Innovative contracting for private practice physicians—Part I
In this episode of AMA Thriving in Private Practice, guest Mike Grodus, chief administrative officer at Professional Medical Corporation, a Physician Health Organization (PHO), discusses recent trends in commercial payer contracts such as "value-based" contracts, cost and quality provisions and telehealth adoption.

Also discussed, the AMA’s recent work and overall thoughts on innovative contracting opportunities and advantages for private practices and PHOs.

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Transcript

**Vargo:** Hello and welcome to AMA Thriving in Private Practice, a 10-episode series exploring the unique needs of physicians in private practice settings. In our show, we'll talk about efficiency solutions and how to transition into the world of private practice, including some key foundational areas that will greatly contribute to the overall success of your practice.
We will also focus on other tips and tools that help free up time so you can focus on your patients. I’m your host Carol Vargo, director of physician practice sustainability at the American Medical Association. Today I’m joined by Mike Grodus, director of health care transformation at Professional Medical Corporation, or PMC, in Michigan. Hi Mike. Welcome.

Grodus: Well, thank you very much. I appreciate you having me out here today. I think it’s a great topic and perfect timing. I look forward to having our discussion.

Vargo: Great. Mike has over 25 years of experience working with physicians in the health care industry and has spent the last seven years working at PMC, a physician organization or PO, and is a great source of knowledge for our discussion on an innovative payer contracting. In our conversation, we will be examining value-based contracts, cost and quality provisions and telehealth adoption.

We will also shed light on AMA’s recent work and overall thoughts on innovative contracting opportunities and advantages for private practices and POs. So, to get started, Mike, could you please tell our listeners a bit more about your work and background in this area?

Grodus: Sure. I just want to give a little background kind of a little bit about the experiences that I’ve had and that really leads to kind of what we’re doing with our current physician organization today. My background is initially in the financial area, so I spent quite a bit of time working for a hospital integrated delivery system in their financial area and then kind of moved in to the managed care area at that point.

And then also earlier in my career was able to start working for another physician hospital organization and physician organization, when the move to value-based contract wasn’t quite as robust as it is today or was at the starting point. So, I had some opportunity to work there as their chief financial officer and that’s where I really got into working with health plans on the other side as when we talk a little bit about how the mechanism works, it really is about getting health plan contracts into your organization for improved opportunities for incentives.

So, I started working on the PO side and actually doing some negotiating with the health plans. I’ve also been of working for a few health plans, which is kind of great. So, moving from the PO side or PHO side, I had opportunity to work for three different health plans both in the Michigan geographical area and also out of New York. And it's great to have that additional perspective, so I was really in an executive role there as their vice president of network development in charge of really putting together reimbursement strategies for physicians so kind of taking the other side.

So, the great thing and I’ve been fortunate to have had the opportunity to really be on kind of all three sides, meaning the PO, PHO side, the health plan side and actually working for a hospital system.
You know the work that I'm doing today, as you mentioned, with the PO, is something that I think is ... we're looking at maintaining the independence of doctors. So, it's kind of setting the foundational piece, that there are independent practices who do not want to be employed by hospital systems. So, we've seen kind of this movement there whereby you have hospital systems and delivery systems really kind of buying practices in incorporating employed physicians into their program.

There are still many physicians out there, as you know, and that's in part why we're having this session here who really do want to maintain independence but there are certain key areas of success that you have to have in a PO or physician hospital organization to really remain independent and allow yourself to have incentives that bolster your reimbursement to compete against some of the large systems who have employed system.

So, a little bit about PMC. Professional Medical Corporation has been around since 2008. They initially started as a physician hospital organization, and I'll get into that a little bit later about what that actually means but they transferred a PO where they were on their own in 2008. They've been out there for a number of years working in the space of working with health plans and getting contracts for additional incentives. They have about 100,000 covered lives, meaning out of their 430 so physicians, they have about 115 primary care doctors. And through the contracts that we have with the health plans, we get covered lives or attributed lives to each of our primary care doctors.

