

# The Society for Radiation Oncology Administrators 28<sup>th</sup> Annual Meeting

## Physician/Hospital Arrangements During a Period of Uncertain Healthcare Reform

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# Alignment Arrangements

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## Access to this presentation:

- Arvina Group, LLC website, [www.arvinagroup.com](http://www.arvinagroup.com):
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# Alignment Arrangements

## Session Objectives:

- ◆ Describe goals for hospital/physician alignment.
- ◆ Describe the alternative arrangements.
- ◆ Define key steps in the selection and planning process.
- ◆ Discuss key terms for arrangements and approaches to structure.



# Alignment Arrangements

## Backdrop



# Alignment Arrangements

## Economic & Political Overview:

### ◆ The future for Medicare:

- More “*Global*” payments, “Bundled” demonstration projects, fee contracting, and other “incentives” to reduce reimbursement.
- ACO’s will be implemented by a small percentage of hospitals:
  - High investment (development, infrastructure) costs & risk.
  - Long development periods.
- Strategic implications for all providers:
  - *Cost sharing/significantly lower cost structure are required as future margin potentials shrink.*

### ◆ Other payors are introducing risk sharing and quality improvement “incentives” requiring ACO-like responses, but not necessarily an ACO structure.

### ◆ Shifting focus to population management?



# Alignment Arrangements

## Economic & Political Overview (continued):

- ◆ The Patient Protection and Affordable Care Act is alive.
- ◆ The President's Plan for Economic Growth and Deficit Reduction (health savings: \$248B Medicare & \$73B Medicaid)
- ◆ National and state healthcare policy will be a key issue in the 2012 elections:
  - Election results will have significant bearing on future healthcare policy – an uncertain future about specifics.
  - Medicare, current entitlement program, is unsustainable – that is certain.
  - Effective provider management of cost and quality positions will determine an organization's long term viability (hospitals and physician practices).
  - Medicaid budgets will not be revitalized.



# Alignment Arrangements

## Economic & Political Overview (continued):

- ◆ **Conclusions: Less \$'s per capita for physicians (and hospitals) in the future:**
  - **Continued income pressures on practices.**
  - **Specifics of future healthcare policy – post election view:**
    - **Resolution of SGR unknown at this time.**
    - **Healthcare reform initiatives, budget restructuring, etc., will provide minimal increases for physician income.**
  - **Most physicians indicate they have little if any capacity to increase production (work longer hours +/- increase productivity) to offset income declines.**
  - **Hospital/practice arrangements will continue as more practices economically and strategically (?) aligned with hospitals to achieve income stability and security.**



# Alignment Arrangements

**Do these trends have a bearing on  
your practice's or medical center's  
strategic future?**



# Alignment Arrangements

*Simplified Model for Teaching & AMC*

## Enterprise Vision and Long Term Viability

Performance

Market Position

Value To Providers

Financial Performance

Operating & Strategic Platform

Model of Care

Systems & Processes

Hospital/  
Physician  
Alignment

Strategic  
Direction

Continuum of  
Care

Quality, Cost  
Improvement

Disease Specific  
Strategy

Service Line  
Strategy

Physician Practice  
Management

Population, Disease  
Specific Strategy



# Alignment Arrangements

## Evolving Lost Perspective!

- ◆ Putting the arrangement together is the easy part:
  - Purpose of the arrangement is to create practice income stability and contribute to the organization's growth, value, and viability. *Correct?*
- ◆ After the economic alignment of this key resource occurs, how do you optimize the practice's inherent strategic value?
  - The new alignment investment is not intended to maintain the status quo. *Correct?*
  - Updating the service line's strategic business plan to address the strategic potential of this investment is a priority? *Correct?*



# Alignment Arrangements

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# Alignment Arrangements



# Alignment Arrangements

## Why Pursue Alignment as a Strategy?

- ◆ Income pressures are driving physicians to adopt a more contemporary business model.
- ◆ Physician practices, for a variety of reasons (approaching retirement, poor financial performance, etc.) are looking for income stability and security.
- ◆ Allows physician practices and hospitals to focus on common strategic goals that have mutually beneficial results, once key economic issues are addressed.
- ◆ Hospital referral sources at risk.
- ◆ Can strengthen financial performance, if managed correctly.



