The Emerging Trend towards Hospitals Purchasing Physician Practices

Is it Right for You?

The **Re**emerging 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 under capitalized*
- *Many practices fail to execute business fundamentals properly*
- *Hospitals and payers see opportunity and are moving to improve their positions*

New Challenges

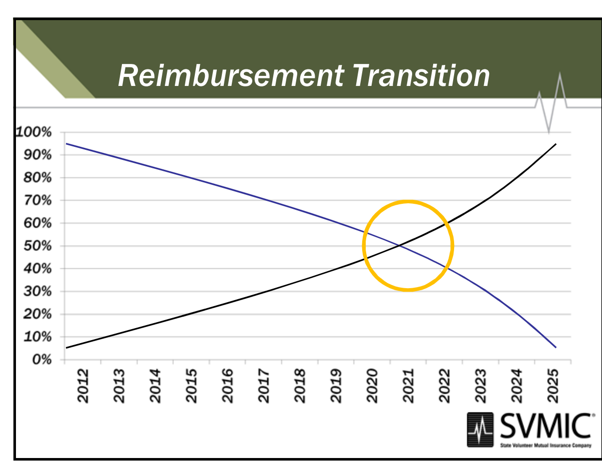
- *Reimbursement methods are changing*
- *The marketplace is focusing on outcomes and quality*
- *Federal money has accelerated EHR deployments*
- *ICD-10 is on the Horizon*
- *New security rules require higher performance*
- *Payers have become more obstinate*

Greatest Challenge

The Pie is Shrinking

The Table Manners are Changing

Reimbursement Transition



Hospital Affiliation

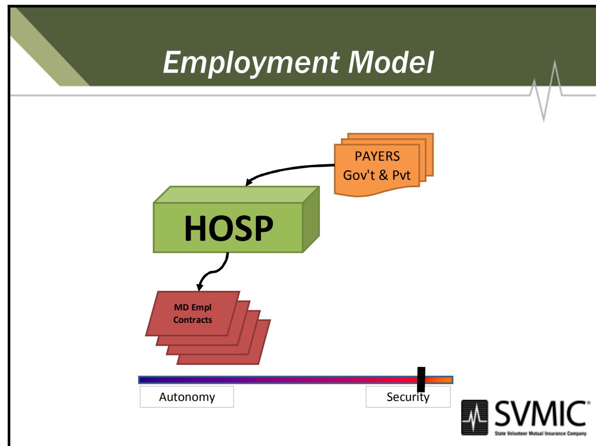
Three Basic Options

- 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



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

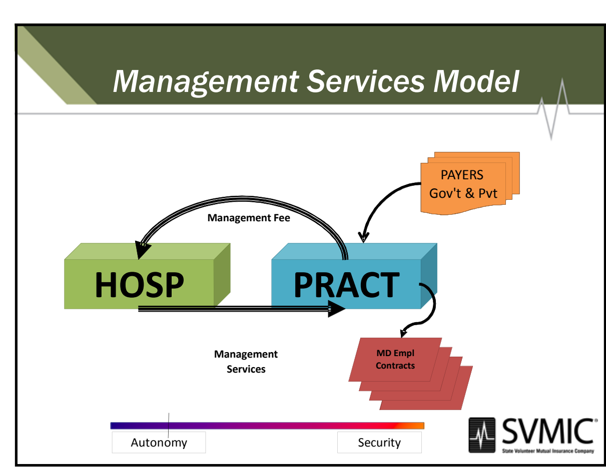
Pros

- 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 hires 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

Management Services Model

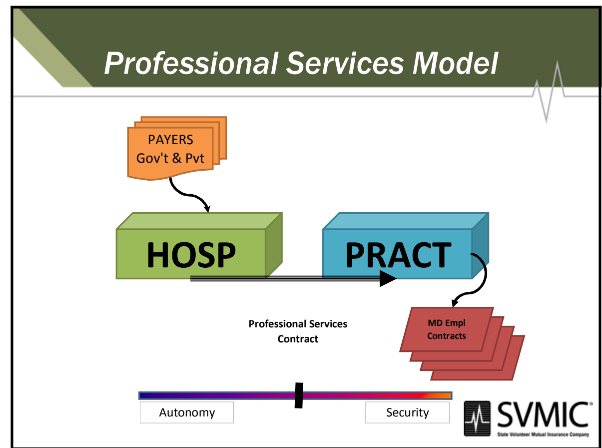
Pros

- 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



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 i be paid out of the Practice

Professional Services Model

Pros

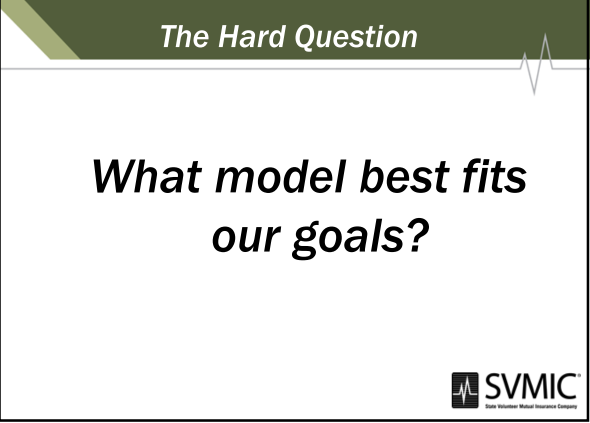
- No operations or revenue risk (They may mitigate)
- Sell hard assets to Hospital
- Physician group structure and culture remain
- Practice controls physician recruitment
- Stay with SVMIC
- Practice controls physicians pay system
- Hospital is vested in practice growth

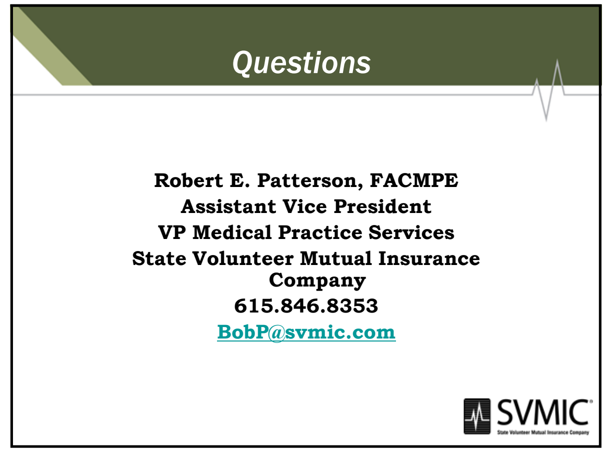
Cons

- 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?
SVMIC


Questions
Robert E. Patterson, FACMPE
Assistant Vice President
VP Medical Practice Services
State Volunteer Mutual Insurance Company
615.846.8353
BobP@svmic.com
SVMIC