

**FROM THE TRENCHES:  
PHYSICIAN ALIGNMENT STRATEGIES  
AND MODELS**

**HFMA REGION 2 INSTITUTE**

**Friday, October 24, 2008**

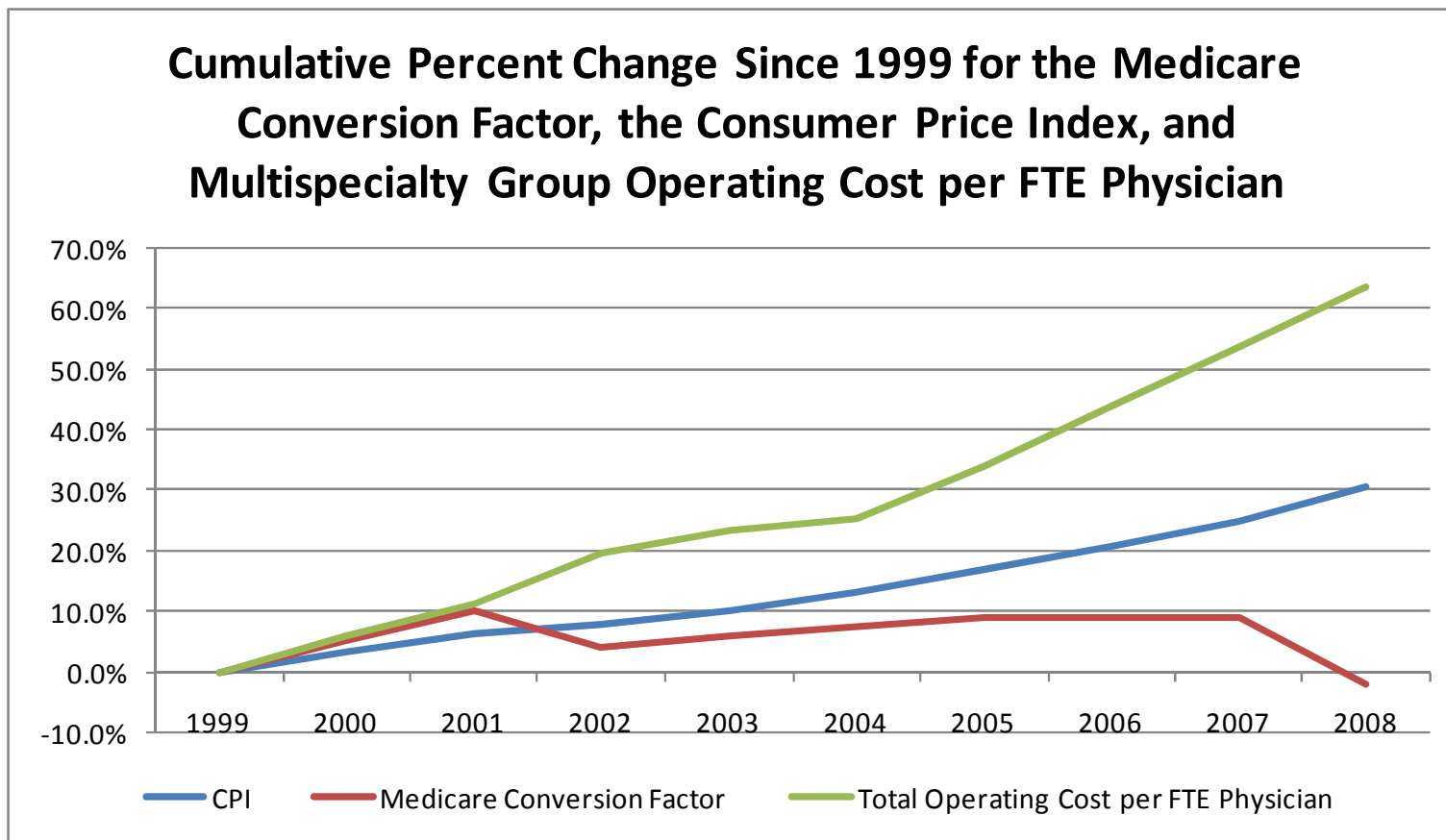
**Daniel M. Grauman, President & CEO**

# OVERVIEW

- > Physician Landscape
- > Hospital Environment
- > Case for Alignment
- > Business Models
- > Case Studies
- > Lessons Learned

## PHYSICIAN LANDSCAPE

# ESCALATING COSTS OF DOING BUSINESS AND REDUCED PAYMENT.....



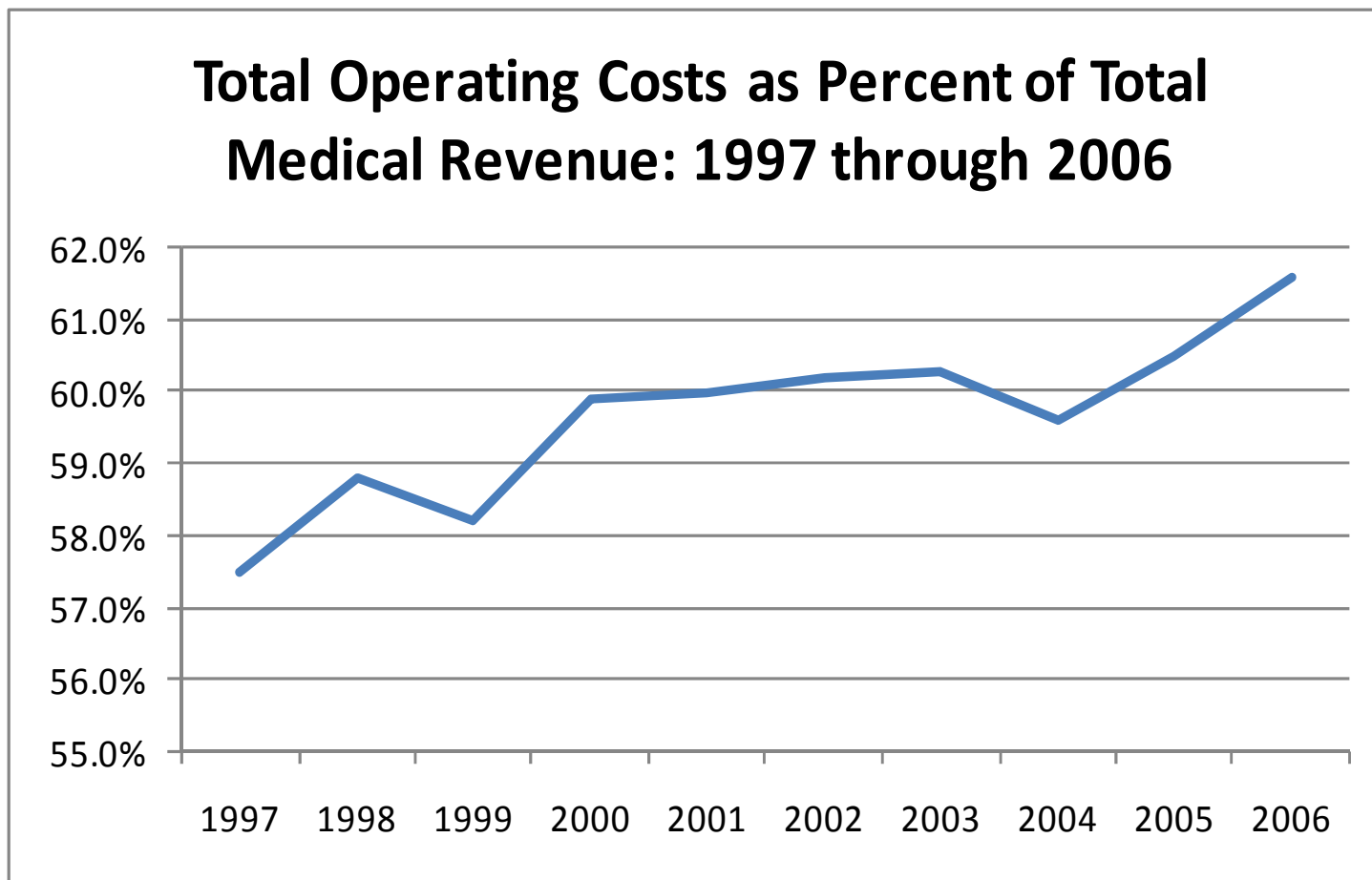
\*2007 data include CPI as of September 2007 and projected Total Operating Cost increase at same rate as 2005-2006.

