

## **Federal Healthcare Reform Corporate Practice of Medicine**

### **Issue**

The corporate practice of medicine (CPM) is typically referred to in the context of a prohibition, banning hospitals from employing physicians. CPM evolved in the early 20th century when mining companies had to hire physicians directly to provide care for their employees in remote areas. Eventually, physicians, courts, and legislatures prohibited CPM in an effort to preserve physicians' autonomy, address conflicts of interest and improve patient care.

Over the years, various state and federal statutes have left the CPM prohibition substantially weakened. Crucial to its dilution was the federal 1973 Health Maintenance Organization (HMO) Act, which exempted HMOs from the CPM ban. According to a 2007 report by the California Research Bureau (CRB), "Corporate managed organizations now dominate the health care environment, and even physicians who are not employed by them are likely to provide services for them." California and Texas are among only five remaining states that clearly prohibit hospital employment of physicians, but current exemptions allow teaching hospitals, certain community clinics, narcotic treatment programs, and some non-profit organizations to employ physicians, in addition to HMOs such as Kaiser.

This inability to employ physicians directly has made it very difficult for communities to recruit doctors in rural areas. Physicians are forced to focus on the overwhelming burden of administrative, financial and operational concerns associated with maintaining a medical practice in a small rural area with lower patient volume, often opting not to practice medicine in these areas.

In addition, many health care reform proposals are trying to encourage an increase in quality of care as well as collaboration and coordination among providers.

In fact, most new proposals are tying patient outcomes to financial rewards and penalties for the hospitals based on readmission rates, ability to control costs, and the overall quality of care. With hospitals in California and Texas not being able to employ physicians it is unclear on how patient outcome responsibility would be shared between the hospital and the physician. By not conforming with the 45 other states that allow for the employment of physicians, California and Texas will be at a significant disadvantage when trying to comply with any new healthcare reform proposal that is adopted.

### **Current Status**

Currently no provision exists within any of the healthcare reform proposals that would allow hospitals in all states to directly employ physicians. As a result, most hospitals in California and Texas will still be in a position of not being able to directly hire physicians putting them at a severe disadvantage with other states when trying to meet potential new federal requirements concerning readmissions, increasing quality care coordination, and controlling costs. In addition rural communities will continue to find it hard to recruit doctors to serve in their areas.

### **SJHS Position**

St. Joseph Health System supports the elimination of the CPM at the federal level. St. Joseph Health System supports the inclusion of such a provision in any final healthcare reform legislative package and views it as a necessary addition to successfully reforming healthcare delivery in this Country.