# Alignment Arrangements

## What are the Challenges?

- ◆ Limited knowledge leads to marginal results.
- ◆ Misperceptions about how to structure and what results to expect.
- ◆ Focus on developing business partnerships, not short term financial fixes.
- ◆ Detailed oriented, patience testing, multitasking process not always well understood:
  - Major gap: relationship of operational design and structuring the deal.
- ◆ Easy to create a “bureaucratic” environment.
- ◆ Hard for physicians not to be the boss.



# Alignment Arrangements

**Perspective from a private practice following discussions with a hospital about a PBC arrangement:**

- ◆ **“We trusted the hospital CEO, but the corporate folks didn’t earn our trust”. The practice joined another group, hospital lost \$2.5+ million incremental profit.**

**Perspective from an academic medical center:**

- ◆ **The Dean held the position that alignment with private practice physicians would create a double standard for physician status within the system. AMC’s competitor in town continued to aggressively enter into arrangements with the private practice specialists, redirecting key AMC referrals.**



# Alignment Arrangements

## Community hospital perspectives:

- ◆ Miscalculated the bottom line by \$3.0+ million for a PBC arrangement and determined the arrangement was not feasible. Lost their only hema/onc group to a competitor.
- ◆ Hospital viewed their hema/onc group's request to discuss arrangements as a sign they were financially distressed. Offered a compensation package at 80% of FMV. Group joined another hema/onc group and leveraged their position into ownership of the hospital's radiation medicine business.



# Alignment Arrangements

## Alignment Goals:

- ◆ Has high potential to provide a strategic contribution to a specific program or service:
  - Typically a service line or other strategic fit.
- ◆ Create value (profitable, fair, and equitable) to the parties.
- ◆ Consistent with Fair Market Value (FMV) principles.
- ◆ Establish a partnership between the practice and the hospital based on mutually agreed upon goals for growth and, improvements in financial performance and quality.
- ◆ Regardless of the arrangement structure, provide the physicians with a role in practice decision making.



# Alignment Arrangements

## Guiding Principles for Alignment Arrangements:

### ◆ Leadership and fiduciary:

- Abides by state and federal regulations.
- Promotes fiscal responsibility and quality improvement.
- Simplicity; easy to understand and implement.
- Transparent.
- Fair, reasonable and, aligns with market conditions.

### ◆ Compensation:

- Based on fair market value principles.
- Include incentives, where applicable (base, bonus, performance and quality, strategy).



# Alignment Arrangements

## Guiding Principles for Alignment Arrangements:

### ◆ Respect:

- Values the physician.
- Values the hospital.

