

Hospital/Physician Alignment Strategies

Solving Unforeseen Problems

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April 27, 2012



1

Hospital/Physician Alignment Strategies

Learning Objectives

- Physician Alignment Alternatives
- Problems in Physician Relationships
- Solutions to Alignment Issues

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2

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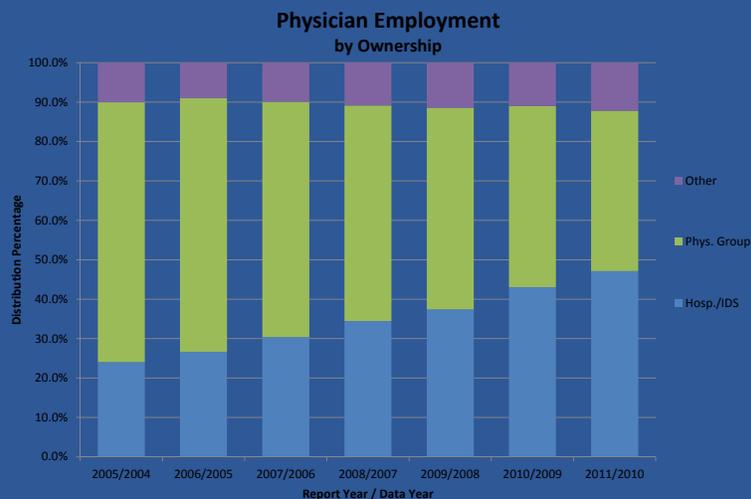
- More than ever, hospitals and physicians are more formally aligning.
- MGMA reported that in 2010, 47.1% of physicians were employed by hospitals or integrated delivery systems
- In May 12, 2011, *New England Journal of Medicine* said more than half of practicing physicians were employed by hospitals or integrated delivery systems
- MGMA projects physician employment to increase to 67% by 2013.

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3

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This alignment is being driven by a overall desire to:

- o Improve quality – quality measures, insure quality care
- o Improve access – treat health rather than illness
- o Lower costs - which will improve profit (in time)

These initiatives are primarily associated with the government, payers and hospitals.

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Physicians are driven to alignment to:

- o Reduce administrative hassles
- o Eliminate the stress of managing a business – personnel management, payer relations, IT sophistication
- o Eliminate concerns regarding declining reimbursement and rising costs
- o Concentrate on medicine
- o Maintain a balanced lifestyle

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To know where we're going, let's see where we've been

- o In the 1990s, practice buying sprees
- o Mostly employment deals with high front end payments
- o Investments weren't what the hospitals thought they'd be
- o Owners lost sight of the intent of the investment
- o Physicians were further disillusioned as hospitals put pressure on them for increasing profit or reduced their salary

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To avoid the problems of the past

- o Choose the right alignment strategy
- o Include physicians in the decision making process pre and post alignment
- o Set expectations with regard to quality and economics
- o Identify common goals and define objective measurements

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Range of Alignment Alternatives

- Start Up Support (*Salary Guarantee*)
- IT Support (*EHR*)
- MSO Services
- Joint Ventures
- Co-Management
- Clinical Integration
- PSA
- Employment

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Compensation Methodology

Regardless of the relationship strategy, payments to physicians must meet the fair market valuation test. Usually as defined by an independent third party.

Fair market value means the value in arm's-length transactions, consistent with the general market value.

