Increasing physician-hospital employment is a hot topic in healthcare, even though it has been occurring for over 25 years. Certain historical physician-hospital consolidation ended for many with divesture, as hospitals failed to integrate physicians into their organization and/or the acquisition costs and other ongoing operating costs were too significant.

According to a survey released by Jackson Healthcare, 56% of the hospital executives who responded were involved in actual acquisitions of physician practices; additionally, 52% of the respondents were planning an acquisition in 2013.

This time things must be different as hospitals cannot afford to fail, as proper integration must occur with our changing healthcare landscape. The structural changes taking place in our health care system, mainly as a result of the delivery model modifications driven by the Affordable Care Act (ACA) that include initiatives such as avoidable re-admissions, bundled payments, and value-based purchasing will mandate a much closer working relationship between hospitals and physicians.

On the other side, physicians’ generational shifts regarding work-life balance combined with a loss of compensation due to reimbursement cuts would seem to push these relationships together. Simply stated, hospitals depend upon physicians for care delivery and patient volumes, while an increasing number of physicians depend upon hospitals for stable employment and income preservation.

From a Hospital’s perspective, developing physician compensation models that align with organizational, quality, and financial goals will pave the way for success. Similarly, Physicians will look to be rewarded if they lead and implement cost initiatives and be the feeder for increasing patient volumes. Alternately, hospitals may want to explore different partnerships or other relationship models, beyond straight employment. The wave of purchases that occurred during the 1990’s taught valuable lessons on how not to accomplish these goals and this time, it must be structured to last. From our perspective, creating a flexible Total Compensation Framework to accomplish this mutually beneficial relationship is a large part of successfully integrating these practices. A process would involve:

- A due diligence analysis of existing compensation, benefit, and retirement plans sponsored by target practices
- Review and design a fully-integrated approach, a partnership approach or other affiliation approach
- Modeling all-in compensation plan costs under various designs and matching them with hospital goals/objectives
- Developing appropriate variable pay programs with comprehensive benefit plans
- Illustration of pro-forma impact on hospital and target group physicians and other employees

Please share your thoughts!!

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