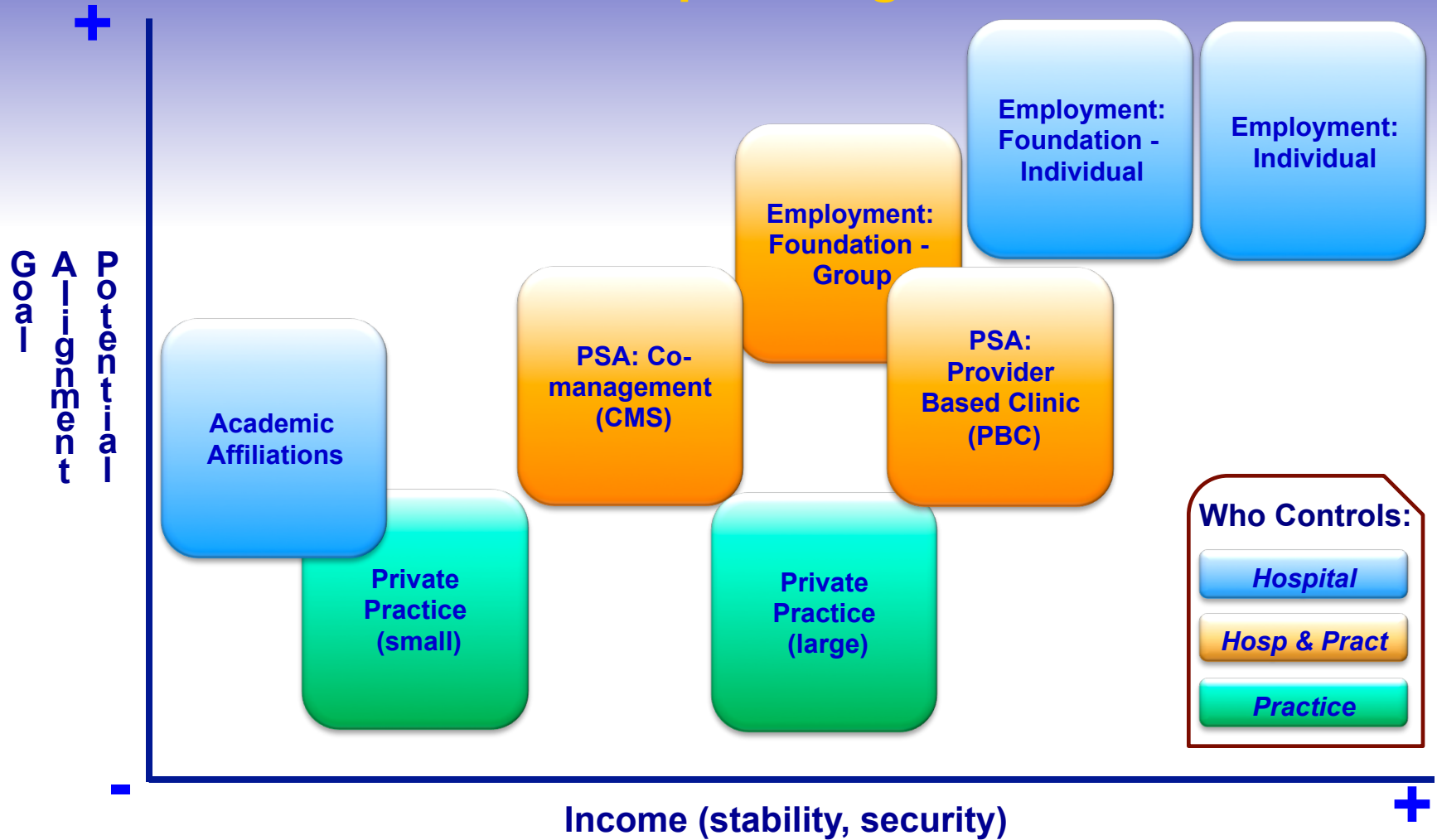
### ◆ Collaboration:

- Contributes to the hospital vision.
- Creates opportunities and incentives for clinical program and practice growth.



