

PHYSICIAN ALERT

important information prepared for physicians on anticipated changes to the health care environment by

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Physician-Hospital Relationship in Western Pennsylvania: Change is Inevitable (*Part I*)

In the beginning of the twentieth century, health care was relatively straightforward. However, as the rest of the world moved toward a more centralized and controlled model of medicine, the United States' system developed into a complex and often inefficient model where physicians are pitted against hospitals and insurance providers are the deciders of who can or cannot receive care. Our health care structure has changed from an individual-driven model (practitioner serving individual) to a business-based model (health systems serving the consumer market).

A discernable difference between the U.S. health care model and the rest of the world is that the U.S. is the only country where doctors are not employees of the hospitals where they work. The discrepancy has been noted. In the 1990s, hospitals began buying physician practices, often with disastrous results: inefficient management caused costs to rise; bonus formulas were unachievable; collections were unnecessarily complicated. Both physicians and hospitals retreated to the old model: physicians remaining self-employed with no real incentive for loyalty to a particular hospital.

With a new President in office, health care is sure to be a hot issue. About the only thing everyone can agree upon is that the current system does not work well. Businesses cannot cope with rising insurance coverage and as consumers take on more health care costs, they demand better care and more transparency regarding their options and pricing. Meanwhile, the relationship between physicians and hospitals grows increasingly hostile.

Western Pennsylvania faces its own issues. According to the 2007 "State of Medicine in Pennsylvania" prepared by the Pennsylvania Medical Society, the overall physician workforce is declining; recruitment and retention of younger physicians is falling and those that stay tend to choose specialties; and with our aging population, workload will only increase, at least in the near future.¹

At the same time, the Hospital Physician Employee model has progressed, with more efficient and fair bonus models. Younger physicians are attracted to employment models with reasonable and more certain work schedules; the elimination of administrative and business expense burdens; and dramatic reduction of malpractice risk and expense.

As the government and payors implement changes, consolidation in our area seems inevitable. Some physicians may object to the restructuring of the physician-hospital relationship. Others will welcome it, as the continual stream of new regulations, rising malpractice insurance premiums, ongoing threat of Medicare reimbursement cutbacks, and the beginning

¹ www.pamedsoc.org/MainMenuCategories/Government/SOM/SOMoverview.aspx

of a movement towards quality reporting make ownership of an independent practice much less attractive. We foresee that most physicians/physician practices will have to decide whether to contract with a hospital, sell their practice or even become an employee of a hospital. At the very least all physicians should consider these issues and plan proactively to position themselves most advantageously. Those that consider these issues and plan ahead of time will be in a better position to negotiate and/or structure the type of arrangement which is most desirable to them.

Most forward-thinking hospitals understand this issue. In a sole community hospital setting, the emphasis is on securing the services of qualified physicians, both primary care and specialists. These hospitals are only busy if the primary care physicians admit patients to them, and they risk losing business to hospitals in other cities if they don't have the array of specialists to meet the needs of the local patients. Conversely, in larger cities where hospitals compete for patients (customers), the hospitals who understand the dynamics of the situation and move quickly to lock up the services of a physician or physician group will have a distinct competitive advantage over the hospital that is slow to react.

Therefore, we are at a time in history when the previously conflicting interests of physicians and of hospitals are starting to merge. Even those fiercely independent physician groups will have to take some action in order to survive. As a physician group considering their alternatives, knowledge of the options available and benefits/drawbacks of each is critical. There is a lot to consider, including financial matters, income tax implications, legal concerns and constraints, and proper timing.

COMING NEXT: The Physician-Hospital Relationship in Western Pennsylvania: Ramifications. In Part II, we will explore in more depth the options facing physicians: Becoming an employee; sale of the practice; or reorganizing the practice.

This article has been co-authored by Total Practice Management, LLC and Rothman Gordon, P.C. If you have questions pertaining to your personal situation, please contact:

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