And right now, through our doctors, the 112 primary care in the overall group, which is primary care and specialty, we service over 100,000 lives through the health plan. So, it really is setting up the foundational piece of how to be successful in managing this patient population within these different programs to achieve financial success.

And just a little bit about the PO. It is important and I know we're going to be talking about contracting in a little bit but to set up the physician organization in a way that they remain successful, it's a good foundational piece you must have to move forward.

**Vargo:** So, Mike, I think your background and expertise is so deep and I loved your comment about how private practices can be successful in this area but that your experience shows that it's a very complex environment. And what we're trying to do today and working at the AMA is really trying to break down that complex environment so that private practices do have the ability and the structure, and the thought ahead of time to succeed. So, this is going to be a great conversation I can already tell.

**Grodus:** Yeah, I look forward to it.

**Vargo:** You've thrown out a lot of terms and a lot of potentially new terms for many of our listeners. So maybe let's get into a bit of backtracking and talking about some of these basic terms that really will ground our conversations. So, first of all, and I don't think that everybody may know this, what exactly
is a physician organization or a PO?

Grodus: Sure. A physician organization is really a coming together of a number of physicians in their practices kind of under one business structure. So, a physician organization could be an LLC, it could be a corporation. So, it really is physicians who are motivated to get together in a common goal, common direction, even though there may be some employed or some independent.

But really to look at using the physician organization umbrella as the accumulation of the strength of all these independent practices where you may have one or two or three physicians coming together on a larger scale to really use that physician organization as a platform to contract with different health plans to really get into these reimbursement arrangements that would benefit the entirety of the physicians.

Vargo: So, is a PO synonymous with an IPA or an independent practice association? Or is there another term?

Grodus: Great, great, great question because you do hear IPA and really yes, it is. It's independent physician association. It could be maybe a different type of structure but essentially the same concept as physicians who may not be in the same group practice coming together with their independent practices again forming out this organization where they have common structure, they have a board, they have strategic planning, they have every component you think of running a business, they still maintain their practice or their independent practice, yet they come together.

But yes, an IPA is really the same as we're talking about a physician organization and just they bring it together physicians underneath kind of one umbrella, one roof to create strength for working with payers in the market.

Vargo: Okay, great. Thank you for that clarification because I think in different parts of the country, people are probably more familiar with IPA so that's good. So, talk a little bit about, since you've actually run these, set these up, how do successful POs need to be set up and operationalized?

Grodus: Yes. Great question and great foundational piece that needs to be put in place. There are many physician organizations that come together, some do much better than others. The more you can have in terms of kind of a formal set of rules and specifications, the better you are. So, for example, the way they initially set up kind of the structure, which is important underneath either the corporation or LLC, it's like a regular business. You have to have goals. You have to have a mission statement, your core values. You have to have different governance.

So, I know within our current PMC, there's a board of directors that have formal elections every year. There are committees based upon the different incentive programs and payers that are out there. It takes a lot of coordination to really bring all these physicians together and educate them on what it
takes to be successful. So, there could be a finance committee, a medical management committee, a different program committee, a contracting committee, a technical work group committee. So, it really is setting up the structural plan and also having a strategic plan. You have to know where you're going.

So again, just like any successful business, there has to be a plan put in place that is approved by the board. What are we going to focus on? "Oh, technology is huge. We need to do X, Y and Z for that. Oh, we need to look at strategies for health care cost reduction." Why? "Because, oh, our incentive programs are working towards that." So again, having the formal structure is very, very important and knowing and being able to communicate with your constituents who are part of the PO what programs you're in, the direction of the organization that is financially sound.

One other area I just want to mention that in order to run a physician organization, if you think about practices coming together, there has to be a source of revenue. "Okay, how are we going to hire people to run this to take over some of the administrative burden for us to actually work with the health plans, to work with our practices, to be successful?" A key component is ensuring that you have a revenue stream that's coming in, even before you may be hitting on some of the incentive programs that usually they're kind of delayed throughout the course of the year to get a settlement afterwards.

