



# EMPLOYING PHYSICIANS

It's a trend that makes sense for business and mission

BY KAREN M. SANDRICK

**J**ust prior to the recession, it wouldn't have been unusual for a physician to walk into a hospital administrator's office, say he or she was interested in employment and get an almost immediate yes in response.

Throughout the recession, hospitals have wanted to keep the door open to employing physicians. They just have not been able to quickly answer the knock. "Hospitals have been adjusting to significant downturns in their margins, particularly related to their investment income. The economic pressures have therefore slowed most strategic moves by hospitals. We've seen examples of hospitals and health systems putting their physician employment strategies on hold because physician employment is very expensive, and hospitals are concerned about having the money to do the deals," said J. Daniel Beckham, president of The Beckham Company, a health care consulting firm in Savannah, Ga.

As the economy begins to stabilize and show glimmers of growth, hospitals are preparing to jump right back on the physician employment bandwagon, if they aren't already making the leap. "Most organizations realize that physician employment and overall physician alignment strategies are the kinds of investments they will be willing to make, even in tough times, because if they don't, someone else will," said Dr. Morrissey.

The recession in many ways has

pushed even more physicians to actively seek employment. "It's been challenging for physicians to survive on their own in independent practice. The economic pressures of a recession are not handled well by small physician groups. So physicians are knocking on hospitals' doors saying they need help. They want to become employees," said Walter Morrissey, M.D., vice president of Kaufman Hall & Associates, Inc., an international health care intelligence and consulting firm in Skokie, Ill.

Most organizations will be pursuing physician employment for both defensive and offensive reasons, Dr. Morrissey added. "Hospitals are finding that if they aren't employing primary care physicians, they are going to lose volume as other hospitals in their markets beat them to it," he said.

A case in point is Via Christi Health System in Wichita, Kan. With two acute care facilities and five specialty hospitals, Wichita has been a highly competitive market. As a result, inpatient utilization at Via Christi has eroded over the last few years. To reduce the decline, the health system has proactively engaged with physicians through not only employment but also joint ventures and direct contracting with inde-

pendent physicians.

Catholic hospitals in other settings are following the same path to ensure their economic stability and their mission. "Where there is a dynamic in your marketplace and most of your competitors are following a similar strategy, you have to follow suit to sustain yourself and survive," said Paul Westrick, vice president for mission integration and advocacy, Columbia St. Mary's Health System, Milwaukee. For the past 20 years, physician integration and employment have been part of the market dynamic in Milwaukee. "We were a leader early on in terms of looking at alignment with physicians. At some point, everyone is doing it. So it has been critically important for us to align with physicians in order to be a vibrant

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ministry and sustain ourselves in the marketplace,” Westrick said.

Many hospitals also are trying to employ physicians to provide emergency department coverage or support clinical strategies that rely on key specialists. A good example is a hospital that wants to develop a stroke program as a regional hub and has to have interventional neuroradiologists or interventional neurosurgery coverage. “Hospitals end up employing some of those niche specialists, particularly in markets where there is borderline volume, so the physicians will have an adequate amount of compensation in the face of fairly marginal volumes,” Dr. Morrissey said.

Hospitals employ physicians to fill voids in patient care. About a year after St. Thomas Hospital, Nashville, Tenn., lost a cardiology group to Vanderbilt University Medical Center, the hospital got back into the business of employing primary care physicians. The hospital solidified its relationship with one of its largest cardiology practice groups and began to forge new relationships with physicians to expand the scope of its primary care network and meet the needs of a growing mission.<sup>1</sup>

The physician employment model helps Catholic hospitals spread their ministries to outlying areas. Columbia St. Mary’s has employment relationships with more than 300 physicians in 62 locations across four counties in southeastern Wisconsin. “There is no way our three inpatient facilities would have been relevant to a population base of approximately 1.3 million people. But when you look at the fairly large ambulatory care and physician clinics we operate with their treatment and imaging services, we are able to meet most of the needs of our patients and spread the influence of our ministry to a broader geography,” Westrick said.

Innovative institutions will be pursuing physician employment proactively to reach new levels of integration. “There are some organizations that want to lead and change the way

health care is delivered. They want to do more than just employ physicians. They want to lead and change their organizations with their physicians,” Dr. Morrissey said.

For example, Bon Secours Health System, a \$2.6 billion not-for-profit Catholic health system headquartered in Marriottsville, Md., has been employing physicians in its Virginia market since 1992. The system now employs more than 200 physicians in central Virginia who provide primary, specialist, hospital-based and special practice care. “We believe that the tight integration of an employed model will bring us to more advanced outcomes in terms of our ability to manage resources across the continuum of care,” said Kevin Barr, executive vice president, Bon Secours Virginia HealthSource, Inc.

“Integration with physicians doesn’t necessarily happen *because of* employment, but it’s hard to happen *without* some degree of employment. Employment is a starting point, not the ending place,” said Dr. Morrissey.