\*\*2008 data include Medicare Conversion Factor projected with a 10.1% reduction from 2007 level, and projected CPI and Total Operating Cost increases at same rate as previous year.

SOURCE: 2008, reprinted with permission from Medical Group Management Association, Denver, CO

## PHYSICIAN LANDSCAPE

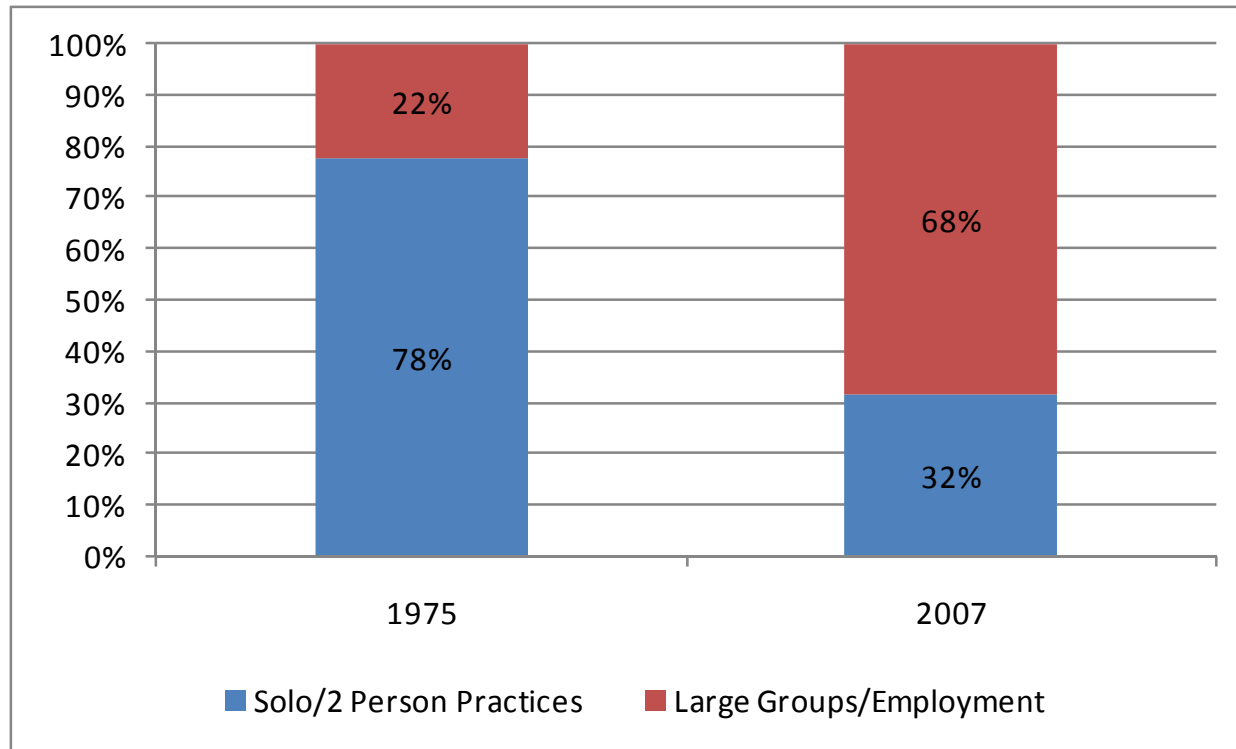
.....**RESULTING IN RISING OVERHEAD %**



Source: MGMA. "Cost Survey for Multispecialty Practices: 2007 Report Based on 2006 Data," 15.

## PHYSICIAN LANDSCAPE

# MEDICAL PRACTICE HAS UNDERGONE FUNDAMENTAL CHANGE



- > Consolidation, hospital acquisition and employment
- > 38% of physicians submitted no Medicare inpatient claims
- > “ISTs”
- > New modalities, blurring roles

