



Physician Employment by Hospitals-Part 1

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During the last several years, the percentage of physician-owned medical practices has continued to decline while the number of hospital-owned medical practices has continued to grow. The reasons for this trend toward hospital employment remain unchanged.

For medical practices, decreasing reimbursements, increased administrative costs, and investment in new technologies have all contributed to the decline. In addition, physicians preferring employment rather than ownership, the move toward larger integrated delivery systems, and uncertainty as to how health care reform will ultimately play out have also been contributing factors.

For hospitals, the increase in physician employment can be attributed to the need to maintain market share and to be able to attract a stable pool of highly qualified physicians. The expectation is that these efforts will allow hospitals to create truly integrated and diverse delivery systems, ones that will be **key players in ACO's and new health care payment models.**

As is evident, hospitals typically **have the "upper hand" in driving** physician-hospital integration and very often provide the best options for physicians to ensure their long-term financial stability. In large part, this is due to the fact that hospitals have the financial capital necessary to compensate physicians at levels that many physician-owned practices can no longer afford to maintain. Also, most hospitals have already made significant investments in technology and infrastructure that many independent practices have not been able to make.

Common Forms of Hospital Employment

Hospital employment can come in many forms, depending on the specific needs of the physicians and/or practice and the hospital, as well as specific federal and state regulations. For example, employment can be through a faculty practice where physicians simply become hospital employees. In **"corporate practice of medicine" states**, employment may be through a hospital-captive physician model. In these models, a physician who has strong ties to the hospital becomes the sole shareholder of the **"Captive PC."** In states where the **"corporate practice of medicine" rules** do not apply, a hospital may simply establish a physician practice subsidiary, which then employs the physicians.

Regardless of how an employment arrangement is structured, it is important for physicians to do their financial due diligence, along with their legal due diligence, before entering into any agreement. For example, many physician-hospital arrangements are tied to specific levels of productivity, such as meeting certain levels of work relative value units (RVUs). For this reason, it **becomes important to verify the hospital's calculation of work RVU's, not to mention fully understanding the financial impact** of other terms of the agreement. It is strongly advised that an accountant or other qualified financial advisor who is well-versed in health care-related financial matters review the agreement.

In part II of this series, the RVU model and other financial issues associated with hospital employment will be explored.



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