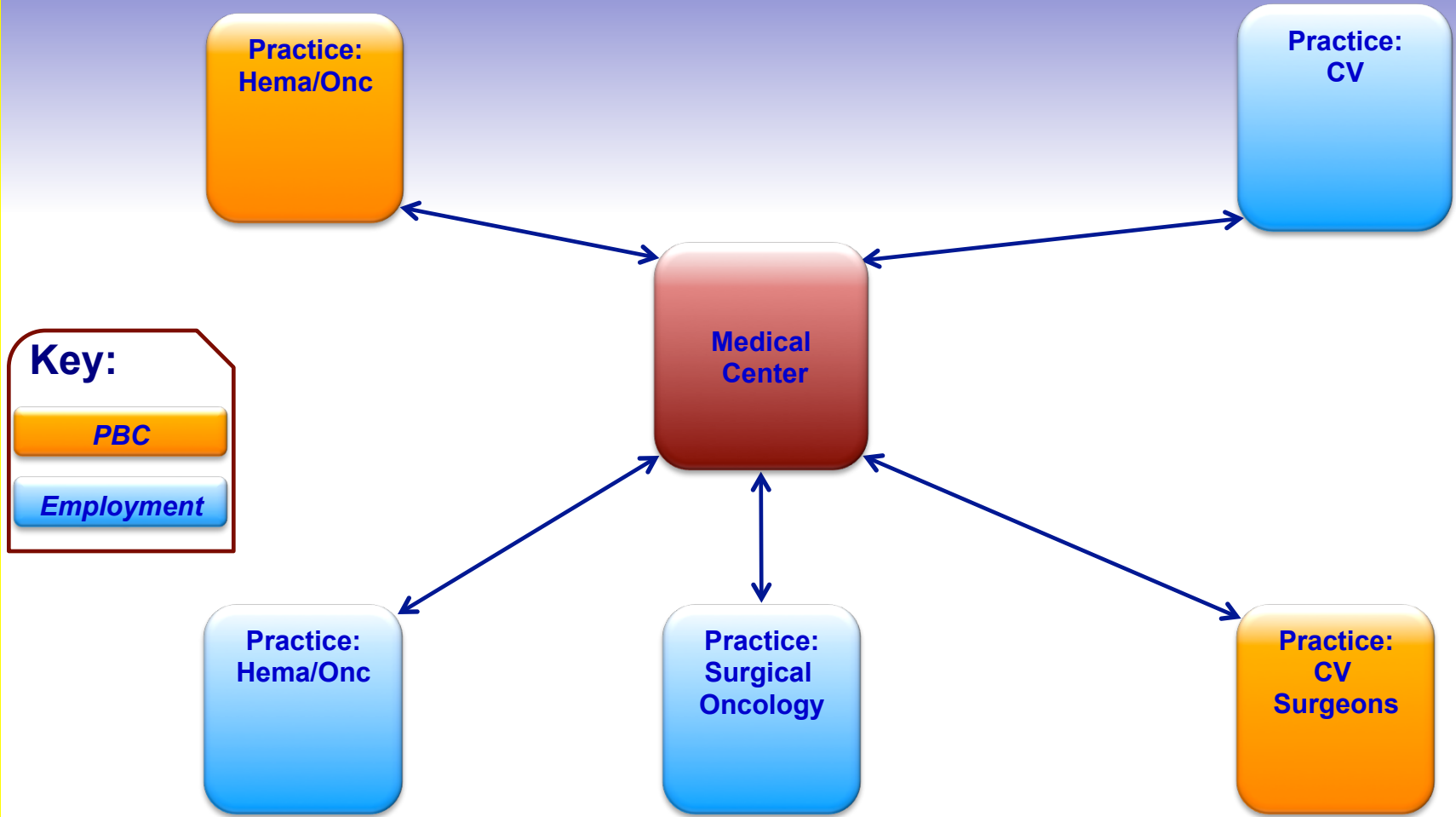
# Alignment Arrangements

## Private Practice & Hospital Alignment Alternatives



# Alignment Arrangements

## Application



# Alignment Arrangements

## Employment:

- ◆ A contract between a physician practice and the hospital. Private practice structure is eliminated.
- ◆ “Guarantees”, compensation, contract length, cause for contract termination, position descriptions, and the physician’s control of the operations are detailed in the terms of the contract.
- ◆ Can be structured as:
  - Individual contract based arrangement (compensation based on wRVU’s), or
  - Foundation model (individual or group; compensation based on practice financial performance).



# Alignment Arrangements

**Individual Physician**

**Hospital**

- Employment Contract

- Contract is between an individual physician and a hospital. The contract details the specific terms regarding contract length, compensation, causes for termination, management, etc.
- Physician provides professional services to the hospital as defined in the contract.
- Hospital manages the practice.
- Hospital bills the professional, technical, and facilities fees, and pays the physicians a fair market value fee (typically on a wRVU basis and based on achieving specific service and quality goals).
- Contract is consistent with federal and state statutes and regulations.



# Alignment Arrangements

## The Provider Based Clinic Arrangement:

- ◆ Simulates employment without becoming an employee. Broad applicability to a range of specialties.
- ◆ Most likely is a *transitional*, not endpoint, arrangement.
- ◆ Hospital operates the operations (procedures and E & M activity) of the physician's practice as a hospital department (provider based clinic).
- ◆ Legal structure = contract (PSA/professional service agreement). The physician is an an active partner in clinic/practice management.