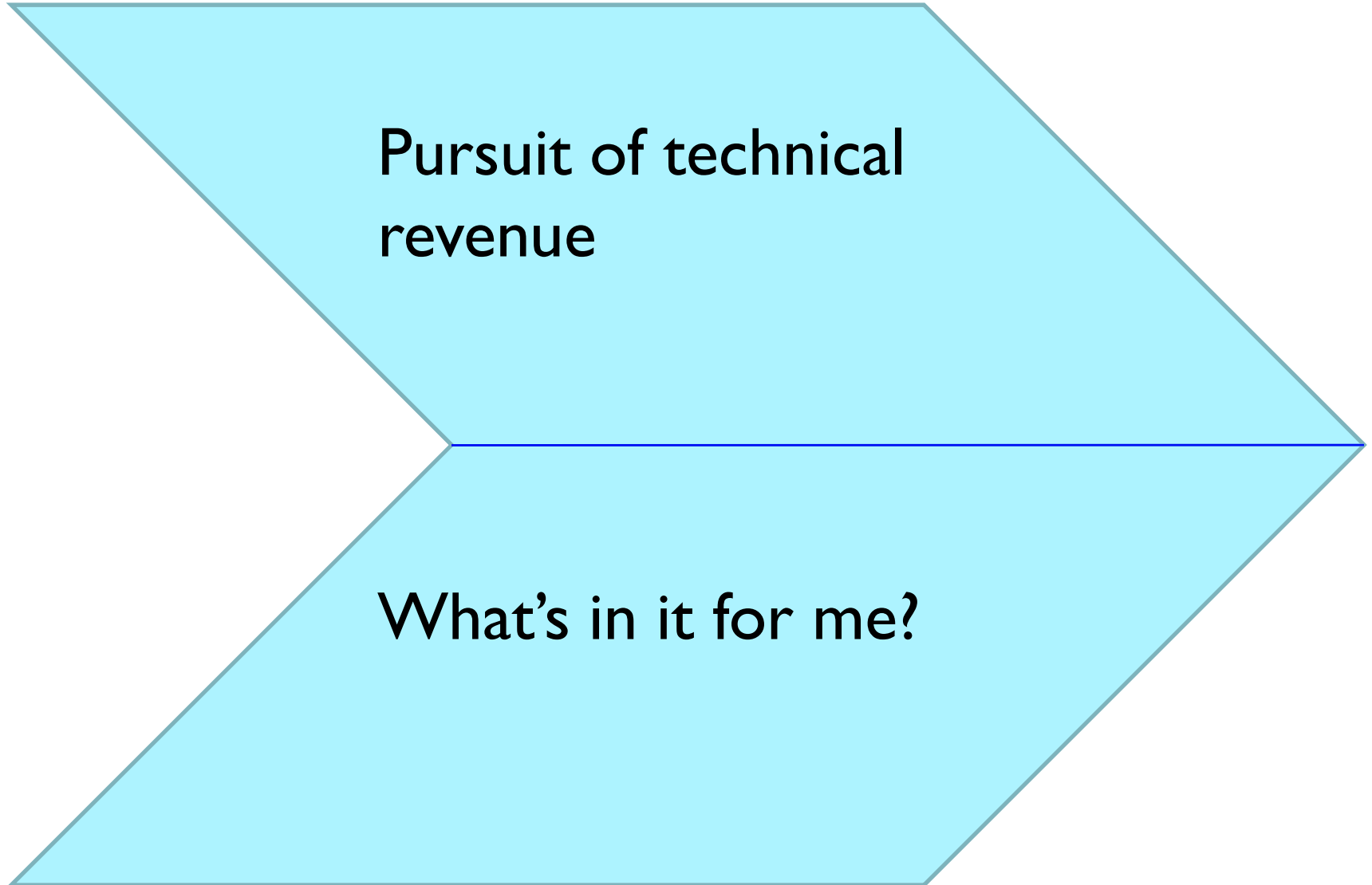
## PHYSICIAN LANDSCAPE

### KEY DRIVERS

- > Declining reimbursement
- > High malpractice costs
- > Increased regulatory/payer/IT burdens
- > Working hard, earning less
- > Need for succession
- > New graduates want lifestyle and security

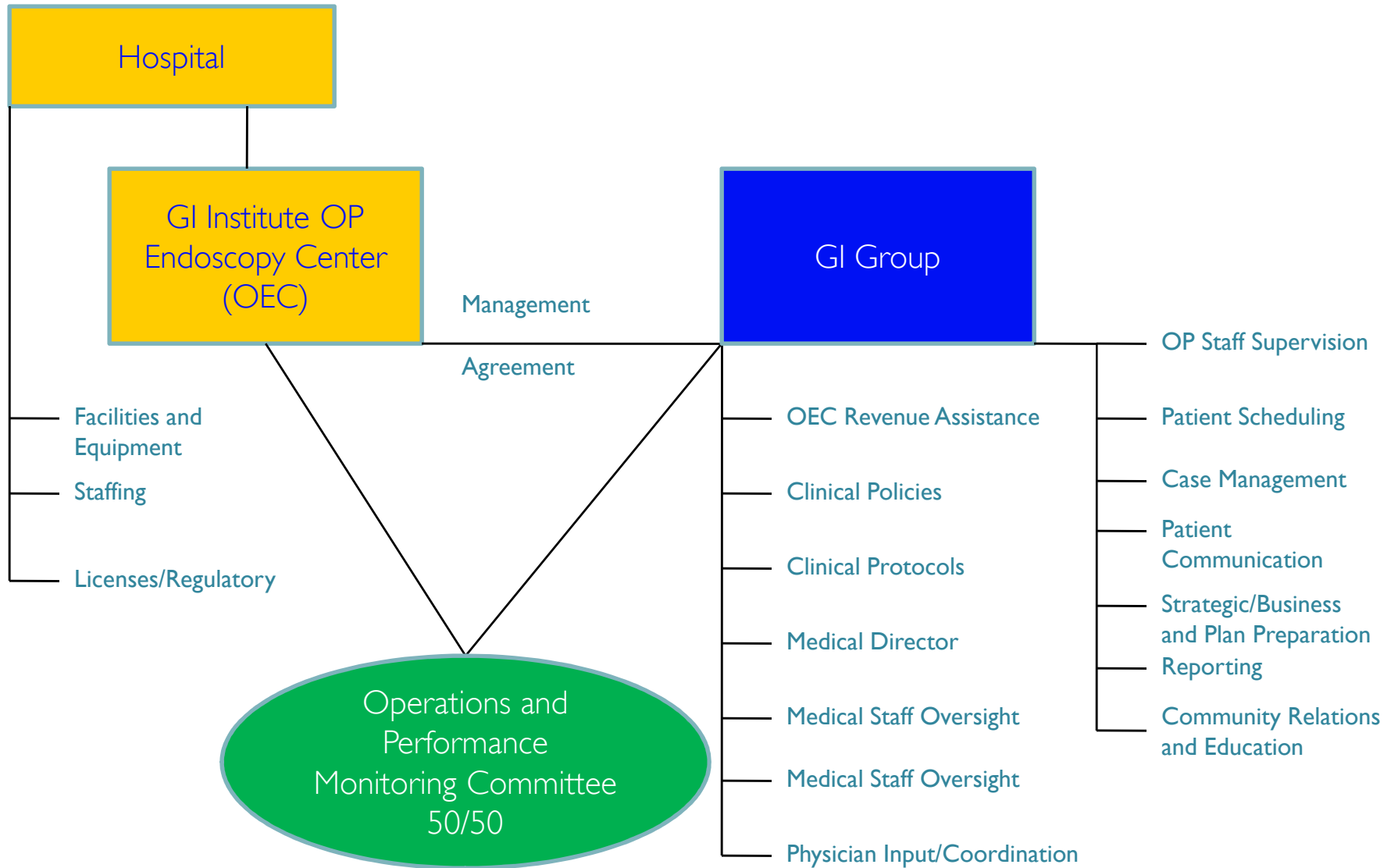
PHYSICIAN LANDSCAPE

SOME RESPONSES – HOSPITAL EMPLOYMENT OR...