So, there are mechanisms for a physician organization to achieve some of the financial money they need to run their organization, such as working with the health plans. When you get contracts, some health plans have administrative fees and recognition that you know you have infrastructure that needs to be set up and taking care of in part doing some of their work for them by educating physicians.

So some of the health plans as we get talking about the contracts more, you're able to negotiate some kind of monthly upfront money that you get that really supports your organization but you have to have financial strength enough to get going. You have to have motivated physicians, a board of directors and a strategic plan to know exactly where you're heading.

**Vargo:** So again, I think this is complex. It's not something to be taken lightly. I would just say from my experience at the AMA, many physicians come and say, "How can we get together? How can we negotiate?" And there is an answer there. There is this structure that you just outlined.

But it does obviously require and I would love your insights, legal consulting, finance consulting. How easy is it from your perspective to really find those resources? And also, are there models out there that if folks are interested in forming one, that they can take a playbook from potentially so they're not reinventing wheels?

**Grodus:** Sure. So, I'll answer your first question. It is a little bit of a unique business and we do have certain accountants that we work with. And it's a little bit different way to do accounting when you're
working with health plan payers and you’re getting some money filter in your organization, you’re distributing it out and it comes delayed. So yes, you have to have the right accountants but they are out there and you can find them who have really did the accounting work.

You have to have like you indicated, the legal structure. So yeah, when somebody is setting up the organization, how the bylaws want to be put together, et cetera or there are always certain issues that arise on the course of business that you do have to have somebody that you can rely on in a legal standpoint. So yes, they are out there and you can find individuals who have knowledge in order to really assist with, "Yeah, I've started this. Okay, how do I get things going? What legal documents do I need? How do I account for this?"

In terms of the playbook, in different markets, what I found is very interesting across the country may have more prevalency towards POs or not. So, I know when I worked in New York, you kind of go out there. "PO, well, what's that?" We've gotten out what's that but we have large group practices. That's how we operate. So, the PO concept in different states may not be as large in other geographical areas. And the importance of that is when you start going to health plans or insurance companies, the payers depending upon the market that you’re in, you may have to approach them. So across the country depending upon what market, you may have willing partners or more willing partners to actually recognize a physician organization.

Now, I do have to say that I've seen the growth of that across the country and certain markets certainly you go to certain states have that but there are pockets that this may not be a model that you could initially gain immediate success. You have to work a little harder to establish yourself.

Vargo: Yeah. And know Michigan does have that culture and is well-known for that, which is why we're glad you're here today just to share some insights from folks who may be trying to create that culture or entering a market where it is a culture that they're trying to understand. So, let's dig in a little bit. You've talked about the contracting aspect.

Obviously, there are some benefits to having the ability to group together and do joint negotiations and obviously under all the appropriate legal constructs so you're not violating antitrust laws. But talk a bit about, from your PO in Michigan, what payers do you contract with currently and then what are the trends that you are seeing right now in contracting with your PO in Michigan?

Grodus: Oh, sure. So yes, the payers we have definitely over 10 different contracts. Some of the larger payers, Michigan being a little unique where a good portion of the insurance coverage is by Blue Cross- Blue Shield. I know that they have certainly they're entities in other states but that's a big player here in Michigan. We have other players from some national presence with Humana, to local areas with whether it be Medicaid or Medicare-driven. There are different payers out there from Health Alliance Plan to Priority Health, to Molina, to Meridian, to Blue Care Network, to Blue Cross Complete.
So, you have to really look in your geographical area but those are the payers that we deal with. And again, we have over 10 contracts with them. And also, we have about 15 different value-based programs underneath those different payers. So, some of the payers have multiple programs that we administer. So, the type of contracts we do have, they are based from the commercial population versus a Medicare Advantage, the Medicare population, not the CMS, ACO type of fee-for-service but the Medicare Advantage that health plans have and really in our geographical area, we do have quite a bit of Medicaid. So, Medicaid is one of the different products that we deal with the payers as well.

