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# Capitated Contracting in the Department of Radiology

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# Capitated Contracting in the Department of Radiology

Jefferson's Department of Radiology is now in the midst of negotiating capitated contracts for provision of imaging studies to patients in HMOs in the Philadelphia area. This is an interesting learning experience, since negotiating such contracts is a new venture for us, and there are no textbooks, articles, or even other people with experience to whom we can turn for help. Thus, it has been largely a self-taught process. We developed our first major outpatient capitated contract with Keystone Health Plan East in the summer of 1994.

Under a capitated radiology contract, the HMO offers to pay Jefferson a global fee per member per month. The global fee is split, with the hospital receiving the bulk of it to cover technical costs and the practice plan radiologists receiving the remainder to cover professional costs. Each primary care physician who has contracted with the HMO must choose a single radiology group to whom all HMO patients are referred. The HMO pays that radiology group the agreed-upon capitated global fee per member per month. The radiology group is then obligated to provide all necessary outpatient imaging studies to those patients - no matter how many or how few are needed. Under this type of arrangement, the HMO sets its costs and transfers the risk to the radiology providers. There are actually three global fees in most plans - one for adult patients between ages 19-64, a much lower fee for pediatric patients age 19 and under, and a somewhat higher fee for Medicare patients 65 and older. In negotiating with the HMOs, we try to exclude as many of the high cost procedures as possible from the capitation rate. In general, the HMOs are willing to exclude MRI, interventional procedures, cardiac nuclear studies, and occasionally screening mammography. Since capitation contracts usually cover outpatients only, it is important to define "outpatient" care. For example, most contracts will consider patients seen in the emergency department or pre-admission testing center to be inpatients and thereby excluded from the capitation plan, but it is important that this be spelled out in advance. Inpatient studies generally continue to be reimbursed on a fee for service basis.

Once a radiology department like ours accepts a capitated contract with an HMO, it is important to carefully control utilization of imaging studies. As noted above, we receive a fixed fee per member per month, and if the number of imaging exams performed is much larger than anticipated, both the department and the hospital will be unable to cover their costs. Controlling radiology utilization is difficult. Some people have proposed that radiologists act as the "gatekeepers" and consult on or approve all studies in advance. However, this is much easier said than done. Imagine trying to call a busy internist or surgeon in the middle of the day to find out all the details of why he has ordered a CT scan on Mrs. X, who has just shown up in the department of radiology and is awaiting her study. In no time at all, our schedule would fall hours behind, radiologists would not have time to read the examinations, and chaos would prevail. The HMOs control utilization in part by tracking the number of imaging studies ordered by each primary care physician. Data from several sources suggest that the average outpatient rate of utilization of imaging studies (excluding those studies referred to above) should be around 400 per thousand members per year. If an individual primary care physician utilizes at a much higher rate than this, he may be ordering too many imaging examinations. The HMOs usually deal with this situation by financially penalizing the primary care physician.

He will receive a lower bonus, or no bonus at all, at the end of the year if the HMO determines that he has over utilized the services of radiologists or other specialists. For our part, however, we cannot rely on the HMO to accurately track utilization. Instead, we must do it ourselves. Jefferson's department of radiology is now developing a computerized system to track utilization by each Keystone Health Plan East primary care physician who has selected us as his capitated radiology provider. Only in this way can we determine who is utilizing appropriately and who isn't.

The capitation system used by HMOs has produced revolutionary changes in how hospitals, radiologists and other physicians are reimbursed. One of the keys to economic survival is having your own good data, and then using it to track utilization carefully.

**About the Author**

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