Co-Management Arrangements

As health care continues to shift its focus from volume to value, hospitals are implementing strategies to help strengthen hospital-physician alignment. Co-management arrangements are contractual agreements between hospitals and physicians that establish shared responsibility for particular service lines. These agreements are commonly structured with an even split between both base and incentive compensation components. **Base compensation** is tied to the number of management service hours required to fulfill baseline duties, while **incentive compensation** is linked to strategic performance measures.

Key Drivers of Co-Management Arrangements

The purpose of a co-management arrangement is to **optimize service line performance and enhance physician engagement** with key health care organization initiatives.

The value of these arrangements include:

Improving quality outcomes, patient experience, access and processes across service lines.

Enhancing care delivery models.

Growing market share.

Reducing costs and unnecessary admissions while improving efficiency through the use of standardized supplies, devices and clinical pathways.

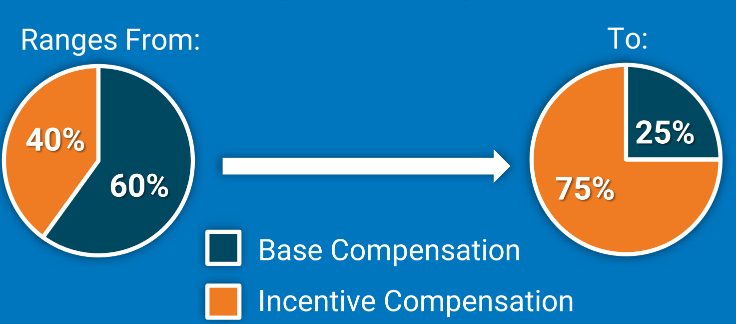
Supporting changes in reimbursement, including bundled payments and shared savings.

Physician alignment with service line.

Compensation Structure and Payout

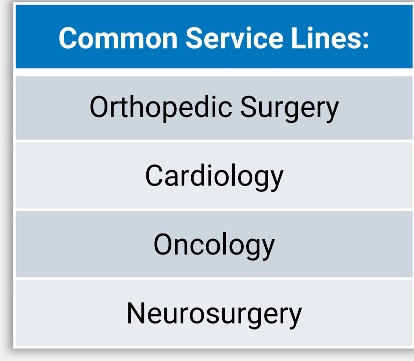
SullivanCotter has observed a decrease in base compensation and an increase in incentive compensation as health care organizations (HCOs) implement more value-based metrics.

Typical Compensation Structure for Co-Management Arrangements



Trends and Observations

- HCOs implement co-management arrangements to align independent physician practices in service lines that are of strategic importance.
  - Some agreements include employed physicians.
  - An emerging practice is the use of co-management arrangements across service lines to optimize changing care delivery models.



Common Service Lines:
Orthopedic Surgery
Cardiology
Oncology
Neurosurgery

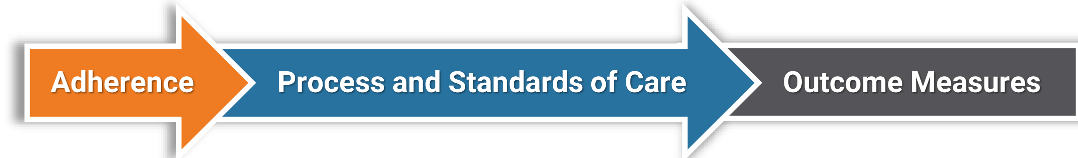
  - Emerging service lines include, but are not limited to, pediatric, medical and surgical subspecialties, primary care, head and neck surgery, transplant and women's services.

The strategic importance of a service line or specialty area and the degree of physician alignment required are key considerations for a co-management arrangement.

- Health systems and physician groups that have not yet adopted a co-management arrangement or are looking to **expand co-management arrangements to additional service lines** are influenced by a number of changes in the market:
  - Increased penalties for hospital readmissions and a significant variation in length of stay.
  - Transition from volume to value with programs like the Medicare Access and CHIP Reauthorization Act (MACRA) and changing commercial reimbursement.
  - Evolving care delivery models which require greater care coordination, access and efficiency across service lines.
  - Focus on streamlined clinical processes.
- As HCOs continue to **employ more physicians and acquire medical groups** as an alignment strategy, co-management arrangements should be carefully evaluated.
  - A key consideration is the inclusion of performance metrics and initiatives as part of the employed physician leader and/or clinical physician compensation program.
- The **size of the co-management arrangement is commensurate with the scope of duties** and desired performance.
  - Once implemented, the co-management arrangement remains in place over the long-term.
  - The hours associated with fulfilling duties and achieving performance are reviewed and updated every few years — they may be increased or reduced over time depending on the HCO's initiatives and needs.

Performance Metrics and Target Setting

- Performance metrics are reviewed before the start of a new contract and reflect challenging, but attainable, goals relative to baseline levels.
  - Most contracts run for one year, although some have a two-year term.
  - The target-setting process is rigorous and must be continually reset relative to baseline levels.
- Compensation is not tied to maintaining performance.
  - If a metric is fully optimized or achieved for multiple consecutive years, it should be re-evaluated and replaced with other metrics.
- For some specialties, quality metrics are making the following transition:



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Considering a Co-Management Arrangement?

SullivanCotter offers assistance with design, development, implementation and valuation.

Contact Us to learn more.