# CASE STUDY

## THE GI DEAL



## CASE STUDY

# GI DEAL CHALLENGES

- > Delineating specific responsibilities
- > Determining FMV of management services
  - o Work effort
- > Term of agreement
- > Penalties of early termination, with and without cause
- > Non-compete upon termination

## PHYSICIAN LANDSCAPE

# CONCERN ABOUT THE HOSPITAL VARIES BY SPECIALTY

Hospital Dependent Physicians	Hospital Independent Physicians	Completely Office-Based Physicians
Anesthesiology Emerging Medicine Pathology Radiology Hospitalists Intensivists Neonatologists ETC.	Cardiologists Orthopedists Hem/Onc ENT GI OB/GYN General Surgeons ETC.	Pediatrics Family Practitioners Internists Dermatologists Psychiatrics Allergists ETC.
> Strong interest in hospital's economic success	> Tenuous interest in hospital success > Resistant to take call > Potentially competitive	> Little interest in hospital success

## HOSPITAL ENVIRONMENT

# ONE TALL ORDER.....

- > Take care of more people
- > Who have increased expectations
- > And more complications
- > While providing more complex care
- > With fewer resources
- > And be transparent about price/outcome

**Are we clear?**

## HOSPITAL ENVIRONMENT

# GOALS

- > Securing/growing medical staff
- > Responding to specific clinical market opportunities
- > Strengthening quality of care
- > Protecting services with high margin
- > Meeting coverage requirements

CASE FOR ALIGNMENT

# IS THIS THE PERFECT STORM?

FAD?

TREND?

## CASE FOR ALIGNMENT

# OVERARCHING GOALS

Physician and hospital incentives aligned to:

- > Relentlessly improve quality and patient safety
- > Delight patients and families (i.e. satisfaction)
- > Grow volume (i.e. differentiate from competitors)
- > Make money

## CASE FOR ALIGNMENT

# ACHIEVING ALIGNMENT

- > Needs to start at the top
- > Segmented strategies
- > Create win-wins
- > Communicate
- > Build relationships