# Alignment Arrangements

## The Provider Based Clinic Arrangement (continued):

- ◆ Hospital departments and facilities reported as provider-based (**APC payment**) on the Medicare cost report (after applying for and receiving such status), are located in the main building, on the hospital's main campus, or off campus (35 mile rule), and are fully integrated into the hospital's licensure, governance, and professional supervision.
- ◆ Entities seeking provider based status must satisfy specific Medicare requirements, most of which are intended to demonstrate functional, operational, management, quality, and financial integration between the hospital and the entity seeking provider-based status.



# Alignment Arrangements



- Arrangement meets CMS Provider Based Clinic rules.
- Physicians in the arrangement provide patient evaluation, consultation, and procedural services.
- Hospital and private practice group enter into a PSA. Physicians provide professional services. Among a number of terms, the agreement details the compensation arrangement, clinic management, and medical directorship. Non-practitioner clinical staff are hospital employees. Management/administrative staff can be employed by the practice and contracted to the hospital.
- PSA is consistent with federal and state statutes and regulations.
- Hospital bills the professional, technical, and facilities fees, and pays the physicians a fair market value fee (typically on a wRVU basis).
- Hospital manages the clinic and hires a manager (via employment or contract).
- Management Committee is established and meets routinely to address planning and operational topics. Also discusses annual contract review and renewal (including compensation arrangement).



## Planning and Operational Considerations



# Alignment Arrangements

## Requirements for Success:

- ◆ Hospital is organized (responsibilities, communications, processes, principles, decision making control, standards of care and for alignment, etc.).
- ◆ Private practices involved/targeted have the potential to make a specific strategic contribution to the hospital.
- ◆ Full, accurate disclosure of practice information and data.
- ◆ Transparency (data, discussions, decision making).
- ◆ Balance of risk and reward within the arrangement.
- ◆ High degree of respect and trust: physicians:hospital.
- ◆ Adequate, mature hospital practice management infrastructure.
- ◆ Operational designed reflected in the arrangement terms.



# Alignment Arrangements

Essential steps to assess and plan an arrangement:

1. Research, target, probe, identify practices attractive to the hospital and to discuss a potential arrangement.
2. Explore the conceptual feasibility (arrangement specific educationally oriented discussions) between the parties. “Go/No Go” decision.
2. Detailed hospital feasibility assessment and physician practice income simulation for each arrangement under consideration. “Go/No Go” decision.
3. Develop a term sheet. “Go/No Go” decision.
4. Draft the contract.
5. Develop an operations and implementation plan.



