

CRAIN'S DETROIT BUSINESS

Detroit and Southeast Michigan's premier business news and information website

Originally Published: March 13, 2011 8:00 PM Modified: March 13, 2011 10:31 PM

All aboard: At St. John, co-management gives physicians stake in services

By [Jay Greene](#)

If there is one overriding theme in the new five-year strategic plan under way at **St. John Providence Health System**, it is working more closely with the 2,200 mostly private physicians on the Warren-based system's six hospital medical staffs to improve quality of care and expand business opportunities.

Most hospital systems in metropolitan Detroit, including **William Beaumont Hospitals** and **Henry Ford Health System** (*See story, Page 21*), are trying to work more closely with their physicians as health care reform begins to encourage inpatient and outpatient care coordination, reduction in hospital readmissions and development of accountable-care organizations.

But at the heart of St. John Providence's plan is the creation of separate operating companies -- 50-50 owned by physician investors and the hospitals -- to co-manage entire clinical service lines.

While it's not a new concept nationally, St. John Providence is the only health system in Southeast Michigan to co-manage an inpatient hospital clinical service -- in this case, cardiovascular care -- in a joint venture with a group of physicians.

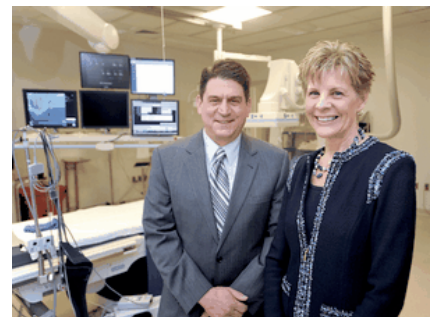
"The goal is to achieve the highest quality and efficiency" with the co-managed companies, said Michael Wiemann, M.D., president of **Providence Hospital** in Southfield. "We need to be more tightly integrated with the hospitals and the doctors to achieve this."

Effective March 1, St. John Providence began operating **St. John Cardiovascular Co-Management Co.**, said Tom LaLonde, M.D., chairman of the newly formed company.

"Doctors want to do what is good for patients and work with hospitals on a common goal," said LaLonde, who also is chief of cardiology at **St. John Hospital and Medical Center**, Detroit. "This is a great opportunity for us."

The company includes 44 cardiologists and heart surgeons and two of St. John's hospitals -- St. John Hospital and

DAVID DALTON



Tom LaLonde, M.D., chairman of St. John Cardiovascular Co-Management Co., and Diane Radloff, president of St. John Hospital and Medical Center, represent co-management in the health system.

What is co-management?

Under clinical services co-management, a health system or hospital typically owns the real estate and jointly manages specific clinical services with doctors who practice there.

Physicians buy shares in the new company that total 50 percent ownership. Hospitals own the other 50 percent.

The service is co-managed through an oversight board of equal numbers of doctors and hospital officials.

The physicians get fair-market pay, usually hourly rates for operational and clinical management duties. They also are paid based on exceeding certain clinical performance measurements for various metrics.

St. John Macomb–Oakland Hospital, a two–campus facility in Warren and Madison Heights.

Under co–management, each doctor will purchase an unspecified amount of shares in the company to total 50 percent ownership. The St. John hospitals will own an equal share. A board composed of equal numbers of doctors and hospital administrators will jointly make operational decisions.

If the company achieves its stated goals, improved quality could lead to a lower mortality rate, fewer hospital–acquired infections and higher reimbursement by government and private payers. Increased efficiencies could lead to lower expenses and more patients.

Physicians stand to make money in two ways. First, doctor investors will receive hourly rates based on fair market value for various management services, LaLonde said. They also receive incentive compensation based on seven quality metrics, two efficiency metrics and one program development metric.

"The incentive payments will have three tiers, with the highest tier being as efficient as any hospital in the country," LaLonde said. "Doctors will be paid an hourly rate, like a consultant, for time spent on committees and to optimize outcomes and incentives."

Ann Brandt, senior director with **Health Care Appraisers** in Delray Beach, Fla., said the consulting firm developed a fair–market–value total payment amount for the St. John Providence physicians if they meet targets.