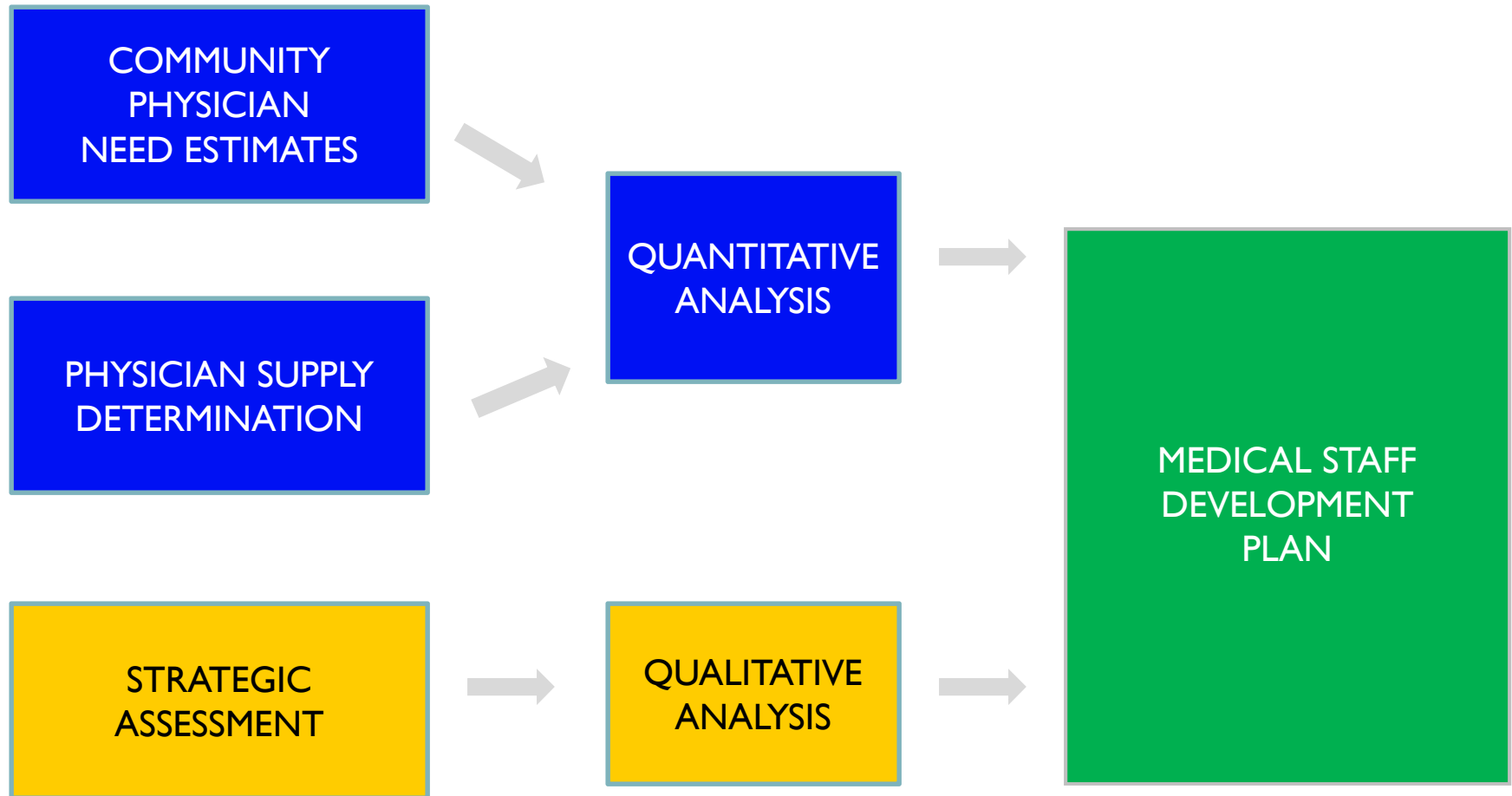
## CASE FOR ALIGNMENT

# HAVE YOU ACHIEVED ALIGNMENT?

## ASK YOURSELF.....

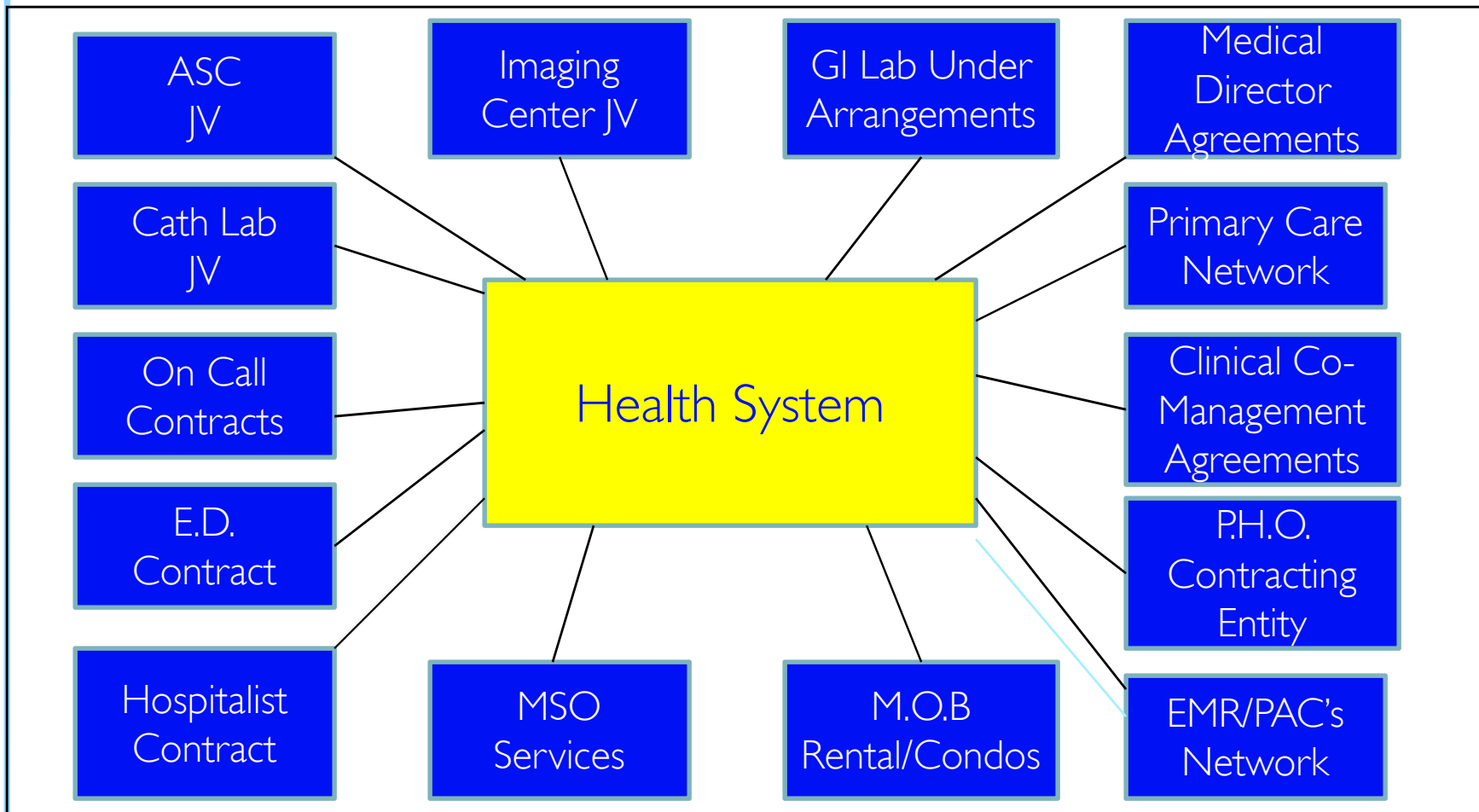