# Alignment Arrangements

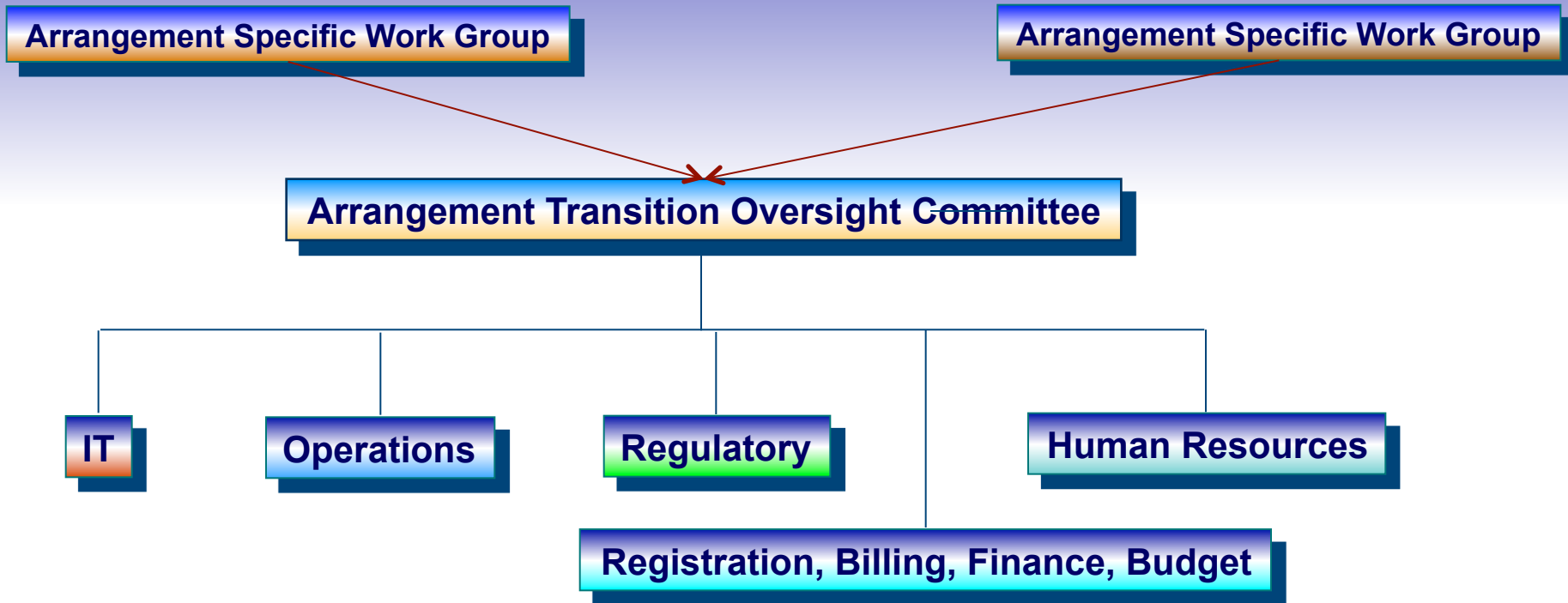
## Planning Implementation:

- ◆ Hospital organizational structure, leadership, etc., to integrate.
- ◆ Private practice employee transition.
- ◆ Private practice retirement fund management.
- ◆ Practice management transition.
- ◆ Detailed operational planning, including quality processes.
- ◆ Facility planning (if renovations are required).
- ◆ Marketing and communications.
- ◆ Financial services (budget, charge master, contracts, physician credentialing, auditing, compliance, etc.).
- ◆ IT (registration, billing, scheduling, and EMR).
- ◆ Establish the arrangement workgroups.



# Alignment Arrangements

## Organizing Implementation



# Alignment Arrangements

Typical key points that arise during discussions about physician practice alignment with a hospital:

- ◆ **Compensation (amount, mechanism, does it provide value over historical method?):**
  - **Assess during feasibility, FMV based.**
  - **Discuss the specific mechanism (salary or wRVU based; if wRVU, static or tiered structure, etc.)**
  - **Specifics in the contract (amounts and mechanisms).**
- ◆ **Risk and reward parameters:**
  - **Discussion and contract term.**
  - **Parameters may be phased in during the first term of the contract or introduced after the first term.**



# Alignment Arrangements

Typical key points that arise during discussions about physician practice alignment with a hospital (continued):

- ◆ **Control (amount and structure) in the arrangement and operations, and with staff:**
  - Discussion and contract term.
  - Operating committee and the arrangement contract.
- ◆ **Practice employee transitioning:**
  - Discussion and contract term.
  - Typically, most employees transition; practice billers most at risk.
- ◆ **Revenue cycle management:**
  - Billing (who performs); discussion and contract term.
  - Parties must understand the audit requirement.



# Alignment Arrangements

Typical key points that arise during discussions about physician practice alignment with a hospital (continued):

- ◆ **Impact of the arrangement on the image of the practice:**
  - Discussion, communications, promotions and, possibly contact language.
  - If PBC, must comply with CMS regulations.
- ◆ **Hospital use and potential acquisition of the practice's EMR if a recent investment:**
  - Discovery, integration with hospital, and contract term if useable.
- ◆ **Program planning:**
  - Discussion, medical director responsibility, contract.



