

## Co-Management Arrangements: Comprehensive Pay for Performance

Co-Management arrangements are relatively new pay-for-performance programs whereby hospitals engage physicians to manage and improve entire hospital service lines (e.g., cardiovascular, orthopedics, etc.). These arrangements place emphasis on achievement of pre-established quality and performance metrics and can offer significant improvements over traditional physician medical director involvement in hospital operations.

Under this type of arrangement, a hospital enters into a formal agreement with certain of its medical staff physicians to manage a designated hospital service line. The primary purpose is to align physician and hospital objectives while recognizing and appropriately rewarding participating physicians for their efforts in managing and improving the overall quality and efficiency of the service line.

The core elements of these arrangements are built on the belief that well-defined operational goals can be achieved when physicians and hospitals work together. Therefore, incentive-based management programs must be designed with very specific objectives and clearly defined metrics. Typically, co-management arrangements include:

- The **Base Fee** is a fixed payment, typically paid monthly, that provides compensation for the day-to-day time and effort of the participating physicians in overseeing, managing and improving the service line.
- The **Incentive Fee** is at risk and is payable to the extent that pre-determined service line objectives are met.

### FMV Pitfall

Several FMV pitfalls to be avoided with co-management arrangements include:

- Co-Management arrangements may be at substantial regulatory risk if not appropriately structured and/or if compensation exceeds FMV.
- Certain inherent subjectivity in co-management arrangements presents significant valuation challenges.
- Recognition should be given to the fact that the duties and scope of one co-management arrangement may be vastly different from those of another co-management arrangement.
- Care must be taken to insure that redundant medical director payments are eliminated in favor of the significantly more comprehensive co-management program.