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Direct-to-employer arrangements
Snapshot

Physicians looking to diversify their practices may find it beneficial to engage directly with employers to provide care to their employees, retirees and dependents. More and more employers are self-insuring their health benefits as the overall cost of health care continues to rise and they seek to improve health outcomes among their employees. As such, employers are increasingly partnering directly with physicians as they are no longer content with relying solely on third-party administrators to manage health care costs and delivery for their employees. These direct-to-employer arrangements are incredibly varied and, in many cases, novel and evolving.

Physicians interested in these arrangements should consider their strategic implications and familiarize themselves with the unique terms and conditions of each arrangement. The American Medical Association has developed two other resources—a "Direct-to-employer arrangements: Model checklist" and a "Custom network and contract terms: Case study"—to help physicians navigate these opportunities and, if desirable, negotiate terms that reflect the practice's goals and preferences.

Issues to consider when evaluating direct-to-employer arrangements

- **Employer rationale for a direct-to-employer arrangement**
  From the employer's perspective, one of the main benefits of direct-to-employer arrangements is the opportunity to have more say over health plan design and health care delivery than may be possible through a third-party administrator. Given the tight labor environment and ongoing health care cost pressures, an employer may have specific goals in mind for the arrangement, such as significant improvement in employee health outcomes and/or the overall quality of their experience. Physicians should consider the employer's goals, the time frame required to achieve them and the resources each party will bring to the table.

  For some employers, the goal of a direct-to-employer arrangement might be to improve hiring and retention rates while increasing employee wellness and productivity along with reducing loss of employee work hours due to illness and/or injuries, which can have a significant impact on business. Such an employer might be interested in partnering directly with physicians to staff an on-site clinic. Alternatively, some employers may implement a general primary care or urgent care clinic, while others with specific needs may seek co-location of a relevant specialty

provider (for example, behavioral health or musculoskeletal care). From the employee's perspective, ease of access to medical services can serve as a welcomed and additional benefit and lead to greater employee experience and overall satisfaction.

Most direct-to-employer arrangements are also geared toward addressing concerns about the costs of medical care. Many employer-sponsored plans have insisted that their third-party administrator use custom ("narrow") networks as an effective way of reducing costs without materially affecting access to care. At a high level, direct-to-employer arrangements are simply a continuation of this network trend, which focuses on bringing the best care to employees at the right place, right time and right cost. Further, the combination of narrow networks and intense payer negotiations has led to a phenomenon in which major payer networks may not include important regional providers. Direct-to-employer contracts may provide employers with greater assurance that employees will retain access to important medical services notwithstanding the overall relationship between providers and a third-party administrator (and may sometimes allow employers to secure more favorable rates). As a result, some employers are seeking direct-to-employer models to reduce the role of the third-party administrator.

- **Advantages of direct-to-employer arrangements**
  Direct-to-employer arrangements have the potential to offer physicians significant financial and non-financial benefits. The most obvious benefit is the potential for greater access to patients and perhaps a more predictable revenue stream. Practices may benefit from some of the economies of scale associated with a larger patient base. Depending on the payment model, less time and effort may be expended to directly bill an employer for medical services compared to billing an insurer.

  Direct-to-employer arrangements can offer non-financial advantages as well. Some physicians may find that the additional revenue from direct-to-employer arrangements allows them to take on a smaller patient panel and, consequently, spend more time with each patient. In addition, physicians may discover that they have greater flexibility to innovate and to provide a wider range of services (e.g., health coaches, patient navigators). These features, when present, can result in increased morale and professional satisfaction.

  Physicians should evaluate the advantages of direct-to-employer arrangements on a case-by-case basis since each arrangement is different.

- **Varieties of direct-to-employer arrangements**
  Direct-to-employer arrangements can take many different forms since they are often developed with individual employer goals in mind. Physicians should understand the variety of direct-to-employer arrangements to determine whether they are able and willing to provide the necessary services. Some of the more common direct-to-employer arrangements include:

  Single service arrangements. The simplest type of direct-to-employer arrangement, single service arrangements typically cover only a single medical service, often furnished by non-physician health care professionals, and are usually billed on a fee-for-service basis. The most common single service arrangement covers vaccine administration.

Wellness program assistance arrangements. Like single service arrangements, wellness program assistance arrangements cover a single or a small set of consultative or administrative services. These arrangements are intended to enhance the employer's existing wellness program by, for example, engaging physicians or non-physician health care professionals to perform health assessments or provide employee education or coaching. Psychiatrists, addiction specialists and other behavioral health professionals may have unique opportunities to participate since mental health support is a common component of wellness programs. Professionals like dietitians, nutritionists, physical therapists and others who address lifestyle-related health conditions may also be in demand.

On-site or immediate access clinics. These arrangements require physicians to operate a clinic for a specified time at a location convenient for the employer (for example, in an employer's office space or in a suite intentionally located near an employee worksite). Physicians and non-physician health care professionals furnish standard medical services exclusively to the employer's employees during the contracted period of time. This type of direct-to-employer arrangement is often incentivized by the employer's health benefit plan when paired with financial wellness incentives, which require a physician service to obtain the incentive (e.g., annual wellness check required for the employee to realize an annual premium discount). However, employers may also wish to implement such arrangements as an attractive employee benefit or as part of a comprehensive direct contracting strategy.

One variation of this type of direct-to-employer arrangement is the use of telemedicine services staffed by practice staff (either physicians or non-physician health care professionals). Employers with employees in multiple or remote locations may prefer a telemedicine arrangement to ensure uniform access for all employees.

Retainer arrangements. Sometimes called "concierge" or "personalized medicine" arrangements, retainer arrangements offer enhanced access to physicians. These may not cover the actual provision of medical services. Retainer arrangements may include features such as guaranteed appointments within one business day, 24/7 telephone access to a physician or guaranteed house calls.

Bundled-payment arrangements. The same kinds of bundled payment initiatives in Medicare and commercial contexts also exist in the direct-to-employer environment. Physicians who are able and willing to package separate medical services can offer a bundle of services at a fixed rate to employers. For example, orthopedic surgeons can offer a knee replacement bundle that includes pre-surgical evaluation, the physician's professional surgical services, the cost of a procedure in a surgical center and post-acute follow-up care.

Global models. Physician practices may also partner with employers to manage all of the costs related to an employee's health—either on a "total cost of care" or condition-specific basis. Under this kind of arrangement, the practice is paid a per-member per-month fee and then is responsible for either furnishing care directly or retaining the services of other providers. Services that require an acute hospital level of care are often coupled with a "Center of

Excellence" model in which the hospital agrees to meet certain quality and fee expectations. Alternatively, a health system may be the "lead" partner in contracting with the employer, with the practice serving an important role in negotiating terms for professional services.

A global model can put significant control in physicians' hands, but it can be complex. Physicians must evaluate whether they can adequately take on this degree of risk and either provide or assume payment obligations for all necessary client needs. Financial relationships between practices and other parties (like hospitals) may implicate fraud and abuse laws. If a practice takes on a significant share of risk, it may be deemed a fiduciary under ERISA, which will cause the application of rules that may limit the practice's ability to coordinate care among related entities.