**Vargo:** So, I think you mentioned before that there are what? Approximately 400 physicians in your PO?

**Grodus:** Yes, that's correct.

**Vargo:** Yes. So, across those 400 physicians, you have the range of them engaged in these contracts. They're seeing commercial, but also with some risk, it sounds like, and then some straight fee-for-service. Is that right?

**Grodus:** Yes. But most of them have now with the health plans they're commercial, Medicare Advantage and Medicaid. That's really probably the lion share of the membership that they do have. And yes, they may have a few fee-for-service patients with some other minor payers or straight fee-for-service Medicare. I just wanted to hit a little bit about the trends and contracting that we're seeing. And it definitely is a movement from the fee-for-service world to as we term it now the value-based contract. And really all that means is you really kind of keep what you earn.

There's nothing that's guaranteed in the value-based world. The payers now want to have the physicians take skin in the game in terms of population management, right service, right time, lower cost settings. And they're willing to share dollars but again in the value-based world, whether it be quality or certain cost-based metrics, that really is the movement that they're heading towards is really, "Oh, I just don't want to pay a regular fee-for-service." There's still going to have that as a component but I've seen where some health plans and payers, they haven't raised their fee schedule because why? They're diverting dollars into these different programs.

So really seeing the evolution from the fee-for-service and then years ago, oh, we have some primary care capitations so you get a monthly check and you're doing certain services to the movement. I know was bigger, oh, let's throw some quality measure, some HEDIS metrics out there that if you perform well in these quality metrics, you'll get reimbursed to the point where they started moving into the cost world where they may have two or three different cost areas like emergency room visit costs.

And oh, if you hit a target, you could gain so now where they're moving the total cost of care. So most of our contracts are based upon really managing the entire cost of the patient. And within that contract, they are moving towards shifting more risk down to the payers. So I know we'll talk a little more in
detail about some of the specifics of each of these contracts and the structures and the way it goes but really the movement towards not just getting into the incentive programs and getting some of the upside or gain share. It's really now a movement where they're putting physicians and physician groups at risk and wanting to take any downside if you don’t hit the targets.

**Vargo:** Right. So Mike, I just want to pause and let our listeners know that Mike is really in the thick of these things. And I know for many of our listeners, you may not be. And at the end of the podcast, we'll direct you to our web resource webpages. But we do have quite a few resources that break down all these various terms that Mike has been covering. And I know in a second session, we're going to dig in a little deeper, so I just wanted our audience to be aware of that.

But Mike, you have so much experience in this area and it is true that and I think this is true nationally. There certainly are markets that remain dominantly fee-for-service but if you talk to any large payer, a large employer or a health plan, there is absolutely this continued interest and move towards what they're calling value-based care and risk contracting.

I would say that there's been a significant pause due to COVID for the last two years but our senses and engaging what these organizations, we’re back and full force taking a look at that kind of contracting.

So based on your experience, what do physicians need to know before they even contemplate whether or not they have the ability or capability to enter into something that’s more risk-oriented or value-based-oriented as opposed to straight fee-for-service?

**Grodus:** Yeah. And I think there’s a couple of things here. One, depending upon if they could link up with physician organizations, if their market does have that who have the experience in doing this, generally, if you're an independent practice if you don't join forces with other physicians, you may not even have the opportunity to have these contracts because a health plan wants to contract with a number of physicians with a larger covered lives.

So if you are a practice and you have 50 lives, covered lives from a health plan, chances are they're just going to give you a straight fee-for-service contract. But the willingness for a practice to realize that there is work involved and different structural things they have to put together within their own practice to really modify their way of doing their business to starting to look at reports, starting to monitor patient activity according to the incentive programs, willingness to kind of out of their fee-for-service world and think about managing their population differently.

