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# Strategies & SOLUTIONS

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## Gainsharing: Other Options May Be a Better Choice

Gainsharing in health care is a term used to identify methods for hospitals to share the achievement of operations efficiencies and expense savings with private practice physicians. The concept is laudable-aligning the interests of hospitals and physicians in a meaningful way to improve efficiency of care, reduce resource waste, and maintain quality, while sharing the efficiency savings with private practice physicians. Gainsharing has attracted mass attention amid speculation that it would be the silver bullet for strengthening physician-hospital relationships. So is this all hype or worth a second look?



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### How We Got Here

Gainsharing has grown in popularity since 2002 when the IRS suggested that such arrangements could potentially be permissible. According to the 2005 Bureau of National Affairs, "rarely does the federal government create a business opportunity involving health care providers paying their referral sources for performing services and ordering specified items at the providers' facilities."

Reaction to the concept of gainsharing has been mixed. According to the Bureau of National Affairs, "some characterize the OIG Advisory

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Opinions as a regulatory breakthrough, while others are more suspect of, or entirely opposed to, the arrangement at issue." Some speculate that the regulators are generally opposed to gainsharing, and have made the requirements to secure approval overly onerous. Obtaining a favorable OIG advisory opinion can be a slow and arduous process. The cost in time and effort to attain an opinion can outweigh the potential one-time benefits of achieving efficiency and other expense savings.

## **Is Gainsharing the Right Choice for My Organization? What are the Alternatives?**

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is Back"*

Hospitals and their physician partners with an interest in gainsharing should begin by examining gainsharing along with a range of other alternative formal business relationships, particularly those that are more likely to be implemented in a timely and sustainable manner. Alternatives may include co-management agreements, equity joint ventures, medical directorships or other administrative stipends, employment, and compensated clinical leadership participation. If the goal is for health care organizations to improve operational efficiency, and physicians are interested in supplemental income and are motivated to work with a hospital, gainsharing may be one, but only one, of several, alternatives.

## **Getting Started**

When evaluating gainsharing and alternative arrangements, an appropriate first step is to examine the objectives or core issues of the hospital and potential physician partners. A group of 130 hospital-affiliated physicians contemplated a formal business partnership with a three-hospital system in upstate New York. The potential relationships could involve one or more of the following models: gainsharing, physician employment, creation of a medical foundation, or a joint venture. Instead of gravitating to a specific model, physician and hospital leaders articulated their objectives and issues, such as control and influence over health care services, more efficient delivery of care, clinical autonomy, existing debt, and physician compensation.

While this discussion of core issues may seem like an obvious first step, many hospitals and physicians attempt to impose a specific structure or model on their situation without this critical step of determining if the model meets each party's objectives. The upstate New York providers, mentioned above, decided to pursue a model that involved a wholly integrated physician practice structure so that the physician practice was organized as a department within the hospital system. This approach was not anticipated before the core issues were articulated.

Gainsharing is a difficult, rare, and potentially frustrating model for improving efficiency and saving money. Other alternatives aligning

hospitals and physicians may be more appropriate, sustainable, and beneficial. The first step is to ensure that health care organizations and their physicians start with a thorough understanding of each other's issues and objectives and then evaluate the best approaches for working together. Gainsharing might be the right answer, but other options may be a better fit.

For more information on physician-hospital alignment strategies, please contact [Craig Holm](mailto:cholm@hss-inc.com) at [cholm@hss-inc.com](mailto:cholm@hss-inc.com) or 215-399-1899.



**Craig Holm**

**Congratulations to Robert Hill and Alan Zuckerman  
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