

VISION & VIABILITY

Sound Solutions for Health Care Organizations

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Securing Your Medical Staff Future: A Growing Challenge

A hospital's success depends heavily on attracting and retaining the right number and mix of physicians. Most hospitals use a range of arrangements with salaried and independent practicing physicians to meet their programmatic needs. Emerging market and regulatory demands will require increased effort in medical staff planning.

The once-expected physician surplus is unlikely to materialize, and one analysis estimates a shortage of 200,000 physicians in 15 to 20 years.¹ Whether or not this projection is realized, getting and keeping the right physicians will be a challenge. Hospitals face complex market forces (malpractice, payer pressures) and regulatory limitations (Stark II, anti-kickback, and private inurement). To achieve strategic goals through medical staff development, hospitals need clear plans and careful documentation of physician relationships.

There are three distinct tasks in medical staff development:

- 1. Medical staff development planning.** Determines the hospital's future need for physicians to strengthen core programs and services, replace retiring physicians, add new business lines and ventures, and "right-size" the medical staff.
- 2. Community need assessment.** A one-time analysis in support of a physician recruitment and remuneration effort, as required for regulatory compliance. A hospital must demonstrate community need if it plans to expend its resources to recruit a physician into private practice.
- 3. Fair market value analysis.** Needed to comply with regulatory requirements that all payments to independent physicians be made at a fair market value.

Here are some principles that DGA has found to be valuable in performing these critical tasks:

Medical Staff Development Planning

Count carefully. To assess physician supply, you need accurate data. Commercially available databases are not adequate—they have error rates up to 50%. Obtaining a true count requires building a database from medical staff directories, provider directories, and other sources, and refining it to account for multiple offices, administrative and teaching responsibilities, and physician age.

Consider local practice patterns. Demand must be adjusted for local market dynamics and practice style. For example, at one DGA hospital client, family practitioners transferred all patients to sub-specialists for admission. Rather than projecting a need for more sub-specialists, the medical staff plan included a

DGA Profile:

John M. Harris,
Director



John Harris is a well-grounded strategist. He has founded a healthcare business, run facilities, and consulted to providers, PHOs, IPAs, managed care organizations, PACE programs and conversion foundations. His clients get advice that will work.

"I want the client to achieve their vision," says Harris. "We make sure their plans have a solid financial and market underpinning."

John's work for clients includes facilitating planning retreats, financial modeling for mergers and acquisitions, new business development, and business plan development for new and existing ventures. He negotiates risk and fee-for-service contracts between payers and providers and creates medical staff development strategies.

Harris's extensive experience includes founding DocuBank, a national service that has provided emergency access to advance medical directives for 75,000 members. He has had senior operational responsibility in several health care facilities. John has also been a health policy fellow for the US Senate's Finance Committee-Health Subcommittee.

John holds a BA from Dartmouth College and an MBA in Health Care Management from The Wharton School of the University of Pennsylvania. ■

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hospitalist strategy that enabled the sub-specialists to perform more specialized procedures.

Don't forget demographics. Demographics continue to shape community need for physicians. For example, communities with a high proportion of seniors will require more cardiologists.

Look for bidden referral needs. Interviewing physicians may reveal specific unmet referral needs that represent possible business opportunities for the hospital.

Community Need Assessment

Sweat the details. Since the goal in a community need assessment is regulatory compliance, standards may be higher than in planning. A detailed analysis of supply and demand for one specialty will reveal subtleties not captured in the medical staff development plan. Telephone interviews can uncover factors that require adjustment to practice levels, including:

- Actual time spent in each office location
- Pending retirement
- Specific administrative and teaching time

These factors may convert what seemed to be an adequate supply of physicians to an undersupply, or vice-versa.

Fair Market Value Analysis

Hospitals must often provide financial support to assist a new physician in establishing a practice. Some hospitals also pay for non-clinical services through medical directorships and other approaches. Such payments to physicians must be made at fair market value, often best determined by an impartial third party.

Use subspecialty benchmarks. Stark II provides a safe-harbor methodology that works for many low compensation arrangements. When the appropriate compensation exceeds the safe-harbor calculation, a more detailed analysis can help. For example, by matching subspecialty benchmark compensation levels, and accounting for the qualifications of the particular physician, DGA has demonstrated fair market value in excess of the safe-harbor methodology.

Document expected and actual effort. When physicians are paid for management services, demonstrate fair market value with a written agreement on level of effort, and record actual hours worked to show continuing compliance.

Look for win-win situations. Though difficult, it is possible to meet hospital goals and physician expectations while maintaining regulatory compliance. DGA assisted a hospital that had several joint arrangements with a large surgery group, some easily within fair market value, and others just squeaking by. Re-allocating funds across arrangements preserved the group's target compensation while bringing all arrangements within a margin of comfort for regulatory compliance.

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The next several years will see increased scrutiny from regulators and additional effort expended on medical staff development planning. Following the principles outlined above will help you meet that scrutiny and assure you achieve and maintain a physician base which will support your strategic goals. ■

¹Richard A. Cooper, "Weighing the Evidence for Expanding Physician Supply." *Annals of Internal Medicine*, Vol. 141, Issue 9, November 2004, pp 705-714.

DGA News:

President and CEO Dan Grauman, Director John Harris and Principal H.J. Simmons III presented "Medical Staff Planning and Community Need Assessments" at a Morning Briefing Seminar in Philadelphia, Pennsylvania on November 17th.

John Harris presented at the American Association of Integrated Health Delivery Systems, Fall Managed Care Forum, on November 11th in Las Vegas, Nevada. His presentation: "Hospital and Physician Contracting Strategies in a Pay-for-Performance Environment."

About DGA Partners:

DGA Partners has been providing management consulting services to hospitals, health systems, risk contracting entities, and other providers for over 10 years. Our services include:

- Strategic Planning
- Financial Planning and Modeling
- Master Facility Planning and Programming
- Medical Staff Planning and Compensation Analysis
- Medical Management Programs
- Payer Contract Modeling and Support

DGA also provides highly sophisticated data management and reporting services that transform transactional data to healthcare business intelligence.

DGA's seasoned professional team average 20 years experience in health care consulting and operations. We have the knowledge, insight and skills to address your complex business problems.

Let's talk about how we can help your organization.

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