Understand your options for affiliating with other practices

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Andis Robeznieks
Senior News Writer

Concerns regarding loss of autonomy and working harder with less to show for it have kept some physicians from considering forming collaborative business arrangements. But new and more flexible practice models are evolving what physicians should consider looking at.

Under some of these models, physicians can stay in the office they built, still oversee day-to-day operations of that office (including staffing decisions), and be compensated according to their level of individual productivity and entrepreneurship.

Pragmatic business advice and legal guidance on practice integration models can be found in “Strengthen Your Practice: How to collaborate with peers and other practices,” a physician practice-operation manual available on the AMA’s online Physician Payment Resource Center.

This month, AMA Wire® is focusing on way physician practices can collaborate and outlining the Association’s expert advice in this vital area including how to structure a merger or collaborative integration.

The guidance in “Strengthen Your Practice” defines “merger” as the consolidation of separate physician practices into one surviving medical group in which participants have complete unity of interest.

Merged practices form a single entity and many choices exist as to what type of entity it may be. Options include creating a partnership, professional corporation, professional association, partnership of professional corporations, or limited liability corporation. State laws could dictate some of these choices.
Capital investment in creating a medical group can be substantial, but technology has made it easier and potentially less expensive to integrate existing systems and hardware, such as work stations and servers, thus eliminating the need to purchase and install all new elements. Also, turnkey programs can be used for central business operations, scheduling and practice management.

Physicians have options on the form their capital contribution can take. These include cash, property and equipment, and “intangible” property such as accounts receivable.

**Autonomy can exist after merger**

While the merged medical practice (MMP) requires the creation of a single legal entity and single tax identification number that replaces those of the individual physicians, the practices that merge to form that entity can still exist as practice divisions (PDs). PDs can even function as holding companies that lease assets to the MMP, according to “Strengthen Your Practice” guidance.

The MMP will have governing power and the final word on practice assets, budgets, compensation, salaries, liabilities, revenue and cost distribution, and all PD business systems such as billing, collection and managed care contracting.

The MMP has overarching, group-wide governing authority. But it can delegate significant authority to a PD managing physician, physician group or office manager to oversee day-to-day clinical and administrative operations of each satellite office, according to “Strengthen Your Practice.”

The manual also notes that each PD can have its own medical director and quality assurance committee. Control can also be delegated over operational details. This includes setting office hours, patient scheduling, call scheduling, local staffing, the extent of PD’s use of physician assistants and nurse extenders, and the ordering of practice supplies.

Individual PDs will have shared responsibility for central business expenses of the MMP. But once these expenses are accounted for, the MMP can allocate and distribute remaining expenses and revenue to each PD the amount directly attributable to the PDs’ operations.

“Central to the success of any fully-integrated medical group is finding a compensation model that rewards individual productivity and at the same time promotes overall group performance,” the manual states. “Unless the compensation model can achieve a balance between these two goals, it is unlikely that a fully-integrated practice organized under the merger model will enjoy the physician practice satisfaction enabling the longevity or stability necessary to deliver projected efficiencies and bring a beneficial consumer product to market.”
It may also be wise to have a disengagement agreement, “Strengthen Your Practice” recommends. Sometimes called “prenuptial agreements,” these allow practices to withdraw from the medical group within its first year if the arrangement is not working out as expected.

Physicians need to examine the overriding strategic issues and determine whether a merger is the most desirable means of integration depending on the local market conditions.

**IPAs offer doctor, patient benefits**

If a merger is not desired, other collaboration models are available, such as joint ventures. The manual notes, however, that the less integration these otherwise competing practices agree to, the less they can do collectively under antitrust laws.

“The type of collaborative arrangement a group of physicians can adopt is really a function of their creativity and understanding of what patients, employers, health insurers and other payers want,” states the manual.

Options include clinically or financially integrated independent practice associations (IPAs). While IPAs—and regulators’ opinions of them—may vary greatly, clinical integration designed to improve the level of care or financial integration aimed at creating cost-lowering efficiencies are seen as beneficial to consumers.

While antitrust issues are explained, it’s strongly recommended in the manual that physicians considering a practice merger or a financial and clinical integration obtain expert legal advice from legal counsel experienced in physician-specific legal and reimbursement issues.

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