But the key is really finding some of the experts in the market to guide them in an organization that has had experience with this. But there are plenty of opportunities out there and what a physician practice to realize the market is not going back, they are changing. So again, whether or not they're ready or not, they have to start preparing for it because it is coming in. And at some point it will be in
every marketplace where some of the fee-for-service either doesn't increase and there will be more move to these types of incentive programs.

**Vargo:** I agree. I think that really lines up with what we're understanding and hearing and which is why I think your experience and expertise is so valuable to our audience. As we wrap up here on this session, what are some of the foundational things that a physician should be thinking about with regards to whether or not that they want to form a PO in their community?

**Grodus:** Yeah, I think understanding if the health plans or the payers, the insurance companies within the market have the ability to contract at a physician organization level. So again, having a physician organization and putting it together, the main reason is really you utilize it as an entity where you have more leverage, negotiation, opportunity entity to set a program with the health plan. So you could go out and talk to the health plans in the area and really ask, "Oh, if we bring these physicians together, are you willing? Do you have contracts?"

They may already have them out there so it's a matter of just forming that physician organization. And they already know there are opportunities for those types of contracts out there. Or if they're not, they would reach out to the health plans and indicate, "If we did pull these physicians together, which would benefit both parties, would you be willing to step out of your normal contracting mode and create something for us that we could work jointly on together?"

**Vargo:** That's a great component. And given your expertise both from a health plan perspective and actually working on these contracts on behalf of the PO with health plans, what are health plans looking for from a PO?

**Grodus:** So what they're looking for is the ability to have engaged physicians who can really focus on managing the payer or the health plan membership or covered lives. And having good quality scores, having the ability to have the infrastructure in place where their offices recognize, "Oh, here's certain quality scores that we have to ... Yeah, let's get somebody in for their mammogram, a colonoscopy. Let's bring in the younger children for their vaccinations and such."

They have to have an office staff or an organization that is willing to work with them to know that they have infrastructure, they have people keeping their eye on that. They have individuals who are educating the physicians on the different programs and what they need to do to be successful. Health plans, look to see what kind of reporting, what kind of infrastructure either a practice or a physician organization has.

So I know a lot of the health plans here, the expectations are that yes, you have the technology. Yes, you have the connectivity amongst your physicians in some semblance. Also, that you have the ability to educate in this particular market. And we'll talk a little bit more in our next session about what the function looks like in a PO but we have consultants, practice consultants who actually are going out to
physicians on a monthly basis taking all the different programs, educating them, sorting it out and strategizing with the practice, how to maximize their incentives.

But even as far as here's your list. You need to call these patients to close these quality gaps in order to earn your incentives. Or you need to look at this utilization metric or this cost metric in order to, again, kind of trigger some of the payments so. Health plans are very astute and demanding now and looking for who has a great structure and the ability to manage their physicians in a way that you're going to be successful in these programs.

**Vargo:** So that is a great way to wrap up this first conversation. Because I think as you noted, we're going to dig in a little deeper in part two of this. I think this has been a great opportunity just to level set and lay the foundation. And I really look forward to having you back to continue the conversation, including some more in-depth examination of these key contract provisions and how they can be both beneficial to physicians and their patients.

**Grodus:** Great. And I look forward to the next session. And yes, I know there's a lot of information to share but kind of once you sort through it, you can be very successful in this. And again, I know the world is not going back to the way it was. So, it's very important to moving this direction and as you indicated, there are many physicians who want to be independent and there are certainly ways to do that and be successful as well.

**Vargo:** Great. Thanks, Mike.

**Grodus:** Oh, you're very welcome.

**Vargo:** We know that practicing physicians encounter a wide variety of options when negotiating the terms and conditions of payment for their services. For our contract resources, please visit [the AMA website]. This has been AMA Thriving in Private Practice. Be sure to tune in next week for part two of our conversation with Mike Grodus. I'm Carol Vargo and until next time, thank you for listening.

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