# CASE FOR ALIGNMENT PLANNING



## CASE FOR ALIGNMENT

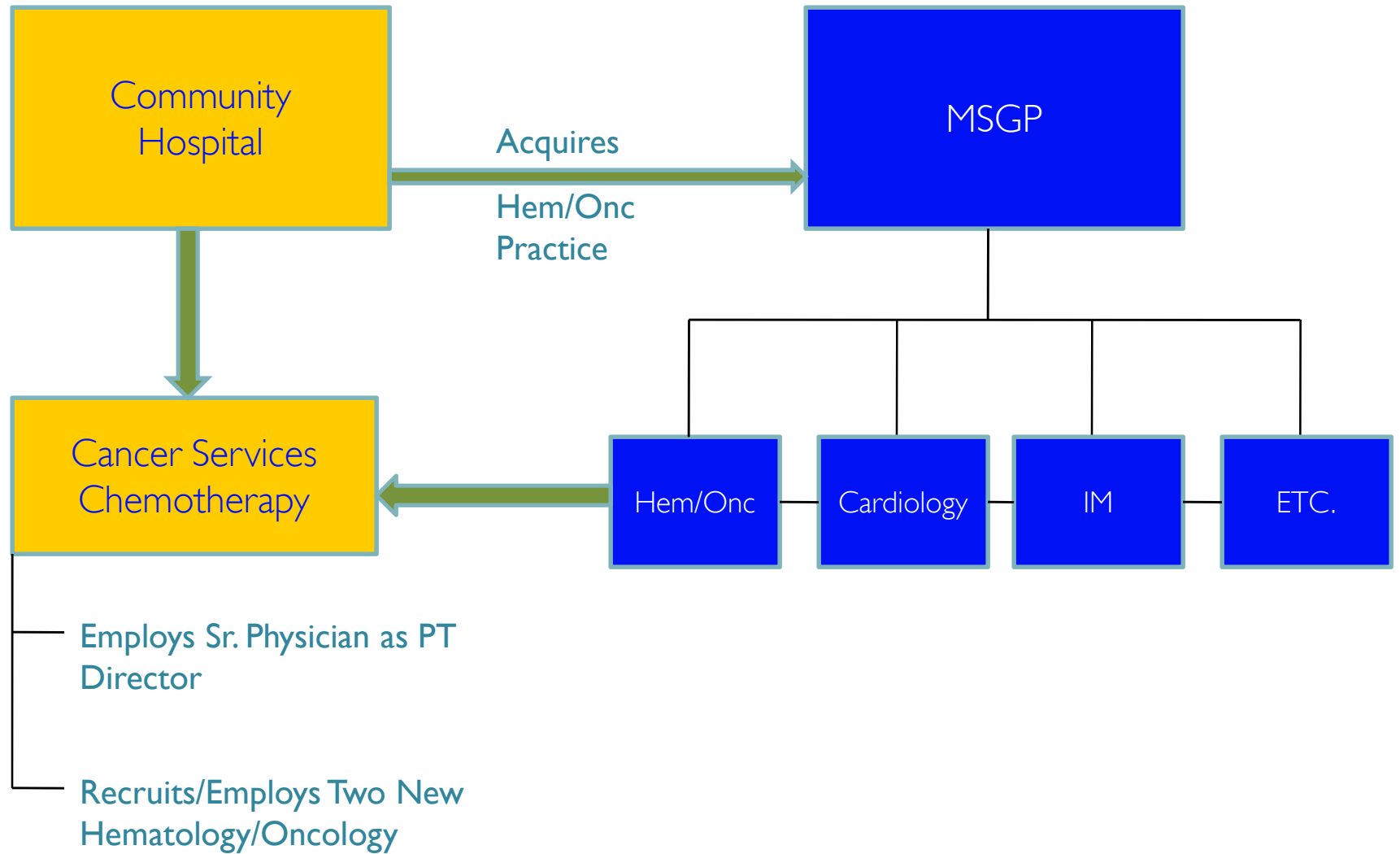
# WHAT'S THE RIGHT MODEL FOR YOU? EMPLOY EVERYONE? OR PORTFOLIO OF DEALS?



