

# The Advantages and Limitations of Practice Leases

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Practice lease arrangements have evolved as a hospital-physician alignment option for physicians who are not interested in giving up control of their practices—at least not yet.

Often seen as a transition strategy, practice lease arrangements are varied and may include *professional service leases* (providers and provider-related costs) and/or *practice resource leases* (space, non-physician staff, equipment, supplies, and other resources that support provision of professional

services). Another common option combines employment of providers with leasing of practice resources.

## THE HOSPITAL PERSPECTIVE

Lease arrangements allow hospitals to achieve the same primary goals as employment: aligning with physicians, enhancing service lines, and providing professional services.

In addition to meeting those goals, lease arrangements may offer the hospital certain advantages:

**Limited commitment.** A lease arrangement can allow a hospital to test the waters at a commitment level that is more easily unwound than an employment model.

**Easier to achieve.** Practices may be hesitant to align with hospitals, fearing lost autonomy, lack of control, or changes to compensation models. A lease arrangement mitigates many of these difficulties, making it easier to close a deal.

**Flexible payment for professional services.** Typically lease arrangements are structured on a per wRVU basis and allow hospitals to purchase only the professional services that are required.



Leases can be complicated and challenging for many reasons, including both legal and fair market value considerations.

**Reduced practice expenses.** Leasing practice resources frequently is less expensive for a system than paying for them when operating the practice itself. Independent practices often have lower staffing and benefits costs than do hospital-owned practices.

**Turnkey operation.** A leased practice entity provides a turnkey package—administrative services, non-physician support staff, office space, equipment, furnishings, and access to patient records—essentially serving as a management services organization. The health system does not have to be involved in day-to-day operations.

The primary drawback for the hospital or health system is that the lease model doesn't provide the level of integration allowable through full employment. Hospitals also give up a certain degree of control under a lease agreement.

## THE PHYSICIAN PERSPECTIVE

For physicians, lease models offer an alternative to employment or selling the practice. The arrangement may bring the following advantages.

**Better reimbursement.** A leased practice may be able to take advantage of a hospital's superior fee schedules.

**Independence and control.** The physicians remain comfortably in control of decisions that affect patient care and operation of the practice.

**An easy out.** Leasing leaves the practice's corporate entity in place, allowing the practice to easily sever ties with the hospital if necessary.

**Control over compensation.** When professional services are leased, payment is made to the practice based on the total value of the services provided, allowing the practice to retain control of how each physician is paid.

## THE BOTTOM LINE

Leases can be complicated and challenging for many reasons, including both legal and fair market value considerations.

However, under the right circumstances, the advantages offered by practice lease arrangements may provide an avenue for hospitals and practices to come together to meet their common goals. ●

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