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Cardiologists Knocking at Your Door? How to Determine if Acquiring a Heart Group is Right for Your Hospital

Written by Lindsey Dunn | February 11, 2011

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Decreasing reimbursements as well as increased regulatory requirements have caused many cardiologists across the country to seek refuge through hospital employment. By selling their practices to a hospital, cardiologists gain a steady income and are able to focus more on patient care, and hospitals benefit by ensuring alignment and integration with their physicians..Acquiring practices, however, can be expensive for hospitals as can employing these highly paid specialists.

Karin Kaplan, a director at DGA Partners, who advises hospitals that are considering acquiring cardiology and other practices, says today "practically every cardiology practice is in play." The uptick in cardiology group acquisitions or other arrangements to integrate these specialists began in 2009, when a handful of cardiology groups with strong foresight began to join with hospitals, say Ms. Kaplan.

Today, the rush to join hospitals is more reactive, and in many cases, cardiology practices are being courted by more than one suitor. While not all cardiology practices are selling their entire practices to hospitals, those that have not have almost certainly penned some sort of co-management agreement or sold off at least some of their practice's assets, such as ancillary services.

Structure of cardiology practice acquisitions

In a traditional practice acquisition, a hospital will acquire the hard assets of a cardiology practice — including its furniture and equipment — and the acquisition will be tied to the subsequent employment of the cardiologists by the hospital. While most deals today do not include payment for "goodwill" as it has been traditionally known, some deals do include payment for other identifiable intangible assets such as a medical records and a workforce in place, says Ms. Kaplan.

Hospitals benefit from acquiring cardiology groups because such deals allow for strong physician integration in one of the highest-grossing service lines at hospitals. "If the key to improving financial performance post-reform is increasing quality and decreasing costs, hospitals that are integrated with physicians can do that more easily," says Ms. Kaplan.

Additionally, cardiology groups often operate ancillary service lines, such as nuclear cardiology or other diagnostic services, that are sold to the hospital as part of an acquisition or as a separate transaction (for example, if the group wants to remain independent but divest its ancillary lines). "Cardiology reimbursements were hit hard in 2010. Changes in payment rates for nuclear cardiology, for example, left cardiology practices with huge and costly equipment alongside decreasing revenue streams," says Ms. Kaplan. Hospitals are interested in acquiring this equipment from practices because, in many instances, hospitals can license these services as hospital-based services, allowing them to receive higher reimbursement for similar services in an office setting.

When to buy, when to walk away

Because of pressures on independent cardiologists, it's not uncommon for hospital leaders to be approached by heart groups regarding some sort of transaction. Because acquiring practices and contracting with cardiologists for employment often represents a large financial commitment by the hospital, hospital leaders should not offer employment to any and all cardiologists that come knocking. Whether or not a hospital moves forward with a deal should be guided primarily by market characteristics, says Ms. Kaplan.

"In less competitive markets, hospitals don't really have to acquire groups, but still may want to consider this or other less costly integration strategies," says Ms. Kaplan. "In highly competitive markets,

acquisitions are often a defensive strategy."

While hospitals are limited to paying fair market value for practices, they can gain an edge over competing hospitals by offering longer employment contract terms or better electronic medical record systems and management services. If hospitals move forward with a transaction, Ms. Kaplan suggests they limit employment contracts to no more than two years if possible and rebase compensation annually based on productivity.

"In healthcare you shouldn't assume anything is permanent," says Ms. Kaplan. She cautions that the revenue increases that are currently available to hospitals through expanding outpatient cardiology services may not last forever, which is why she urges hospitals to limit employment contracts and other agreements to only a few years. Doing so will afford an "out" for the hospital if the service line goes from a money-maker to a money pit.

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