#### **GROWING NUMBERS OF PHYSICIAN EMPLOYEES**

Physician employment is already common in some major metropolitan areas. According to the most recent Community Tracking Study completed in 2007, 68 percent of 46 hospitals in 12 U.S. cities employ primary care physicians — just slightly higher than the 65 percent of hospitals that employed primary care physicians in these cities in 2000 and 2001. But employment of specialists has increased markedly. While only some hospitals were beginning to employ specialists in 2005, 68 percent now report they have employment relationships with specialists and 84 percent of the hospitals have increased employment of specialists in just the last two years.<sup>2</sup>

The study indicates few physicians remain in independent private practice. Competition for physician employment has been fierce in a few parts of the country, said Beckham. “Mil-

waukee is probably the poster child for that phenomenon, as health systems have been engaged in a bidding war to employ physicians to the point where there are no independent physicians left in the city or in southeastern Wisconsin," he said.

The number of physicians employed by community hospitals has grown steadily since 1992. An analysis conducted by Pam Waymack and Phoenix Services, Evanston, Ill., showed that more than 80,000 physicians were employed by community hospitals in 2006, a figure that is 11 percent higher than the total number of employed physicians in 2005 and two times higher than the number of physicians who were employed by hospitals 20 years ago.<sup>3</sup>

Between 2003 and 2007, physician employment by community hospitals rose 24 percent, according to data from the American Medical Association. The Medical Group Management Association reported that the percentage of hospital-owned private practices of three or more physicians jumped from 24 percent in 2002 to 50 percent in 2008.<sup>4</sup> In Illinois, more than 4,400 physicians and dentists were employed by community hospitals in 2006. In the Chicago metropolitan area, 78 community hospitals now employ more than 3,700 physicians.

The percentage of employed physicians could rise even more — increasing from 10 percent to 25 percent — by 2013, predicted members of the Society for Healthcare Strategy and Market Development.<sup>5</sup>

#### EFFECT OF THE RECESSION

Much of the interest in employment is being driven by physicians in small private practices who have been especially hard hit by the recession. A survey by the Medical Group Management Association in early 2009 found that almost 70 percent of physician practices were getting or expected to get less in revenue, 66 percent were reducing their operating budgets, 59 percent were

freezing staff hiring and 75 percent were seeing more uninsured patients. One family physician reported a drop of 30 percent in take-home pay and a rise of 20 percent in his two-physician practice's accounts receivable between 2007 and 2008.<sup>6</sup>

Physicians who have a heavy surgical practice saw declines of more than 2 percent in inpatient surgeries and 1 percent in outpatient surgeries in the same time period.<sup>7</sup>

These pressures have compounded already stagnant reimbursements from private as well as public payers. Reimbursement for treating public patients rose only 0.5 percent in 2007, for example. Physicians also face possible losses of revenue for providing ancillary services as a result of new legal prohibitions under the Stark law and steadily rising practice expenses, including an annual increase of 5 percent to 10 percent for health insurance costs and 3 percent to 4 percent for cost of living.<sup>8</sup>

"The recession has certainly increased the frequency rate with which physicians are contacting us about employment. Economic forces are pushing physicians into more organized structures because doctors in small groups of even six physicians find it difficult to afford some of the leadership resources that a health system can provide," Barr noted.

Demographics also are changing. Younger physicians, particularly women, are more interested in balancing their professional and personal lives and controlling their working hours than in staking out an independent clinical practice on their own.

Therefore, said Beckham, "Physicians are probably more motivated in the post-recession period than they were before the recession to establish some sort of stable relationship with a hospital or health system."

Despite declining revenues and investment returns caused by the recession, hospitals are still interested in employing physicians. One major reason is the need to meet the demand for ser-

vices. While the U.S. population continues to grow and require increasing amounts of health services, the number of physicians has not kept pace. Estimates indicate there may be a shortage of 200,000 physicians.<sup>9</sup> Nowhere is that felt more strongly by hospitals than in the emergency department, as it has become exceedingly difficult to obtain round-the-clock, on-call coverage without employing physicians.<sup>10</sup>

In the post-recession period, physician employment will be a key factor in growth strategies. Hospitals that participated in the Community Tracking

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Study reported several market-based reasons for wanting to employ physicians: expand into a new market or assure continued admissions from a major group practice; direct or “brand” a profitable service line; pre-empt competition from physician-owned ambulatory surgery centers, specialty hospitals, or imaging facilities; or increase negotiating leverage with health plans.<sup>11</sup>

Fostering mission is also a driver. Loyola University Medical Center, Maywood, Ill., has been talking about merging with its specialty physicians for years. “The physicians and the hospitals have always shared the same mission. We would sort of edge up to one another and ask if the other wanted to dance, but then we would back away,” said William Cannon, MD, chief of staff and associate dean. That process went through several yo-yo cycles until January 2009, when Loyola University Physician Foundation merged with the hospital medical staff as a single business unit and operating division of the hospital. “We decided that, with all the changes in health care, the way the country is heading toward health care reform, and the way the regional economy is moving, we couldn’t put it off any longer. We had to quit flirting with each other and go to the dance together. Because of our shared mission, our shared Jesuit values, our desire to educate, provide excellent patient care and do research, we have a vision, and we want physicians and the hospital to have a voice in our future,” said Dr. Cannon.