The fair market price is the price at which bona fide sales have been consummated for assets of like type, quality, and quantity in a particular market at the time of acquisition, or the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals. (emphasis added) (42 CFR § 411.351)

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We rely on market data from three (3) surveys of physician compensation, which serve as benchmarks:

- *Physician Compensation and Production Survey: [Most recent report]* published by the Medical Group Management Association ("MGMA")
- *Medical Group Compensation and Financial Survey: [Most recent report]* published by the American Medical Group Association ("AMGA")
- *Physician Compensation and Productivity Survey Report: [Most recent report]* published by Sullivan Cotter and Associates, Inc. ("SCA")

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Fair Market Values

- Depends on the physician's current production values
- Surveys provide data at the 25th, Median, 75th and 90th percentiles
 - Compensation
 - wRVUs
 - Collections per wRVU
 - Compensation per wRVU

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Employment vs. Professional Services Agreement (PSA)

- Employment typically includes a base salary and a production incentive
- PSA falls between employment and other affiliations
 - “Compensation” is achieved by payment per wRVU
- Practice “purchase” includes FF&E, inventory, assembled work force, medical records

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13

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Additional “Compensation” Options

- Medical Director services – FMV rate per hour
- Performance metrics – clinical and administrative
- Management Fee - % of billing
- Billing Fee - % of billing

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14

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In general, we've seen physician alignment deals
move from

Compensation for showing up

to

Payment for outcomes/results

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15

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Performance Metrics

Adherence to Annual Budgets Operating Budget Capital Budget	Less than 5% variance Less than 5% variance
Patient Satisfaction Employee Satisfaction/Retention Average	Meets or exceeds average Meets or exceeds average
Maintenance of Staffing Levels/FTEs	Maintain same staffing levels
Maintenance of Hours of Operation	Same as current
Follow policies/procedures	100% compliance
Follow agreed upon operating guidelines	100% compliance
Timely implementation of Corrective Action Plans	100% compliance

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16

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Administrative Metrics

- Credit Balances
- AR Aging
 - % Greater than 90 Days
- Net Collection Rate
- Maintenance of Staffing Levels

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17

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Clinical Integration

"An active and ongoing program to evaluate and modify the clinical practice patterns of the physician participants so as to create a high degree of interdependence and collaboration among the physicians to control costs and ensure quality."

FTC/DOJ Statements of Antitrust Enforcement Policy in Health Care, #8.B.1 (1996)

- What disease states or outcomes do you want/need to evaluate?
 - Heart Disease
 - Diabetes
 - Cancer
 - Asthma

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18

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- For hospitals new to physician employment, the bar is relatively low – metrics are easy to achieve
- For more experienced organizations, the bar has been raised over time as the programs and initiatives have gotten more sophisticated.

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For clinical integration to work you must provide:

- interactive systems,
- shared data,
- economic incentives to participate (or penalties for failure to participate),
- clinical co-management opportunities,
- participation in economic gains,
- operational systems (scheduling, EHR, order entry/results reporting systems).
- performance metrics tied to financial incentives

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Problems in Physician Relationships

Core Issues:

- Physicians don't trust hospitals
- Physicians aren't great employees. But they do work harder when they are incentivized
- Doctors don't like being told what to do

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Problems in Physician Relationships

- Hospitals are too rigid/heavy handed in their management style
- Some hospitals see physicians as cogs in the wheel. Others see them as true collaborators. This is usually apparent in the contractual relationship
- The parties don't communicate effectively

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Practical Issues

- Most hospitals don't know how to manage physician practices - the practice's economics and operations go from bad to worse
- Hospital systems do physician billing poorly
- Physicians experience higher costs and lower income

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Solutions to Alignment Issues

- Involve physicians in planning activities and management committees – true collaboration
- Honest communication
- Provide the “things” physicians need to effectively manage their business. (Staff, equipment, supplies)
- Make physician profitability a goal

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- Establish governance rules
 - Day to day operations
 - Upper level decisions

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Process for Alignment

- Define your physician strategy
- Physician needs assessment
- Evaluate the practice
- Define the deal
- Determine Fair Market Values
- Define legal issues
- Negotiate
- Integrate
- Continuous measurement, improvement and goal setting

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Executive Summary

- o Know why you're considering a physician alignment strategy
- o Define your goals
- o Select a method of alignment (and be flexible)
- o Understand the potential challenges and establish methods to address them
- o Define success
- o Continuously monitor progress

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