Joint Venturing With Physicians: Half of Something May Still Be Worthwhile

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Does it still make sense to develop new services in a joint venture with area physicians?

Section 603 of the Bipartisan Budget Act of 2015 eliminated the potential financial benefits of hospital-based reimbursement for hospital ambulatory care services provided at off-campus sites, removing an incentive for hospitals to retain 100 percent ownership of those services and sites. However, the potential loss of existing revenue and the increasing employment of physicians still make hospitals reluctant to develop ambulatory services in joint venture with physicians.

50 PERCENT OF SOMETHING

Physicians will continue to want to own ancillary services, ambulatory surgery centers, and other outpatient services and facilities to supplement reductions in practice reimbursement and income. Health systems must choose to either participate in a joint venture with physicians (thereby retaining 50 percent of ownership) or attempt to retain full control and ownership (thereby risking losing substantial volume to a competing venture developed by the physicians).

Once physicians develop a service or facility on their own, it is rare that a health system can negotiate back to having a 50 percent interest. Site-neutral payments for ambulatory services do not change this calculus.

ALTERNATIVE STRUCTURES

Most health systems need to economically align interests with their non-employed physicians to drive improvements in quality, customer experience, patient access, and cost. However, alignment can be achieved without giving the physicians an equity stake in the operations of the venture. In fact, physicians are increasingly concerned that such equity investments may not be a good investment if regulations change to preclude physician ownership, as some anticipate.

Physicians have been showing renewed interest in safer investments. Deals can be structured so that the physicians own the real estate and get reliable lease payments from the health system. The physicians can be given greater control over the medical care provided within that real estate through co-management agreements, medical directorships, and the like. Alternatives to equity joint ventures can and should be explored.

THE ERA OF MACRA

The Medicare and CHIP Reauthorization Act of 2015 (MACRA) is scheduled to affect physician fees starting in 2019, with the Centers for Medicare & Medicaid Services (CMS) recently offering some degree of choice on reporting requirements for medical groups in 2017. Although many physicians have not yet grasped the potential impact on their practices, it is likely that MACRA will push physicians into larger groups—and many into the arms of health systems via employment. That could leave health system leaders wondering why they should consider joint ventures with physicians, but such arrangements still make sense in certain markets.

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One size still does not fit all. Markets are at different stages of evolution toward population health management and assumption of risk. There are also still many physicians who value their independence and prefer not to be employed by a health system. In addition, to the extent that physicians consolidate into larger groups in response to MACRA rather than seeking to be employed, those groups are more likely to diversify practice revenue by bringing services in-house. Health systems should look at their markets to determine the best course of action; 50 percent of something may still be better than 100 percent of nothing.

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