©2008, reprinted with permission from Peter Person, MD, Essentia Health, Duluth, MN

# CASE STUDY

## THE HEM/ONC DEAL



## CASE STUDY

# HEM/ONC DEAL CHALLENGES

- > Asset value of hem/onc component
- > Senior physician role and compensation
- > Competitive, FMV compensation for two recruits

# PHYSICIAN EMPLOYMENT

## COMPENSATION MODELS AND INCENTIVES

	Productivity	Payer Mix	Billing and Collections	Practice Expenses
<b>Fixed Salary</b>	Green	Green	Green	Green
<b>RVU's</b>	Blue	Green	Green	Green
<b>Collections</b>	Blue	Blue	Blue	Green
<b>Net Income</b>	Blue	Blue	Blue	Blue



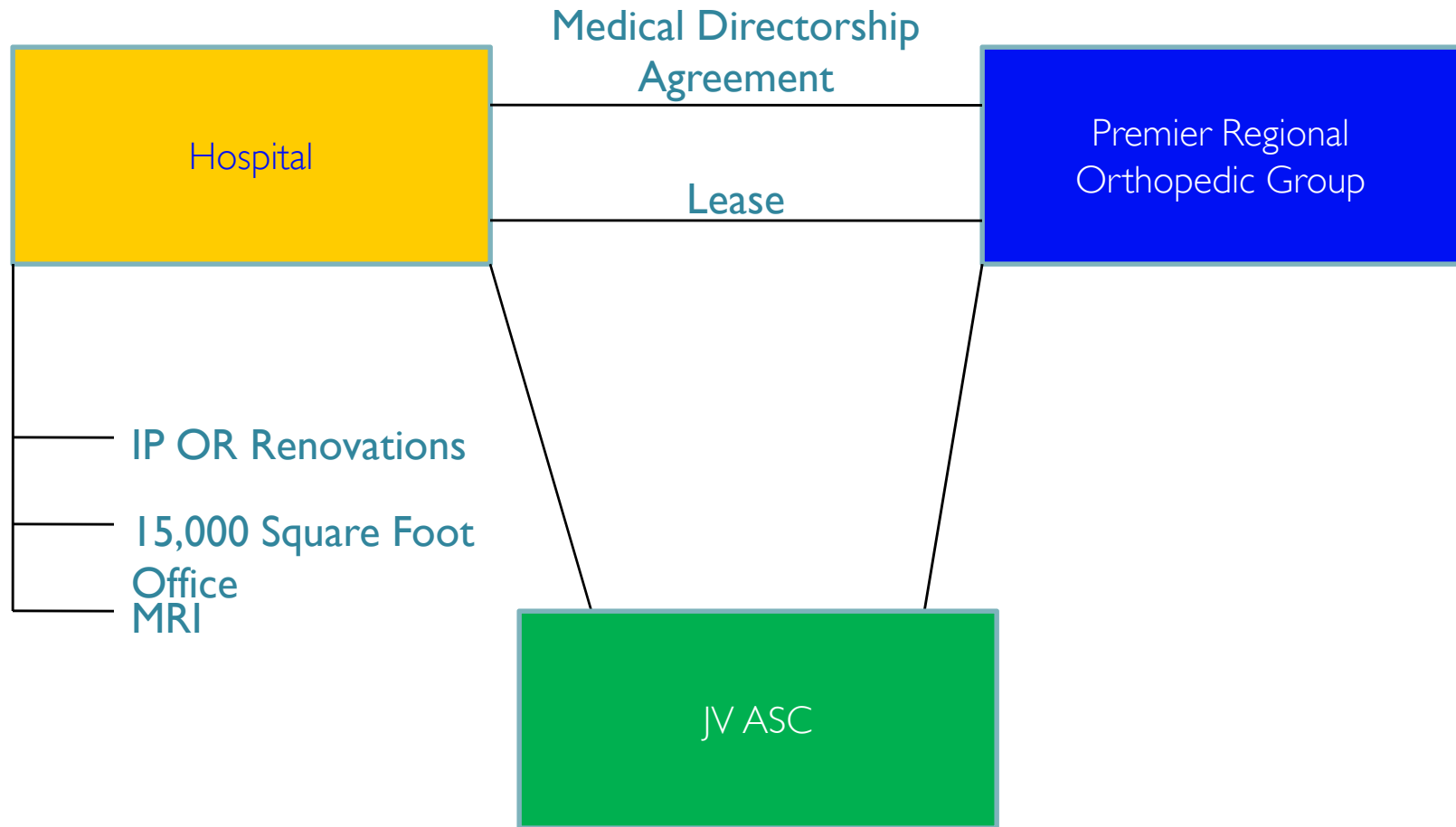
- Physician Has Incentive to Manage



- Physician Has No Incentive to Manage

## CASE STUDY

# THE ORTHOPEDICS DEAL



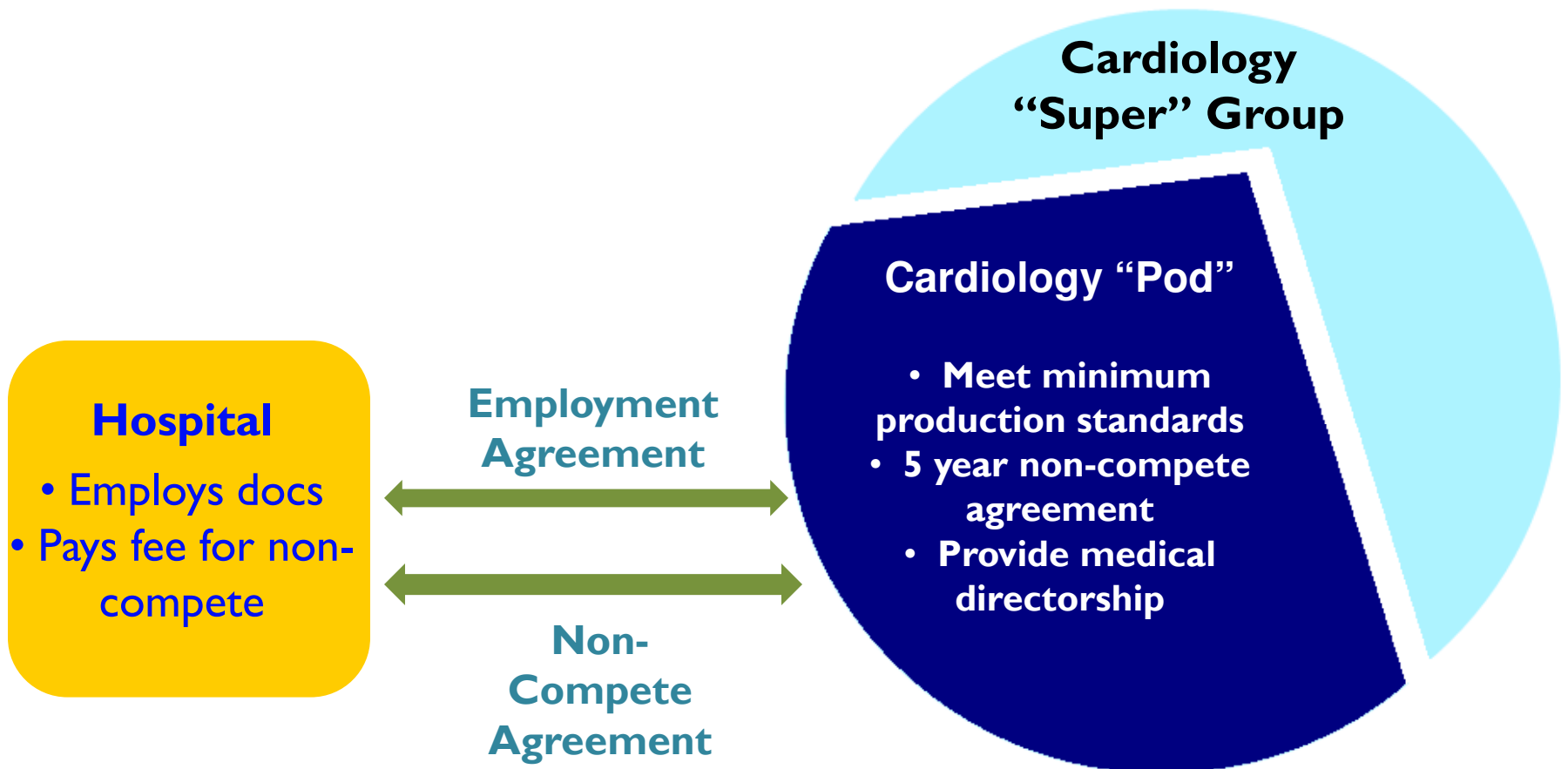
## CASE STUDY

# ORTHOPEDICS DEAL CHALLENGES

- > AS&T Services and FMV
- > Financial and operational commitments
- > JV structure, control and economics