#### LEARNING FROM THE 1990s

Physician employment in the 2000s is not a déjà-vu-all-over-again kind of phenomenon repeating the same mistakes hospitals made when they hired primary care physicians in the 1990s. “The first wave of physician employment was very reactionary and arguably undisciplined by experience. Hospitals really hadn’t done it before, and many of the deals were done without any focus on productivity-based com-



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### **Innovative institutions will be pursuing physician employment proactively to reach new levels of integration.**

pensation. This time around, hospitals are being much more careful in how they structure the relationship,” Beckham recalled.

Physician employment was disastrously expensive for hospitals in the 1990s, in essence, because they paid too much for physician practices. In addition to a premium for good will, hospitals paid physicians a guaranteed income. Hospitals also neglected to include incentives that linked physician income to productivity or new referrals. The result, according to reports from the Medical Group Management Association, was a loss of more than \$100,000 per employed physician.<sup>12</sup> Hospitals also failed to involve physicians in administrative and strategic decision making and to fully integrate physicians in mission, governance and leadership.

The pendulum nevertheless is swinging back, said Milt Hammerly, MD, vice president of medical operations and integrative medicine, Catho-

lic Health Initiatives, Denver. While CHI employs only about 10 percent of its physicians, Dr. Hammerly sees Catholic hospitals moving toward employment as well as other forms of physician alignment. “The pending changes in health care, the bundling of payment, the creation of accountable care organizations, the penalties associated with readmissions, all of that is essentially saying that we have a brave new world of health care where silos don’t work. Silos don’t provide the continuity of care, they don’t prevent readmission, they don’t improve clinical outcomes,” he said.

The move toward employment is being more successful this time around. “The sequel isn’t as scary as the original,” said Dr. Morrissey, “because hospitals are smarter this time around than they were in the 1990s.” First, hospitals are not paying good will for physician practices. “Most practice acquisitions are now purely hard asset transactions. Hospitals are not paying for the book of the business, so to speak,” Dr. Morrissey added.

Second, contracts with physicians include measures of productivity. “Hospitals are arguing that physician employment is not going to be like it was in the 1990s when practices were acquired, there were long-term guarantees, and physicians didn’t necessarily work as hard. This time around, physicians’ compensation depends on meeting productivity goals and incentives,” Dr. Morrissey said.

Noblis Health Innovation, Falls Church, Va., has found, in fact, that today’s employment contracts are “smarter.” The contracts have clearly defined productivity measurements, such as relative value units, patient volume and gross charges or collections.

Hospitals are engaging physicians not only in cost containment strategies but quality and clinical outcome goals. Columbia St. Mary’s includes in its compensation formula for employed physicians protection against disincentives for seeing low-income



patients. Westrick explained that the Medicaid program in Wisconsin pays physicians only about 25 percent of the cost of seeing beneficiaries. The hospitals' compensation formula meets reimbursement shortfalls of up to 20 percent of a physician's practice for seeing Medicaid patients. "We are helping to moderate the financial impact for seeing a higher mix of uninsured and low-paying patients than the physicians would be able to do if they were in private practice," he said.

Hospitals also are being careful to integrate physicians into their operations. For instance, hospitals are providing more support services for physician practices, linking physician practices into electronic clinical information systems, and directly involving physicians in strategic and service line planning. Loyola University Medical Center has included physicians in a council of chairs as well as a system management group so physicians can provide input not only in the overall direction of the organization, but also in management on a day-to-day basis. "The physicians sacrificed their financial independence, but what they got back in return was a much greater voice in leadership decision making," said Dr. Cannon.

Hospitals still need to learn how to emulate the most successful health care delivery systems in the country — Geisinger Health System, Mayo Clinic, Cleveland Clinic — which rely on physicians to lead and guide core clinical operations and culture and which give both hospitals and physicians a financial stake in the outcome. "Hospitals may be able to attract and keep the kind of talent they need at least in the next

decade by adopting a single physician employment model and trying to fit everyone into the same square hole. But evolving toward a health care system that provides exceedingly high quality and affordable care will take more than drawing a bunch of boxes on an organizational chart," said Beckham.

Linkages between physicians and Catholic hospitals rely on more than a contract; they revolve around a deep sense of connection, which is driven by mission, said Barr. "It's not just the fear of the economic situation. Physicians need to be called; they need to believe that every person is a unique gift, that the hospital in which they work is a place where they can excel. There needs to be more than just a business transaction that draws people together. There is something deeper that we believe we should give back to the community."

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