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What Keeps You Up at Night?

Issues of Fraud and Abuse Compliance Series

The Anatomy of a Hospital-Physician Alignment Transaction

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39 Offices in 19 Countries

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Introductions

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Overview

- Business Factors Driving Alignment Transactions
- Vascular Industry as an Example
- Legal Issues to Consider
- Alignment Models
- Lessons Learned and Further Thoughts
- Questions

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Opening Remarks

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Business Factors Driving Alignment Transactions

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Business Factors Driving Alignment Transactions

- Changes in hospital and physician reimbursement levels and methods require greater efficiencies in care delivery processes
- Pressures to establish quality benchmark reporting for contracting and reimbursement optimization
- Physicians drive quality and costs for hospitals
- Physician subspecialists' aging and attrition threatens future of practices and advanced care for patients and hospitals
- In-office diagnostics becoming financially difficult to justify physician ownership and upgrade of technologies

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Business Factors Driving Alignment Transactions

- Cost of hiring and paying physicians becoming more difficult for physician groups to absorb
- Growth demands collaboration between hospitals and physicians to obtain and deploy resources more efficiently and effectively
- Contracting is facilitated when hospitals and physicians are financially aligned (i.e., Accountable Care Organizations)

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The Vascular Industry as an Example

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The Vascular Industry

Vascular Disease, or "peripheral vascular (arterial) disease (PAD/PVD), is the build-up of plaque anywhere within the entire blood vessel system outside of the heart

- Prevalence is **over 55 million**
- Many professionals say the **most under-diagnosed disease**
- Only **5 persons out of 1000** are diagnosed yearly
- The need could be as high as **30 persons per 1000**
- Unprecedented opportunity for **community hospitals** and **rural and critical access hospitals**
- **Endovascular therapies** now the **"gold" standard** for treatment
- **Physician-owned/office-based intervention labs** advancing in the market

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Vascular Industry: The Critical Questions

Is a formal Vascular Program right for my Hospital?
Or, why would a formal program NOT be right?

What are the requirements?

- Physicians
- Technologies
- Business Development Plan

What are my first steps in making this a success?

- Market Potential
- Current Capabilities

What help will you need to be successful?

- Key physician(s)
- Consultant with cardiovascular business experience

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Legal Issues to Consider

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Legal Issues to Consider

- Practice Assessment

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Legal Issues to Consider

- Practice Assessment
- Internal Assessment and Business Planning

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Legal Issues to Consider

- Practice Assessment
- Internal Assessment and Business Planning
- Structuring the Transaction
  - Regulatory Compliance

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Legal Issues to Consider

- Practice Assessment
- Internal Assessment and Business Planning
- Structuring the Transaction
  - Regulatory Compliance
- Documentation
  - Definitive Agreements
  - Legal Opinions
  - Valuation Opinions

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Legal Issues to Consider

- Practice Assessment
- Internal Assessment and Business Planning
- Structuring the Transaction
  - Regulatory Compliance
- Documentation
  - Definitive Agreements
  - Legal Opinions
  - Valuation Opinions
- Regular Audit and Monitoring

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Legal Issues to Consider

- Practice Assessment
- Internal Assessment and Business Planning
- Structuring the Transaction
  - Regulatory Compliance
- Documentation
  - Definitive Agreements
  - Legal Opinions
  - Valuation Opinions
- Regular Audit and Monitoring
- Updating Documents

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Alignment Models

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Overview

- Many alignment models have been around for some time
  - Some have changed due to regulatory and economic pressures
- Choice of model often based upon:
  - Culture of medical community
  - Hospital's history with physician relationships
- No "right" or "wrong" choices for a particular situation
  - ***BUT***, off-the-shelf structures rarely work well, if at all
- ***Authentic physician engagement is essential.***
  - Trust and transparency are crucial

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Types of Alignment Models

- Co-Management Arrangement
- Professional Services Arrangement
- Physician Enterprise Model
- Hybrid Approaches

