

Is Now the Right Time for a Cardiology Lease Agreement? 4 Things to Consider

Karin Chernoff Kaplan, Director

Jessica E. Stack, Senior Manager



Fifteen years ago, the move toward adding stress testing, nuclear testing, and more to cardiology practices' in-office offerings began to pick up speed as physicians realized they could increase practice revenue by as much as [15 percent](#) by adding ancillary services. While reimbursement for many cardiac diagnostic services was significantly reduced in 2010, income from these services remains one reason why some cardiologists are reluctant to be employed by hospitals—and why a lease arrangement may hold greater appeal.

While [60 percent](#) of cardiology practices are now hospital owned or affiliated, cardiology practices that offer diagnostic testing services are less inclined to view employment as attractive. In these practices, cardiologists not only receive a professional fee for interpreting the results of diagnostic tests, but also profit from the provision of these services within their facility.

Much of the additional income that comes with these services disappears under a hospital employment model. When cardiologists become employed by hospitals, Stark Law prevents hospitals from compensating employed cardiologists for the facility-based component of services. Additionally, fair market value requirements make it difficult for hospitals to match the level of compensation received by cardiologists in practices with significant facility revenues.

And while there may be plusses to employment—such as a guaranteed base salary and reduced administrative burden—cardiologists who have expanded their practice to include a profitable business of cardiology testing services may find that employment inhibits their entrepreneurial activities.



“Why would I become employed?” these cardiologists ask. “I’d be giving up this lucrative side gig I’ve got.”

But employment is just one way to achieve hospital-physician alignment. As private equity investment in specialty practices [increases](#), hospital leaders must think outside the box in determining ways to deepen relationships with cardiologists. Lease agreements offer cardiologists the ability to maintain control of their practice and benefit financially while presenting hospitals with the potential to expand their network and tighten market share. However, these agreements are challenging to structure, given the numerous regulatory and legal requirements associated with such agreements.

Should your hospital explore the potential for entering into a lease agreement with a cardiology practice, here are four key things to consider.

Consideration No. 1: What type of lease structure will best meet your goals? This decision depends in part on the menu of services the hospital will provide for the cardiology group as well as those services the hospital will pay the group to manage and administer. The advice of legal counsel also is a key determining factor.

For example, a hospital may wish to assume responsibility for billing on behalf of the cardiology group, but would pay the cardiology group to assume responsibility for all other operational functions. Or, the hospital may wish to provide all of the practice’s operational support. A *practice resources agreement* will outline the terms for this arrangement. If billing support falls to the hospital, legal counsel may help determine whether this support should be delivered on premises or from another location.

Additionally, the hospital and the cardiology practice could enter into a *professional services agreement* (PSA) that outlines compensation for all of the provider-related resources required to deliver care. Under a PSA, the practice can be compensated at fair market value for providing care on a work relative value unit (wRVU) basis. A significant advantage to this model is that distribution of the compensation among providers within the practice is left to the practice, as compared to an employment model, where compensation is based on personally performed services. Many practices are attracted to this model because it enables the physicians to maintain any internal pay structures they may have. Cardiologists also may be compensated for clinical supervision of ancillary services, with compensation varying according to the degree of oversight required.

Under these agreements, the practice maintains its status as an independent legal entity for professional services. Certain professional expenses, such as malpractice insurance and continuing medical education, are typically reimbursed at cost.

Consideration No. 2: Which party will be responsible for equipment repair and replacement? Does the hospital wish to maintain responsibility and control over equipment contracts, repair, and replacement, or will the hospital pay the practice to assume this responsibility? No matter which option you choose, it's important that both sides stick to the stipulations of the agreement. If a hospital were to replace a piece of equipment after it has already provided funds for equipment repair and replacement in the cardiology group's annual budget, the additional money spent could put the hospital in violation of fair market value guidelines—and leave the hospital open to penalties.

Consideration No. 3: Who will manage the arrangement for the hospital? These types of arrangements are complicated, and managing practice leases can be tricky. It's important to clearly establish responsibility for the managing the arrangement to a single person to ensure proper execution and administration of the contract and to preserve compliance with the many rules and regulations that govern these relationships. While referred to as a lease, these arrangements do not typically belong in a property management group. Instead, they should be managed by the service line business professionals.

Consideration No. 4: What “triggering events” will enable either side to renegotiate the contract? The right practice lease structure will not only help to avoid frequent contract revisions, but also protect the hospital if the practice's performance plummets or the expense associated with replacing certain equipment is much higher than anticipated. Talk with your legal counsel regarding the types of triggering events that should be included in a practice lease agreement.

Taking the time to carefully explore and evaluate your options for alignment with a cardiology group, including practice lease agreements, is one key factor for success in a competitive environment. ●