficient delivery of physician and clinical staff services, the periodic assessment of the quality of patient care delivered, the measurement of patient satisfaction, and the development of clinical outreach programs."*

Establishing an acceptable compensation structure often presents significant challenges when developing co-management arrangements. Co-management models provide fixed compensation as well as performance-based compensation.<sup>11</sup> The fixed compensation is an annual basis fee that is consistent with the Fair Market Value of the time and efforts of the participating physicians in the service line development, management, and oversight process.<sup>12</sup> The incentive compensation, or bonus fee, is a series of pre-determined payment amounts (which must also be at Fair Market Value) which are contingent upon the attainment of specified, mutually agreed upon, objectively measured targets.<sup>13</sup> Targets are usually based on quality indicators (i.e. clinical quality and outcomes), satisfaction measures (i.e. patient and referral-doctor satisfaction), and measurable improvements in operating efficiency.<sup>14</sup> Compensation structures must be both at Fair Market Value and commercially reasonable, and must not be

structured to reward physicians for increased volumes or for reducing care for Medicare and Medicaid patients, pursuant to Stark and Anti-kickback regulations.<sup>15</sup> In order to avoid regulatory or compliance complications, an independent valuation consultant should be engaged to provide a certified opinion that the co-management arrangement is both a Fair Market Value and commercially reasonable, as well as to assist the healthcare enterprises involved in defining the scope of the activities performed by the co-management company and extensively review the appropriateness of the metrics that determine reimbursement.<sup>16</sup>

As the healthcare industry moves away from a ‘pay for volume’ and towards a ‘pay for value’ market, hospitals and physicians may receive incentives for improving coordination of high volume and high margin procedures.<sup>17</sup> Both the HITECH Act and the recent 2010 healthcare reform legislation incentivize improvements in efficiency and quality of care, which can be achieved by utilizing co-management models. Accordingly, the current economic climate and regulatory landscape support the creation of health care entities that are value driven, and co-management arrangements provide physicians and hospitals an opportunity to achieve safety, quality, cost efficiency, and patient satisfaction, that ultimately result in improvement in the delivery of patient care.

<sup>1</sup> “Achieving Physician Integration with the Co-Management Model” Healthcare Financial Management Association, <http://www.hfma.org/Templates/Print.aspx?id=20619> (Accessed 7/19/2010).

<sup>2</sup> “Co-management emerges as alternative to joint ventures, employment by hospitals” By Melanie Evans, Modern Physician, May 10, 2010, <http://www.modernphysician.com/apps/pbcs.dll/article?AID=/20100510/MODERNPHYSI#> (Accessed 07/21/2010).

<sup>3</sup> “Can Hospitals Share Cost Savings with Their Oncologist?” By Paul F. Danello, Journal of Oncology Practice, Vol. 1 No. 4, November 2005.

<sup>4</sup> “Can Hospitals Share Cost Savings with Their Oncologist?” By Paul F. Danello, Journal of Oncology Practice, Vol. 1 No. 4, November 2005.

<sup>5</sup> “Achieving Physician Integration with the Co-Management Model” Healthcare Financial Management Association, <http://www.hfma.org/Templates/Print.aspx?id=20619> (Accessed 7/19/2010).

<sup>6</sup> “Co-management emerges as alternative to joint ventures, employment by hospitals” By Melanie Evans, Modern Physician, May 10, 2010, <http://www.modernphysician.com/apps/pbcs.dll/article?AID=/20100510/MODERNPHYSI#> (Accessed 07/21/2010).

<sup>7</sup> “Clinical Co-Management: Hospitals and Oncologists Working Together” By Paul F. Danello, Journal of Oncology Practice, Vol. 2 No. 1, 2006.

<sup>8</sup> “Clinical Co-Management: Hospitals and Oncologists Working Together” By Paul F. Danello, Journal of Oncology Practice, Vol. 2 No. 1, 2006.

<sup>9</sup> “Achieving Physician Integration with the Co-Management Model” Healthcare Financial Management Association, <http://www.hfma.org/Templates/Print.aspx?id=20619> (Accessed 7/19/2010).

<sup>10</sup> “Achieving Physician Integration with the Co-Management Model” Healthcare Financial Management Association, <http://www.hfma.org/Templates/Print.aspx?id=20619> (Accessed 7/19/2010).

<sup>11</sup> “Clinical Co-Management: Hospitals and Oncologists Working Together” By Paul F. Danello, Journal of Oncology Practice, Vol. 2 No. 1, 2006.

<sup>12</sup> “Key Factors in Considering an ASC Clinical Co-Management Agreement” By Barbara Kirchheimer, Becker’s Hospital Review, May 14, 2010, <http://www.beckershospitalreview.com/hospital-physician-relationships/key-factors-in-considering-an-asc-clinical-co-management-agreement.html> (Accessed 07/21/2010).

<sup>13</sup> “Clinical Co-Management: Hospitals and Oncologists Working Together” By Paul F. Danello, Journal of Oncology Practice, Vol. 2 No. 1, 2006.

<sup>14</sup> “Clinical Co-Management: Hospitals and Oncologists Working Together” By Paul F. Danello, Journal of Oncology Practice, Vol. 2 No. 1, 2006.

<sup>15</sup> “Commentary: Clinical Co-Management is Option for Hospital-Physician Alignment” By Jim Yanci, Cardiovascular Business, January 28, 2010, [http://www.cardiovascularbusiness.com/index.php?option=com\\_articles&view=article&id=20417:commentary-clinical-co-management-is-option-for-hospital-physician-alignment&division=cvb](http://www.cardiovascularbusiness.com/index.php?option=com_articles&view=article&id=20417:commentary-clinical-co-management-is-option-for-hospital-physician-alignment&division=cvb) (Accessed 07/19/2010).

<sup>16</sup> “Achieving Physician Integration with the Co-Management Model” Healthcare Financial Management Association, <http://www.hfma.org/Templates/Print.aspx?id=20619> (Accessed 7/19/2010).

<sup>17</sup> “Co-management emerges as alternative to joint ventures, employment by hospitals” By Melanie Evans, Modern Physician, May 10, 2010, <http://www.modernphysician.com/apps/pbcs.dll/article?AID=/20100510/MODERNPHYSI#> (Accessed 07/21/2010).



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**Robert James Cimasi**, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books], *“An Exciting Insight into the Healthcare Industry and Medical Practice Valuation”* [2002 – AICPA], and *“A Guide to Consulting Services for Emerging Healthcare Organizations”* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.



**Todd A. Zigrang**, MBA, MHA, ASA, FACHE, is the Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



**Anne P. Sharamitaro**, Esq., is the Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in *“Healthcare Organizations: Financial Management Strategies,”* published in 2008.