Professional Services Agreements: A Growing Trend in Physician-Hospital Alignment

A growing trend in physician-hospital alignment is related to professional services agreements (“PSA”). A PSA is generally defined as a financial relationship between a physician practice and a hospital in which the physician practice remains an autonomous entity but the physicians are compensated by the hospital at fair market value compensation for their professional services. The basic components of a traditional PSA include:

1. A contract with the physician(s) for professional services.
2. A hospital that employs the practice’s staff and is responsible for certain administrative activities (i.e., billing/collecting for the services provided by the physicians).
3. Physician compensation that is generally based upon physician work relative value units (“wRVU”) and a compensation to wRVU conversion factor.

Many physicians find that PSAs are advantageous (in comparison to practice acquisition) because they provide a high level of self-governance and decision making over physician coverage and compensation distribution. PSAs can also alleviate physician administrative burdens associated with managing and operating a full-service physician practice as well as provide physicians with more flexibility over their retirement and other benefit options. For hospitals, PSAs can be an effective first step to integration when they are hesitant to completely acquire a physician practice.

Other key points to know about PSAs include:

- There are various types of PSA integration models. These PSA models can be altered (i.e., to include or exclude ancillary services) based on the strategic objectives of the parties.
- PSAs generally include some clinical oversight and physician administrative
services in addition to professional clinical services.

- PSAs can align practice and hospital interests, improving quality and efficiency.

- PSA compensation models are designed to achieve the mutual goals of both parties (i.e., quality of patient care, clinical outcomes, and improvements to operational efficiencies). However, given the need to comply with Stark, Anti-Kickback, and Internal Revenue Service guidelines, the construct of PSAs can be complex.

Although the strategic goals of each practice and hospital will vary and should be taken into consideration, PSAs can provide a viable option for hospitals and physicians to accomplish their strategic objectives. If you have additional questions or would like more information on PSAs, please contact the experts listed below at (800) 270-9629.