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Co-Management Arrangement

- Hospital enters into management agreement with organization owned (jointly or wholly) by physicians
- Focus is usually a hospital service line (e.g., cardiovascular, orthopedic) or an entire facility
- Physicians compensated for providing management services intended to improve performance of service line/facility against recognized benchmarks
  - ***Base Management Fee*** – fixed fee for medical direction services
  - ***Potential Performance Bonus*** – incentive fee for the achievement of performance improvement initiatives

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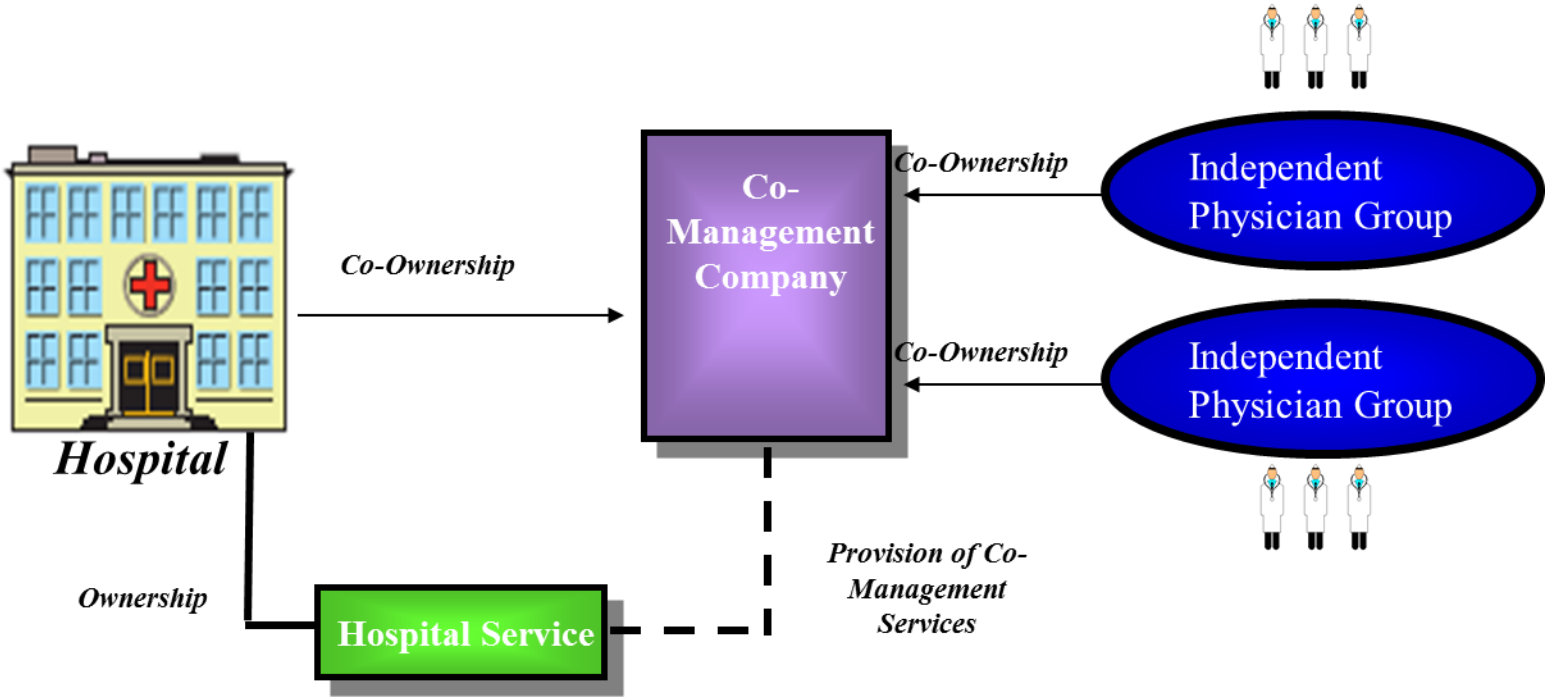
Co-Management Arrangement



