

10 Things to Know About Co-Management Relationships in Conversions of ASCs to HOPDs

By Leigh Page

When hospitals purchase ASCs from physician-owners and convert them into hospital outpatient departments, they may also set up co-management arrangements with former physician-owners. “The co-management vehicle allows for the development, management, efficiency and quality improvement of the HOPD by rewarding physicians for their management efforts,” says Scott Safriet, a principal at Healthcare Appraisers. Mr. Safriet lists 10 things to know about such arrangements.

1. Creation of separate contracts. The co-management agreement is separate from the ASC sales transaction and conversion to an HOPD. “The arrangement may be established solely with the physicians that sold the ASC or it may also include additional physicians, medical groups or faculty practice plans,” Mr. Safriet says.

2. Ownership can be split. While the HOPD remains wholly owned by the hospital, the co-management entity could either be entirely physician-owned or a joint venture with the hospital. Ownership of the joint venture is typically split 50-50 between the physicians and the hospital, but percentages vary depending on requirements of both parties.

3. Many services can be included. The services to be managed can extend beyond the HOPD. For example, the management entity could also be tasked with providing management services to inpatient surgery services and other outpatient services or locations, depending on the hospital’s desired level of management integration. The amount of managed services will influence the overall management fee and the amount of work for the physicians. Services can include outpatient, inpatient and multiple locations and be structured to meet specific needs of the hospital, such as emergency call coverage.

4. Duties cannot overlap with other management services. “The duties the contract assigns to the management company cannot also be assigned to others at the hospital, whether through medical directorships or an outside management company,” Mr. Safriet says. Therefore, the hospital needs to review its compensation arrangements to make sure co-management services and associated payments do not overlap with other services or payments.

5. Services must actually be provided. The management services tasked to the physicians must be performed, and the hospital needs to be

able to demonstrate that it can appropriately track accomplishment of the management tasks. “Physicians must actively participate and spend significant time and effort performing their required management duties,” Mr. Safriet says.

6. Clearly define responsibilities. Unlike traditional hourly compensation for medical directorships, physicians in co-management relationships are not typically required to log hours worked. However, they do need to achieve predefined goals and objectives. This means creating clear and well-defined responsibilities. “The targets can’t be sandbagged metrics, such as physicians showing up on time,” Mr. Safriet says.

7. Create base fee and incentive fees. The management company receives a base management fee, usually paid monthly, along with an opportunity to earn an incentive fee based on achieving certain pre-established performance targets. The base fee typically equals 30-70 percent of the total fee. “If the base fee were a higher percentage, it would erode the importance of achieving performance targets,” Mr. Safriet says.

8. Payment is based on fair market value. “Establishing fair market value for the physician’s services is a complicated but necessary part of setting the right payment level,” Mr. Safriet says. Each co-management arrangement is unique, reflecting specific market and operational factors. The valuator assesses the relative worth of each task or objective by matching it to comparable arrangements and making appropriate normalizing adjustments.

9. Tie incentive fee to performance objectives. Tie the incentive payment to attainment of specific clinical quality objectives and other factors, such as patient satisfaction and budgetary compliance. “The calculations and weightings for the incentive payment must be part of the agreement, and should reflect aspects that are of particular service or operational importance to the hospital,” Mr. Safriet says.

10. Heed compliance risks. If fair market value cannot be demonstrated and appropriately documented, co-management payments have a fairly high degree of regulatory risk,” Mr. Safriet says. Ensure that the annual management fee is structured as a fixed payment, not related to the value or volume of referral needs. The hospital should also verify that it can appropriately track, monitor and document achievement of identified base management tasks and incentive metrics. ■