# Alignment Arrangements

Typical key points that arise during discussions about physician practice alignment with a hospital (continued):

- ◆ **Cost position and quality management and control:**
  - Discussion, medical director role, arrangement contract.
- ◆ **Relationship to hospital's ACO (or like structure) and clinical integration:**
  - Discussion, medical director role, arrangement contract, and other.



# Alignment Arrangements

Where are the **hospital** bumps in the road?

- ◆ Hospital does not value the practice as a strategic asset (and worse, purposely undervalue the asset believing the hospital has the leverage in the discussions).
- ◆ Lack of understanding about arrangements and how they work.
- ◆ Practice arrangement lacks strategic contribution potential.
- ◆ Immature hospital physician practice management entity.
- ◆ Hospital leadership not engaged in the process (i.e., courtship).
- ◆ Resistance to change.
- ◆ Lack of understanding about “1500” professional billing.
- ◆ Limited understanding about professional reimbursement.



# Alignment Arrangements

Where are the **physician practice** bumps in the road?

- ◆ Do not understand or accept the fair market value framework.
- ◆ Loss of control is not acceptable.
- ◆ Line in the sand drawn on specific economic or control issues to favor the practice (often based on a misperception that the practice controls the leverage in the discussions).
- ◆ Inability of practice discussion leaders to bring the group along.
- ◆ Perception that the arrangement under discussion minimizes the attractiveness of the group in the market.
- ◆ Inaccurate and irreversible physician perceptions.
- ◆ Cannot or will not make a decision to proceed.



# Alignment Arrangements

## Summary



# Alignment Arrangements

## Summary:

### ◆ Requirements:

- ◆ Competency (options, understand the requirements, process, physician practice management infrastructure).
- ◆ Be strategic (vision and strategy to integrate private practices, practices present strong potential strategic contribution).
- ◆ Effective, organized planning process (education, due diligence, structuring and negotiating the arrangement, implementation).
- ◆ Use an unbiased, objective third party facilitator (discipline for the planning process and discussions, help built trust, subject matter expert).



# Alignment Arrangements

## Summary (continued):

- ◆ Accurately complete the **due diligence**:
  - ◆ Thorough review of historical practice activity levels, business practices, and payor specific CPT code mix and wRVU levels.
- ◆ Reality: 80% - 90%+ of the discussion focuses on **economics (*income*) and ego (*control*)**.
- ◆ **Credibility and transparency in the discussions leads to building trust between the parties and longer term in the relationship**:
  - ◆ Trust can be easily eroded with the slightest indiscretions, even if inadvertent.



# Alignment Arrangements

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**Questions?**



## Discussion Questions



# Alignment Arrangements

## Discussion Questions

- ◆ For a hospital, should an alignment capability be part of our strategic capabilities?
- ◆ For a practice, should we consider alignment options?
- ◆ What hospital programs/services are strategic priorities to build, protect, align with private practices?
- ◆ What specific practices been identified for targeting?
- ◆ How best to complete the research about each practice's alignment interest, key decision makers, and contact person (s)?
- ◆ What are the specific methods to initiate discussions with the practices been identified?



# Alignment Arrangements

## Discussion Questions (continued)

- ◆ How does hospital leadership want to organize for these discussions.
- ◆ Physician practice management distinctive competency required within the medical center enterprise:
  - Adequate leadership and management to expand operations?
  - Adequate capacity (management, systems, etc.) to expand and integrate private practices?
  - Private practice acumen?
  - Bylaw, contract, or other hurdles to integrate private practices?



# Alignment Arrangements

## Establishing compensation:

- ◆ **Consistent with fair market value (FMV):**
  - ◆ **Cannot take into account the volume or value of anticipated referrals, hospital activity, etc.**
  - ◆ **Typically based on the wRVU method.**
  - ◆ **Reasonable compensation for a reasonable level of clinical productivity (e.g., if clinical productivity is at the median, then physicians can be paid the median compensation value per wRVU).**
- ◆ **More typical methods:**
  - ◆ **Annual salary (with at risk, program, and bonus elements).**
  - ◆ **Fixed, one compensation rate/wRVU.**
  - ◆ **Tiered rate.**

