Strategies and Options Physicians are Exploring in this Lower Reimbursement Environment

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Options Physicians are Exploring

- Remain as an Independent Medical Practice
- Join existing single specialty group
- Join existing multiple specialty group
- Start a new single specialty group
  - *Gastroenterology - Orthopedic*
- Become a Retainer or Concierge Practice
- Sell Medical Entity to a Public / Private Equity Company
- "Silent Exodus"
- Align with hospital
  - *Full Integration - Partial Integration*
- Sale of Ambulatory Surgery Center

Physician Alignment Model with Hospital, or Hospital Affiliate ~ *Full Integration*

- **Hospital Affiliate ~ Purchase**
  - **Furniture fixtures, equipment**
  - **Medical Practice Goodwill ~ No Value**
  - **Standard Employment Agreement; Sign-on bonus**
  - **Hospital responsible for all operations, finances, governance**
- **Physician Employed by Hospital Affiliate**
  - **Base salary – (Fair Market Value)**
  - **Incentive based on wRVU's / Quality Metrics**
  - **3 – 5 year contract**
  - **Medical Practice Employees are rehired by Hospital Affiliate**
  - **Hospital Affiliate manages Medical Practice**
  - **Physician continues to practice in their current office location**

Partial Integration

PARTIES TO THE ALIGNMENT

- **Independent Medical Practice**
- **Hospital Health System and or Hospital Affiliate P.A.**

Partial Integration - Professional Service Agreement (PSA)

1. **Physicians will retain Ownership in their Medical Practice (Entity, LLC, PA)**
2. **Physicians Remain Employed by their Medical Practice, thus avoid direct employment by hospital affiliate**
3. **Physicians Continue to practice medicine in their current office site**
4. **The hospital affiliate purchases / leases physician professional services from their Medical Practice and compensates the Medical Practice based upon the total Physician's wRVUs and a Fair Market Value Conversion Factor (CF)**
5. **Hospital will assume full responsibility using their own EIN and NPI Number for all billing and collecting functions to patients and third party payor's**
   - **Leased Physicians will reassign their Medicare NPI Number to the Hospital Affiliate**
   - **Hospital Affiliate will submit claims using their own fee schedule and contracted rates negotiated with Payor's**

Professional Service Agreement (PSA) - Fee/Lease Payment *Continuation*

6. **Estimated Annual Leasing Fees payable to the Medical Practice is based upon the following two components:**
   - **Total of all Physician's Historical wRVUs for the prior calendar year**
   - **Multiplied by the Predetermined Conversion Factor (CF)**
     - **Example: 24,000 total prior year wRVUs multiplied by the $50 Conversion Factor equals $1,200,000 Projected Annual Payment to the Medical Practice**

7. **Hospital Affiliate will Pay the Medical Practice on the first of each month (1/12th)of the Estimated Annual Leasing Fee on the first day of each month**
   - **Example: $1,200,000 divided by 12 equals $100,000 per month**

8. **Within 30 days after the end of the Calendar Quarter (or year), the Actual wRVUs rendered by Date Of Service will be Multiplied by the predetermined Conversion Factor pursuant to the Professional Service Agreement. The result will be compared and reconciled to the Aggregate Monthly Payments that were paid to the Medical Practice from the Hospital Affiliate**

Partial Integration
Professional Service Agreement (PSA)
Continuation

Hospital Affiliate:

9. **Reimburses the Medical Practice for the following Physician's Fringe Benefits:**

   Health Insurance
   Pension Contribution

10. **Payments made to the Medical Practice by the Hospital Affiliate for Professional Services are distributed to Physicians based upon their own "Practice Income Distribution Formula"**

11. **Hospital affiliate usually reserves the right to review the wRVU Conversion Factor at the end of the third year if the original Professional Service Agreement is for a term of five years**

Partial Integration - Management Services Agreement (MSA)

- **Medical Practice will have the responsibility to manage and administer the day-to-day operations:**
  - **Medical Practice will develop an Initial Annual Operating Budget based upon the Medical Practices historical and anticipated increased expenses**
    - **Budget Consists of all Overhead Expenses including:**
      - **Rent, Staff Salaries, Office and Medical Supplies, Utilities, Malpractice Insurance, Accounting Fees and Legal Fees**
      - **The Initial Operating Budget is usually an exhibit to the Management Services Agreement and is agreed upon by the Medical Practice and Hospital Affiliate**

Payments to Medical Practice

- Professional Service Payments (PSA Agreement)
- Reimburse Physician's Fringe Benefits (PSA Agreement)
- Reimburse Medical Practice Overhead Expenses (MSA Agreement)
- Purchase / Lease Furniture, Fixtures and Medical Equipment (APA Agreement)
- Management Fee (MSA Agreement)

Partial Integration Summary

- **The Medical Practice will remain as an Independent Medical Group**
- **The Medical Practice will continue to have control over the following:**
  - ***Their own Income Distribution Formula***
  - **Medical Practice Governance**
  - **Manage the Medical Practice Day-to-Day Operations**
  - **Staff**
  - **Benefits Plan (health insurance, retirement plans)**
  - **Malpractice Insurance**
- **PSA Model is typically easier to unwind**

Hospital Resources

"The median loss for employing a physician in 2012 was $176,463, according to a 2013 report from the **Medical Group Management Association**, its latest on the subject. As a result, some analysts are predicting a pullback on physician practice acquisitions this year as costs have increased faster than revenue."

- Modern Healthcare 2/22/14

Sample ASC Financial Statement

ASC Financial Dashboard for Physician Owners

- Case Volume per Working Day
- Specialty Mix
- Payer Mix
- Patient Revenue Per Case
- Clinical Labor Per Case
- Implant Cost Per Case
- Medical Supply Cost Per Case
- EBITDA Per Case
- Percent of Accounts Receivable Greater that 90 Days
- Cash Collections as a Percent of Patient Revenue

-Becker ASC Review 4/15/2014

10 Keys to Being a Great ASC Administrator

1. Financial Fluency
2. Physician Recruitment Skill
   - "why do you choose to use our center?"
3. Organized OR Management and Clinical Competency
4. Supply Chain Savvy (know the ins and outs)
5. Key Specialty Know-How
   - Seek new opportunities/technology

-Becker ASC Review 5/28/2014

10 Keys to Being a Great ASC Administrator

6. Expert-Level Knowledge of Credentialing, Licensing and Medicare Certification Rules and Regulations
7. Safety and Quality Prioritization
8. Staff Search and Retention Capabilities
9. Good Physician and Patient Satisfaction Maintenance
10. Ability to Stay Ahead of the Curve

-Becker ASC Review 5/28/2014

ASC Leadership – Qualities that Make Great Administrators

- Excellent Communication Skills
- Proactive Mindset
- Attention to Detail
- ASC Leadership Experience
- Strong Organizational Skills
- Someone who can be a “Players Coach” Instead of a Dictator
- Insatiable Curiosity
- Steadfast Decision Maker
- Good at Hiring
- Accessible to Staff

-Becker ASC Review 3/21/2014

Questions and Answers