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Co-Management Arrangement

Advantages	Disadvantages
• Physician group retains practice assets, structure, governance, and compensation structure	• Requires careful business/legal scrutiny (i.e., OIG concerns)
• Hospital retains ownership of service line	• Potential for having to unwind if physicians do not perform adequately as managers
• Focuses on quality and standard of care	
• Strong alignment of interests	
• Hospital has opportunity to enhance integration and interdependence with physicians	
• Easy exit strategy	

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Professional Services Arrangement

- Hospital (or affiliate) enters into agreement with physician group for group physicians to provide services to hospital's patients
- Compensation structured on a productivity basis
  - Physician group determines allocation of income within group

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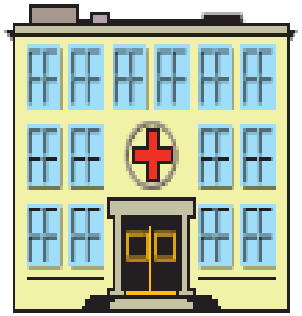
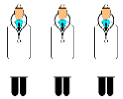
Professional Services Agreement



Hospital

Formal Professional Services Agreement



Independent Physician Group

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Professional Services Agreement

Advantages	Disadvantages
• Physicians continue to own their professional corporation	• Lack of full integration with the hospital; can lead to physician misalignment with the hospital's goals
• Physician group has the ability to determine internal compensation distribution	• Unable to fit directly within Anti-Kickback Statute Safe Harbor
• Can be utilized in states where the "corporate practice of medicine" doctrine prevents direct physician employment	• Difficult to structure in "corporate practice of medicine" states
• Avoids the perception of being direct employees; "employment lite"	
• Allows physicians to maintain independence	

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Physician Enterprise Model

- Hospital (or affiliate) employs physicians through a separate entity
  - A "group practice" for regulatory purposes
- Physician Enterprise takes responsibility for revenue stream created by physicians' services
  - Shares responsibility with physicians through compensation/benefits and payment for physicians' overhead
- Hospital does not immediately (and may never) buy the physicians' practice
- Practice Entity and Physician Enterprise may enter into a management agreement
  - Practice Entity serves as the manager of the Physician Enterprise
  - Practice Entity provides services (i.e., non-physician support staff, facilities, equipment, and access to records)

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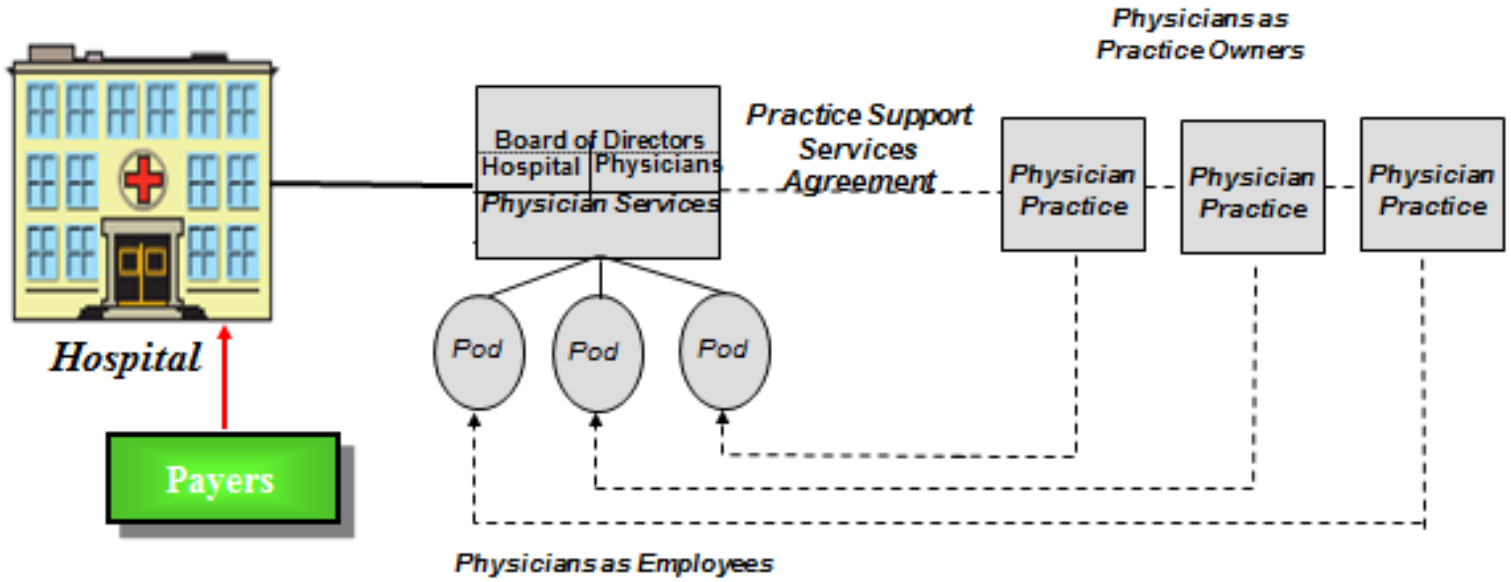
Physician Enterprise Model



