

Testing the Waters: Transitional Integration Models for Physicians

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Fundamental changes are taking place in the way health care delivery is organized. These changes are being driven by the demands and expectations of the health care marketplace rather than by health care reform. There has been a pronounced move, both nationally and regionally, towards the consolidation and integration of health care providers and the creation of provider networks.

Integration is taking place within four primary areas, with participants often being involved in more than one area at the same time: (1) hospital collaborations and affiliations; (2) physician practice integration; (3) physician-hospital integration; and (4) provider-payor integration. Physician practice integration runs the gamut from solo practice (no integration) through multispecialty group practice. Between these two extremes lie a number of options within which physicians may obtain some of the benefits of integration while retaining varying degrees of independence and autonomy.

IPA

Physicians in an independent practice association ("IPA") retain their own separate medical practices, but become part of the IPA to access managed care contracts. This organization can simply be a contracting vehicle for managed care plans, or can become the physician component in a more complex organization such as a physician-hospital organization or other integrated delivery system model.

Because the degree of risk sharing and integration among IPA members is small, particular care must be paid to the risk of antitrust liability. In addition, corporate practice of medicine limitations in New York require that an IPA, unless formed to contract with a single HMO, be formed as a professional entity—such as a professional corporation or a professional services limited liability company. Finally, because an IPA is neither a provider of medical services nor is licensed as an

insurance company or HMO, it cannot bear economic risk and thus may not enter into global capitation arrangements.

Group Practice Without Walls

In a group practice without walls ("GPWW") arrangement, a network of physicians or physician practices become part of a single legal entity while maintaining their individual practice locations and, in some cases, their individual practice assets. Depending on its level of integration, the GPWW may employ all physicians, may acquire some or all of the assets of each practice or may only provide centralized management services.

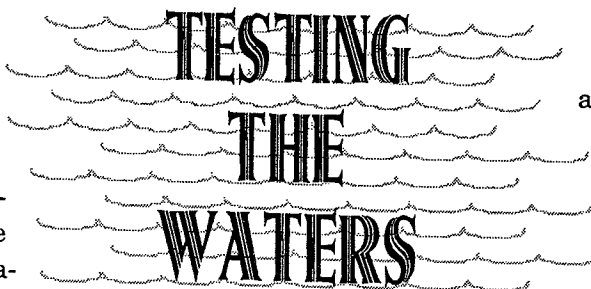
From an antitrust and fraud and abuse perspective, the more fully inte-

grated the GPWW, the less the risk of allegations of joint price setting or illegal remuneration from referrals within the group. It is therefore important to build into the organizational documents of a less integrated GPWW a mechanism for modifying or unwinding the arrangement if it is later found to be illegal.

Management Services Organization

A management services organization ("MSO") contracts with physicians or physician groups to provide them with administrative and other practice management services including managed care contracting. MSOs may also acquire assets of physician practices.

An MSO is not a health care provider, and so its owners need not be physicians. As a result, physician practice formation or expansion may be financed in whole or in part from non-physician sources. Hospitals, managed care organizations, non-physician investors or practice management companies such as PhyCor or Caremark may own all or part of an MSO. This flexibility enables MSOs to be building blocks for integration between or among physicians, hospitals or payors.



Legal Issues

Given the market initiatives encouraging or requiring provider integration, it might seem logical that the laws regulating health care providers also would support and promote integration. In large part, however, the opposite is true. While a discussion of the legal issues relating to physician integration is beyond the scope of this article, it is important to understand that the process of integrating involves a number of legal concerns, including antitrust, fraud and abuse, Medicare reimbursement and self-referral, all of which may create obstacles to effective integration.

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