



## **Serving California's Rural Communities — Hospital Employment of Physicians**

### **An Issue Summary**

California's rural hospitals play a vital role in the delivery of health care services to the state's 2.6 million rural community residents. They provide primary- and acute-care services to a geographic expanse that encompasses approximately 75 percent of the state. Rural, community hospitals also provide essential, lifesaving care to the millions of tourists who each year visit vacation destinations such as Lake Tahoe, Catalina Island, the Central Coast, Lake Arrowhead and the Gold Country.

Yet despite the vastness of territory covered and the millions of people served by rural hospitals, California's shortage of primary care and specialty physicians is having a substantial impact in rural communities. Allowing rural hospitals to directly employ physicians will help community hospitals attract and retain physicians, as well as improve access to medically necessary health care services for millions.

### **The Issue**

Employment agreements between physicians and hospitals are a common practice across the country. However, California is one of only five states in the nation that prohibits hospitals from directly employing physicians. According to a March 2010 report by the California HealthCare Foundation, "rural counties in California have fewer physicians per capita than in urban counties," and one of the biggest challenges for rural and critical access hospitals is recruitment and retention of physicians.

The relationship between hospitals and physicians is heavily regulated by federal and state laws. A number of these federal and state laws influence how hospitals may structure their relationships with physicians. Compliance with these laws makes it difficult for hospitals and physicians to align incentives, streamline the continuum of care, and reap the efficiencies of integration. In California, this effort is further complicated by a ban on the corporate practice of medicine (CPM).

The CPM prohibition most commonly refers to a ban on the employment of physicians by hospitals. California, along with Colorado, Iowa, Ohio and Texas, do not allow hospitals to employ physicians, but no other state restricts physician employment as stringently as California. The California Attorney General has expressly stated that hospitals cannot practice medicine and, therefore,

hospitals cannot employ physicians to provide professional services. The University of California hospitals are among a small percentage of facilities that are exempt from CPM and directly employ physicians.

### *Physician Shortage*

Physicians in California are not evenly distributed across the state. The ratio of physicians to population tends to be higher in urban areas than in rural regions. In addition, many rural communities currently do not have a sufficient number of primary care physicians to care for their communities. This shortage is causing a serious impact on patient access to care and quality of care. Rural hospitals in California will continue to face financial instability and possible closure due to their inability to effectively recruit and retain primary care physicians.

The majority of California hospitals secure physician services through different types of arrangements that do not invoke CPM. Hospitals may have professional service agreements with medical groups for professional medical services, such as radiology and anesthesiology, provided by the groups' physicians. Hospitals also may have independent contractor arrangements with medical groups and physicians for non-professional services, such as medical director services, and to ensure availability for call coverage.

Physician recruitment arrangements permit hospitals to recruit new physicians to the community by assuring the physicians a certain level of compensation. However, since recruitment agreements are by definition limited in time, recruited physicians frequently leave the hospital community at the end of the agreement's term if the practice is not developed sufficiently to support the physician.

Due to an overall shortage of physicians, many California hospitals face significant obstacles attracting and retaining physicians. If rural hospitals are allowed to directly employ physicians, they will have the ability to offer economic security to physicians to support relocation, provide rural residents access to medically necessary services and provide physicians with the opportunity to focus on delivery of health services without the burden of operational issues associated with establishing a viable private medical practice.

### **Policy Recommendation**

To meet the needs of California's growing and geographically diverse population, the California Hospital Association (CHA) supports the employment of physicians to improve patient access to health care services in rural communities.