"Based on the performance and tasks performed, we gave (St. John Providence) a two–year opinion with an annual dollar amount that included base pay and incentives," Brandt said. "(St. John) can pay anything up to that amount."

Doug Rich, vice president of strategy and business development, said St. John does not expect a return on investment until the second year.

In 2009, Grand Blanc Township–based **Genesys Health System** formed three co–management companies with about 60 physicians. Genesys and St. John Providence are sister hospital companies. Both are part of St. Louis–based **Ascension Health**, the largest Catholic system in the U.S.

Now in its second year co–managing the three companies -- covering cardiovascular, general surgery, and orthopedics–podiatry and neurology -- Genesys has experienced positive financial, efficiency, patient and physician satisfaction and quality results, said interim CEO Betsy Aderholdt.

For example, Genesys increased first–time surgical case starts by 20 percent, increased rates of history and physical completion by 10 percent, increased congestive heart failure core measures to nearly 100 percent and reduced coronary stents per angioplasty procedure to 1.43 from 1.72, saving hundreds of thousands of dollars.

"We were in the 88 to 90 percent level with the core measures, and now we are up to 99 and 100 percent," Aderholdt said.

Core quality measures are collected voluntarily from hospitals by the **Centers for Medicare and Medicaid Services** and are posted on the **U.S. Department of Human Services** Hospital Compare website, www.hospitalcompare.hhs.gov.

CMS core measures include the percentage of heart attack patients who receive an aspirin upon arrival in the emergency department, whether an antibiotic is given within an hour before surgery, whether discharge instructions are given to heart failure patients and whether pneumonia patients are given smoking cessation

instructions before discharge.

From a financial standpoint, Aderholdt said, the physicians earned back their original investment halfway into the first 18-month contract, excluding hourly consulting fees. When the first contract ended last December, the physicians earned a 2.5-to-1 return on investment, she said. The hospital almost broke even on its investment, she said.

"The contracts were about \$2 million in size, and our program evaluation showed that the hard dollars invested are worth it," Aderholdt said. "The level of doctor loyalty also increased. It wasn't just the incentive payments. We are getting doctors who want to work here."

Once physicians in the market started to hear about the improvements at the hospitals, Aderholt said, many have applied for privileges or have relocated to be closer to the hospital.

Chris Rossman, a partner with **Foley Lardner** in Detroit, said hospitals and physicians can safely set up co-management companies and avoid violating federal anti-kickback statutes and physician self-referral bans.

"Generally, doctors can't refer a patient to an entity where they have a financial interest," Rossman said.

Avoiding legal problems can be accomplished in several ways, including setting up a written agreement between the hospitals and physicians, determining the compensation in advance and not tying referrals to the financial incentives, Rossman said.

"The goal is not to increase volume. It is to increase quality and reduce costs," Rossman said. "A collateral goal is to attract high-quality physicians to practice at the hospital and possibly participate in the co-management company. This can lead to increased volume, but it can't be the goal."

LaLonde said it is easier for physicians at the **University of Michigan** and Henry Ford Health System to work more closely with their health systems on quality projects and share in financial incentives because doctors in those systems are mostly employees, as opposed to independent private practitioners.

Brandt said many hospitals have tried ways to improve quality and efficiency of their clinical services by working closely with physicians.

"They can hire physicians to manage the service line, or take a co-management approach. There is not a one-size-fits-all (approach)," Brandt said. "There has been a huge increase in employment arrangements. The key is to get the doctors motivated and working on the same page."

By late spring, St. John plans to create four other co-managed companies in unspecified clinical areas, Wiemann said. Two of the companies will be with physicians and hospitals in St. John's western region that will involve Providence Hospital and **Providence Park Hospital** in Novi. Two will be systemwide companies, he said.

"We are looking in medical and surgical areas for areas (in which) we have high levels of confidence we can improve care for large populations of patients," Wiemann said.

LaLonde said physicians understand they want to help the hospital improve efficiencies so there will be enough excess revenue to invest in physical plant and equipment improvements.

"You don't need capital to improve quality, but you can improve efficiency," LaLonde said.

Jay Greene: (313) 446-0325, jgreene@crain.com

© 2011 Crain Communications Inc.
Use of editorial content without permission is strictly prohibited. All rights Reserved
www.craindetroit.com