

# FROM MYTH TO ACCOUNTABLE SOLUTION: Realignment Strategies for Safety Net Hospitals and Affiliated Medical Schools

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An ESI Healthcare Business Solutions White Paper  
by Alice L. King, M.B.A., J.D. and  
Mary L. Payne, M.B.A., M.S.W.



## Introduction

Many Safety Net Hospitals find it difficult to manage payments and expectations in their Professional Services Agreements (PSA) with affiliated Medical Schools. Traditional contract payment models are often based on full-time equivalents (FTEs), net-of-collection formulas, or some form of “block grant” or lump-sum payment. On average, hospital-purchased services represent nearly 14 % of total funding for a medical school.<sup>1</sup> Under this scenario, Medical School payments continue to increase, but clearly defined expectations and accountability measures become more and more difficult to establish.

## The Myth: The Contract Defines the Relationship

Does the Medical School continually request funding for additional faculty positions, for call coverage, or for new clinical programs? How do you quantify or document the need? How does the contract address clinical care provided to uninsured patients? Are individual faculty physicians informed of the revenue derived from their work at the Hospital? How do you ensure that the Medical School maximizes opportunities to increase revenue from third party payers? Are you receiving pressure to structure a more accountable partnership and business relationship with the Medical School – and to lower costs despite decreasing reimbursement and increasing numbers of uninsured patients? If any of these questions sound familiar, you are not alone. Building a good business model with clearly defined goals – for both the clinical and financial relationships – is the key to a mutually beneficial partnership.

Over time lump-sum or FTE-based payment models lack even minimal accountability. Since there is little or no documentation for the actual services provided, nor connection to fair market value or benchmarks, the financial transaction lacks any semblance of good business practice! Incentives to control costs are also often missing.

Poorly defined clinical accountability, expectations and priorities between the Safety Net Hospital and affiliated Medical School then lead to poor alignment of goals and actions throughout both systems. Neither side is satisfied with the relationship. Trust diminishes. Yet, both the Safety Net Hospital and affiliated Medical School want to believe that the legal contract language and significant payment amounts keep the relationship on track. Are you still harboring myths about your Medical School relationship?

## Market Drivers Impacting the Need for Change

Today, four compelling external influences set the stage for Safety Net Hospitals to consider fundamental changes in the Medical School contract model:

1. **Federal Health Care Reform Initiatives** require patient-centered care focusing on improving quality, expanding use of health information technology, introducing clinical and financial accountability and risk across the continuum of care, and linking provider performance to measured health care quality outcomes.

2. **Reimbursement Trends** show shifts from fee-for-service to value-based models of purchasing, such as bundled payments, global payments, and gain sharing, as well as non-payment for preventable readmissions and “never” events.
3. **Increased Demands for Transparency** from consumers, payers, and regulators about cost, quality, and outcomes.
4. **Increased Regulatory Scrutiny** such as enforcement of Stark and Anti-kickback laws, fraud and abuse, fair market value standards, and local governance and funding.

## Imperatives for Safety Net Hospitals

What should Safety Net Hospitals do to successfully respond to these market forces?

- **Become competitive players** in the marketplace with the ability to attract private and commercial patients and payment as well as retain traditional safety-net patients. This will require the Hospital to expand its footprint consistent with shifting demographics and build a robust primary care network that can sustain specialty care outpatient visits and increase planned admissions. Safety Net Hospitals can no longer survive primarily on trauma services and emergency admissions.
- **Restructure partnerships with Medical Schools** to focus on shared goals and objectives, joint accountability, clear performance expectations, and positive clinical outcomes. It is important to delineate expectations for the provision of clinical services from administrative services, teaching, and research.
- **Restructure the payment model with the Medical School and other physician partners** from cost-based to value-based. Transitional payment models are an important step in this process. For a successful transition, the partners must collect and analyze physician service data, identify existing productivity levels and clinical benchmarks, and establish measurable performance expectations.
- **Develop a strategic alignment strategy and restructure clinical operations** to better manage risks and costs. Payment reform models expand the Hospital’s responsibility for risk and costs but the Hospital cannot manage these risks and costs without active physician collaboration.

## From Myth to Accountability: Contractual Change Means Organizational Change

Change is difficult under the best of circumstances. Profound change required in today’s health care and economic environment is challenging and requires guidance from experts. ESI Healthcare Business Solutions, LLC (ESI) brings extensive experience, providing technical and analytical **content solutions** to all business transactions between the Safety Net Hospital and affiliated Medical School, as well as organizational change **process solutions** to assist the organizations implement significant change and improvement in the partnership and affiliation. To achieve successful and sustainable change, the **content of change** and the **process for change** need to be synchronized.

## The ESI Solution: Change from OLD Model to NEW Model Based on Accountability and Transparency

To overcome the challenges of the old lump-sum or FTE payment model, poor documentation of services, lack of clinical integration and physician alignment, and lack of adequate systems to monitor performance, Safety Net Hospitals are turning to a new contract model as the **change solution** that brings accountability to the provider partnership and business transaction.

ESI's **Contract Administration Payment Solutions (CAPS)** is a comprehensive, yet flexible payment model for professional services. The **CAPS** model is a proprietary, customizable technology to support the capture, payment, and analysis of professional services. It is a HIPAA-compliant professional services management system that supports relative value-based payment plus a wide array of customizable client-driven payment methodologies.

In addition, the model provides for development of faculty/physician performance-based standards and measures, fair and equitable payments for faculty/physician services, and is supported by Fair Market Value analysis and benchmarking.

Results from the earliest implementations of the model, particularly the transparency of payment for charity/uncompensated care, show significant improvements in the following areas:

- Improved environment for faculty and resident recruitment;
- Improved teaching environment;
- Improved capture of payment from other third party payers;
- Improved clinical outcomes;
- Accountability and documentation that leads to good business practices and successful contract renegotiations;
- Greater trust in the partnership among the partners and other stakeholders.

Professional Services Agreements between Safety Net Hospitals and Medical Schools are most effective when they reinforce key business priorities, foster improvements in clinical outcomes, and focus on the strength of the existing partnership. Safety Net Hospitals should review and continually update their agreements with Medical Schools to ensure that the agreement accurately reflects mutually-agreed upon goals and objectives, as well as the practical realities of a rapidly changing health care environment. Agreements that are on "autopilot" or that operate primarily as purchased services arrangements will make it difficult to transition to a coordinated care delivery model. ESI offers turn-key analyses of Professional Service Agreements and provides comprehensive services related to hospital-physician alignment and developing and implementing accountable, transparent payment models.

## About ESI Healthcare Business Solutions

ESI Healthcare Business Solutions (ESI) partners with healthcare organizations to deliver industry-specific solutions focused on pharmacy procurement, reimbursement and performance-based professional services agreements, and end-to-end revenue cycle performance. With headquarters in Dallas, ESI Healthcare Business Solutions applies proprietary technology and solid industry expertise to help our clients achieve efficiencies and savings, drive revenues, and improve patient outcomes. For more information, visit [www.esihealthcaresolutions.com](http://www.esihealthcaresolutions.com).

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<sup>1</sup> Liaison Committee on Medical Education (LCME) Survey/AAMC Medical School Profile System Report, 2006.