## CASE STUDY

# THE CARDIOLOGY DEAL



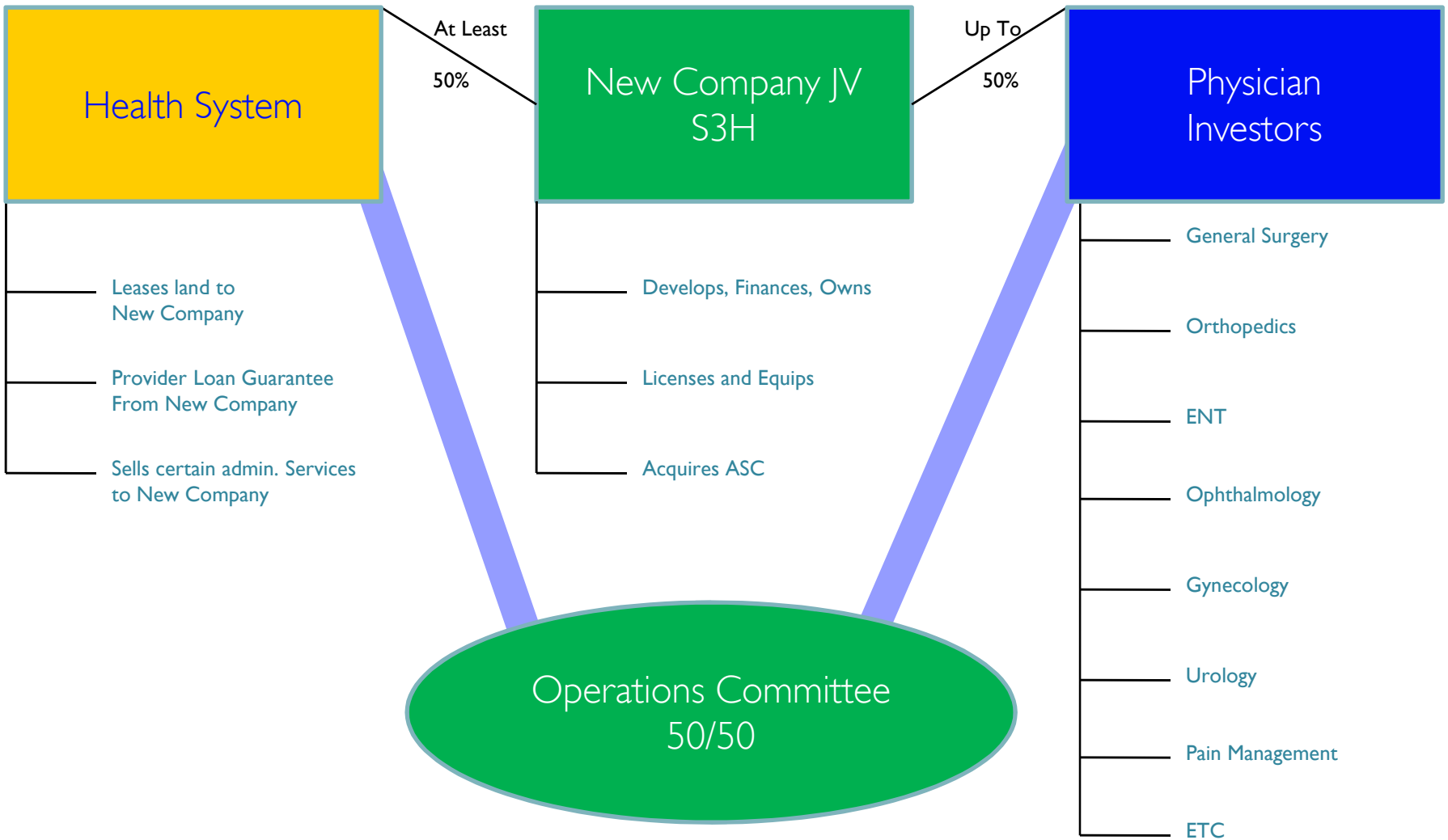
## CASE STUDY

# CARDIOLOGY DEAL CHALLENGES

- > Physician compensation FMV
- > Non-compete FMV
  - o Difference in value, with and without non-compete
- > Medical directorship role and FMV

# CASE STUDY

## THE SHORT STAY SURGICAL HOSPITAL JV DEAL



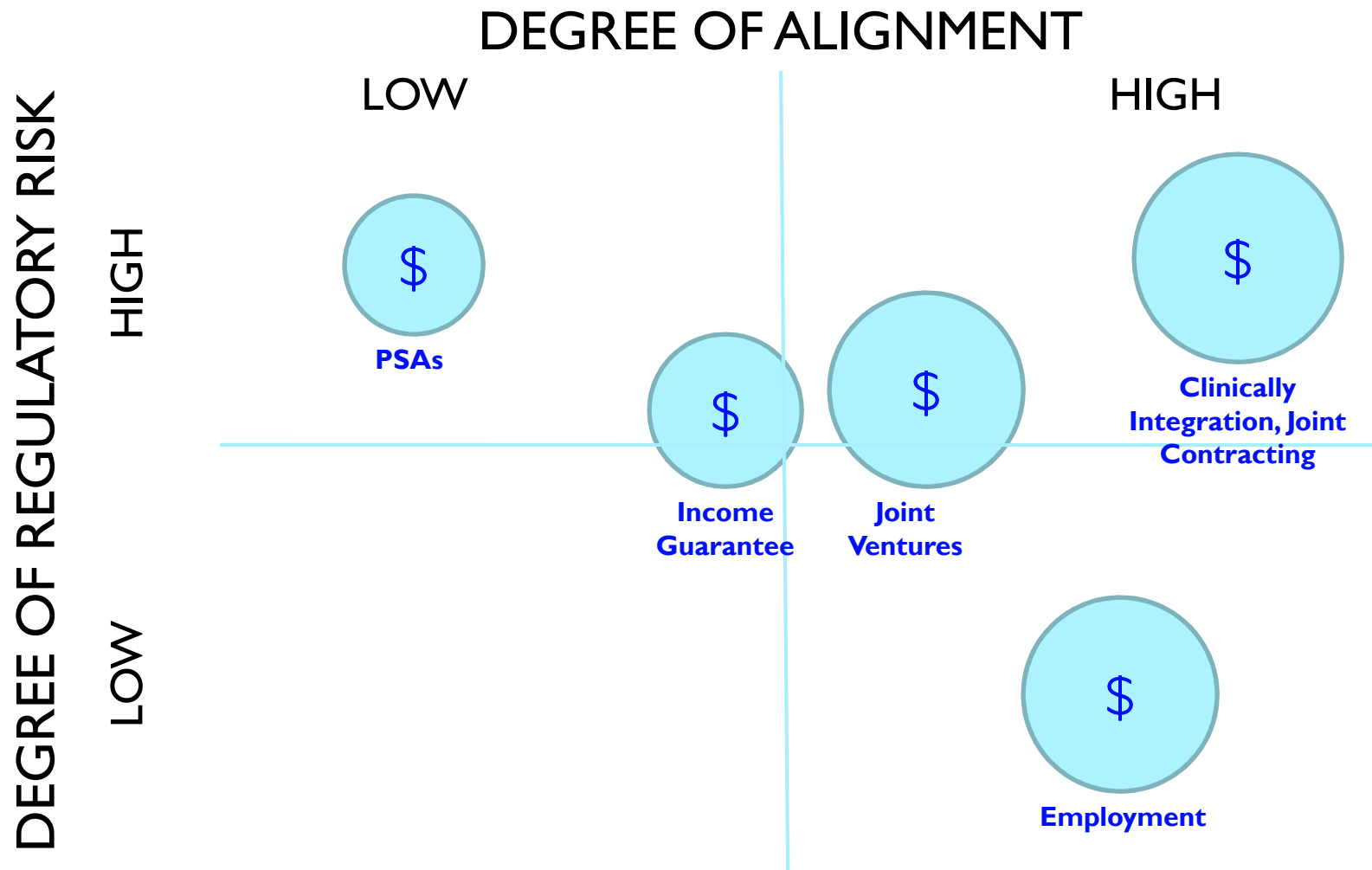
## CASE STUDY

# SHORT STAY SURGICAL JV DEAL CHALLENGES

- > Assessing impact of cannibalized surgical cases
- > Keeping the orthopedists in the deal
- > Deciding on the right number of beds
- > Choosing a location that works for everyone
- > Obtaining board approval

# PHYSICIAN/HOSPITAL ALIGNMENT MODELS

## ALIGNMENT, RISK AND COST



# PHYSICIAN/HOSPITAL ALIGNMENT MODELS

## PHYSICIAN MODELS AND HOSPITAL GOALS

Models	Growing Medical Staff	Targeted Clinical Market Opportunities	Quality of Care	Ancillary Revenue	Coverage Requirements
Employment	●	●	⊙	●	⊙
Income Guarantees	⊙	⊙	○	○	⊙
Professional Service Agreements	○	⊙	○	⊙	⊙
Joint Ventures	⊙	●	●	⊙	⊙
Clinically Integrated Joint Contracting	⊙	●	●	⊙	●

Key: ● = High ⊙ = Medium ○ = Low

## LESSONS LEARNED

### REMEMBER

- > Holistic approach to planning
- > Beware of creating a “Frankenstein”
- > Avoid “Favored Child” Syndrome
- > Shape expectations
- > Don’t deliver bad news, late
  - o Legal structure, FMV, community need