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Physician Enterprise Model

Advantages	Disadvantages
• High degree of coordination and collaboration	• Physicians lose autonomy, which may lead to loss of "entrepreneurial spirit"
• Directly aligns operational goals of hospital and physicians	• Hospitals that have had difficulty managing physicians' practices may not fare better with the PEM than with direct employment
• No financial investment by physicians	• May reduce physician control over certain aspects of physician's practice (e.g., call coverage, administrative tasks, record keeping requirements, and business operations)
• Physicians receive a stable income and become fully integrated into the hospital policies and procedures	
• Easy exit strategy	

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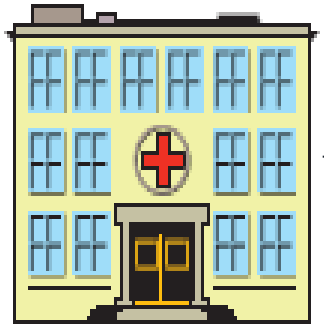
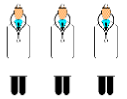
Hybrid Approaches



Hospital

Ownership / Sole Member

Non-Equity Members



Independent Physician Group

Co-Management Agreement

Payers

Service Line

MANAGEMENT COMPANY

Physician Employment Entity

Professional Services Agreement

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Lessons Learned & Further Thoughts

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Lessons Learned

- One approach will rarely work for all physician groups
- Hospitals must understand culture of local practices before integration is attempted
- Hospitals must define their business case for integration
- Address the hospital's shortcomings up front:
  - Weak practice management system
  - Management not comfortable sharing power and control with physicians
- Leadership issues:
  - Medical director and practice leadership can't (or won't) adjust
  - Physicians are given inadequate accountability/responsibility
  - Lack of appropriate governance roles for physicians

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Lessons Learned

- Physician practice internal issues and struggles must be addressed
- Compensation model is typically ***THE*** internal issue
- Treating the physician group as just another hospital department
- Time is of the essence

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Further Thoughts

- Models that foster and maintain collaboration among diverse teams or networks of professionals will achieve true integration
- What are the fall back alternatives if integration does not work?
- How do you assure desired performance and outcomes from integration?
  - Are you better off after integration than before?
- Don’t overlook the physician incentive for a reasonable level of autonomy to obtain desired commitment
- Financial dynamics of any successful model must reinforce good behavior

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Further Thoughts

- Physicians must have ability and willingness to change
  - If not, highly unlikely that overall system will improve
- No two physicians are exactly alike
- Each model must be tailored to the specific needs and expectations of the parties

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Questions?

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Thank You

Thank you for joining our webinar.

Please feel free to contact us with questions, comments, potential topics, or any other issues.

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