The Emerging Trend towards Hospitals Purchasing Physician Practices

Is it Right for You?

The Reemerging Trend towards Hospitals Purchasing Physician Practices

Is it Right for You?

### The Current State

- Physicians are trapped in a declining reimbursement system with perverse incentives
- Morale among physicians (and staff) is low and falling
- Most practices are undercapitalized
- Many practices fail to execute business fundamentals properly
- Hospitals and payers see opportunity and are moving to improve their positions

### New Challenges

- Reimbursement methods are changing
- The marketplace is focusing on outcomes and quality
- Federal money has accelerated EHR deployments
- ICD-10 is on the Horizon
- New security rules require higher performance
- Payers have become more obstinate

### Greatest Challenge

The Pie is Shrinking
The Table Manners are Changing

Reimbursement Transition
Hospital Affiliation

Three Basic Options

- Employment
- Management Services
- Profession Services Agreement (PSA)

General Issues

- No option is perfect
- The risks of each can be mitigated by modifications
- The best is the approach that fits you
- No model allows payment for admissions
- All trade autonomy for security
- Real estate is usually separate
- To greater / lesser extent each model turns control of operations over to the hospital
- No payments for goodwill
- Anticipate the unwind
- Physicians contracts may be bought or sold
- Staff (Manager) employed by the hospital

Employment Model

- Practice Tax ID # goes away
- Each physician has an employment agreement with Hospital
- All revenue is paid to the Hospital
- Physician salaries may be fixed, production based (Work RVUs) or mixed
- New practice requires credentialing
- Access to Hospital’s retirement & benefit plans
- Management and governance mostly goes away
- Less or no control over physician recruitment

Employment Model

Pros
- Sell hard assets and debt to Hospital
- No revenue stream risk
- No risk for operations
- Individualized employment agreements
- More flexible for physicians in transition
- Health system retirement & benefit plans
- Just Show up and see patients

Cons
- The most difficult to unwind
- Individualized employment agreements
- Little autonomy
- No control over payer mix
- Loss of the relationship with SVMIC
- Dependence on Hospital for operations
- No access to ancillary revenue
- Little influence on who your partners are

Management Services Model
Management Services Model

- Practice enters into a service contract with Hospital
- Practice holds payer contracts and collects revenue
- Hospital may hire employees, provides a facility, supplies, etc – everything to operate the practice
- Practice pays Hospital a management fee
- Practice has an employment agreement with each physician
- Practice controls provider recruitment

Pros
- Maximum independence
- Revenues stay with practice (control over payer mix)
- Diminished overhead risk
- May sell hard assets to Hospital
- Practice maintains employment agreements with physicians
- Easiest model to unwind
- Stay with SVMIC
- Practice controls physician pay system
- Practice controls recruitment
- Practice access to ancillary revenue

Cons
- Revenue stream risk remains unchanged
- Complex legal issues
- Dependence on Hospital for operations
- Revenue is variable but cost are fixed

Professional Services Model

- Hospital holds a professional services contract with Practice
- Hospital pays a professional service fee (PSF) – Flat fee, production fee or mixed (usually RVU based)
- Hospital contracts with payers
- Practice maintains employment contracts with physicians
- Practice distributes revenue to physicians as through their own pay system
- Other physician costs e.g. malpractice insurance may be paid out of the Practice

Pros
- No operations or revenue risk (they may mitigate)
- Sell hard assets to Hospital
- Physician group structure and culture remain
- Practice controls physician recruitment
- Stay with SVMIC
- Practice controls physicians pay system
- Hospital is vested in practice growth

Cons
- Dependence on Hospital for operations support
- More difficulty with unwinding
- Less influence over operations and staff
- Hospital directed strategic initiatives may impact productivity

Important Questions for your Practice

- Which is more important risk avoidance or independence?
- Is controlling operations important?
- Do you need better retirement & benefit options?
- How many of you expect to be practicing in 5 years?
- Does it matter who your partners are?
- How important is maintaining your group and group culture?
- Are there physicians hoping to slow down?
- Is income you overriding motivation?
- Are you concerned about unwinding?
The Hard Question

What model best fits our goals?

Questions

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