California Health Care: Learn From Our Mistakes

By: Jeremy N. Miller, J.D.

It has been perceived that many of the latest ideas in health care begin in California and move eastward. And, frequently, people in other parts of the country do seek the advice of California physicians, administrators, consultants and attorneys on how to deal with the next great healthcare trend.

More recently, however, health care industry professionals are looking sympathetically at their California brethren and asking about the mistakes we’ve made so that they can avoid them. Here is my list of the mistakes made and lessons learned by California physicians.

Bigger is Better

In this era of merger and consolidation, it was assumed that you had to be bigger in order to survive. As a consequence, hospitals and physician practice management companies were able to sell many physicians on the idea that the physicians needed sophisticated management to better run their small medical practices.

On the contrary, the health care landscape is littered with failed hospital-based integrated delivery systems (IDSs) and practice management arrangements (such as MedPartners and FPA Medical Management, Inc.) gone bad. In too many cases, the so-called professional managers did a much worse job running things than the physicians and their own practice administrators. Frequently, practice costs went up, while productivity and profits declined.

When Forming an IDS, Consider the Medical Group Last.

When forming an integrated delivery system, physicians and hospitals spent most of their time, energy and resources on negotiating the hospital-physician joint venture issues, such as control of the IDS: they left the medical group formation and operational issues for last.

But often what turned out to be the most difficult part of forming an IDS was often taking physicians who had not previously practiced together and integrating them into a cohesive medical group. Just as hospitals and physicians are not natural partners, it should have come as no surprise that problems developed when physicians were expected to create an instant group.

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It’s Easy To Run An HMO
In heavily penetrated managed care states such as California, long-suffering physician groups concluded that the best way to eliminate the unnecessary HMO middleman was to form their own. Unfortunately, it turned out to be much harder than it looked.

Difficulty in raising adequate capital, recruiting experienced executives and attracting membership were only some of the problems that physician-owned HMOs encountered.

**Take Risk For Fun And Profit**

The corollary here might be: beware of HMOs bearing gifts. Physician groups often assumed that by taking on more risk, and receiving a greater share of the capitated dollar, they would make more money. Generally, this is not what occurred. The worst example probably has been in the pharmacy benefit area. In fact, in many cases, tightly managed specialty groups and independent practice associations (IPAs) fared best.

**The Rate≠ The Thing**

When signing up for managed care contracts, physician groups looked only at the capitation rate, assuming that everything else in the contract was boilerplate. These practices learned the hard way that the rate is only one of many important contract terms, such as the scope of services provided by the physician, risk pools, term and termination, and indemnification.

Other common managed care contracting mistakes included assuming that any contract was better than no contract, and failing to monitor whether the contract was actually profitable.

**Physicians Would Never Treat Each Other Like That**

Physicians assumed that their only enemies were the HMOs and insurance companies who paid low rates and then de-selected them. Physicians soon realized that the enemy can be among them.

Physician-owned IPAs were just as likely to engage in bad behavior, such as requiring colleagues to contract at low rates and then not paying claims on time or at the agreed-upon rates, running the IPA to benefit a small group of owners, de-selecting competitors, and entering into exclusive sub-contracts with favored specialists while excluding all others.

**Who Needs Organized Medicine?**

Many physicians, particularly those in their 30s and 40s, believed that their local, state and national medical associations and societies were antiquated relics not worth the annual membership dues.

In fact, physicians needed organized medicine more than ever. Given the restrictions under the antitrust laws, organized medicine was an effective voice for the interests of physicians. Medical societies, supported by physicians, are still powerful political and lobbying forces. Many of the managed care reform and other physician-friendly legislation that has passed in recent years has been due in part to the efforts of organized medicine.

**If All Else Fails, Get an M.B.A.**

Unquestionably, there is a need for physicians with management and leadership skills. But for the vast majority of physicians, the future lies in practicing as a physician rather than becoming a medical executive.

There are relatively few full-time positions available for mid-career physicians who hope to
turn in their stethoscopes and move into the executive suite. Further, physicians need only look at the turnover among medical group and hospital administrators to see just how risky a medical management position can be.

Managed Care Is a Passing Fad

Since it arrived in the early 1980s, physicians in California have been hoping that managed care would go away. And with the recent enactment in California of a host of managed care reform laws, some California physicians are beginning to believe that HMOs are finally in retreat.

It would be a mistake for physicians in California and other parts of the country to assume the managed care industry will soon implode and that it will then be back to the “good old days.” The demographic trends, budgetary constraints, and employer pressures that helped spawn the managed care industry are not going to disappear. While it will continue to change its form in order to survive, managed care is likely to continue to be a major presence in California and many other markets as well.

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