

VitalSigns

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Management strategies and proper financial reporting are only part of maintaining a well-run health care practice. Staying on top of relevant industry trends is also a critical factor.

In this issue of *VitalSigns*, we take a look at the “concierge medicine” model and explain how you can assess whether it’s right for your practice. We also examine how a practice can stabilize its leadership to weather the ups and downs of day-to-day operations, and we address three factors that can create a discrepancy in hospital physician salaries. Plus, we provide eight questions to help you understand commercial reasonableness and fair market value in hospital-physician relationships.

From internal issues to external trends, understanding the factors that affect your practice is important in achieving and maintaining success. We hope you’ll find this issue’s articles helpful in this regard.

Health care reform in 2011

Is now the right time for concierge care?

The Health Care and Education Reconciliation Act of 2010 was signed into law by the president in March 2010, and it’s no surprise that the act has affected how all specialties practice and will continue to do so. In addition to revising the rules regarding coverage and pre-existing conditions, the legislation provides for accountable care organizations (ACOs), patient-centered medical homes (PCMH) and other forms of care and payment to enhance quality and decrease costs.

While the final designs of these vehicles are yet to be determined, and their impact is uncertain, a considerable disparity regarding the additional strain to the health care system exists. Factor in the additional 30 million Americans who gained access to insurance and health care coverage and, clearly, the long-term effects of health care reform are still forthcoming. Indeed, some are predicting that there could be a shortage of primary care physicians to care for the anticipated increase in the patient population.

Yet, looking on the bright side, some see a potential *opportunity* for entrepreneurial physicians. As the volume of patients that physicians must see per day to maintain their incomes continues to increase, the transition to new models of reimbursement from health care reform will take some time to fully evolve. So, there’s still room for some creativity in the approach a practice may take.

For example, the economic stress and time pressures of the current model, coupled with the projected shortage of physicians, is inspiring some physicians to *limit* their patient bases by offering “concierge care.”

What is concierge care?

Concierge care physicians decrease the size of their practices by serving only a select number of patients, providing premium services and amenities in exchange for a fixed annual fee. Services may include:

- Same-day and weekend appointments or extended hours,
- Well-appointed offices with quiet waiting rooms or even no waiting rooms,
- 24-hour physician access via cell phone or pager,
- House calls/visits with patients as well as specialist appointments,
- E-mail consultations,
- Spa-like amenities, and
- Basic radiology services.

Health care reform will likely bring with it quality control programs and established treatment protocols. But it may also bring long appointment lead times, use of physician extenders and shorter time slots for consults. Proponents believe this concierge model is the way medicine was practiced before the advent of managed care, offering patients advantages such as better access to the physician and individual attention.

Annual fees, however, range from \$300 to \$20,000 per year per patient/family, depending on the type of program. Concierge service offerings vary from practice to practice. Some accept only the annual fee and no private insurance. Others accept select insurance plans but limit the daily patient load of the physicians.

Is it a good fit for your practice?

Before starting a concierge practice, study the market in your target area. Not all cities can support a concierge model. Survey your current practice to determine whether the volume of patients exists to support the model. Also, write a detailed business plan that includes:

- A financial model,
- Target demographics,
- Detailed service offerings,
- A “dedication to service” statement,
- Descriptions of patient and physician expectations,
- A coverage model, and
- A policies and procedures manual.

Changing your business model from traditional practice to concierge will require significant planning and a clear vision of the specific model you intend to pursue. Not all physicians are a good fit; one must be service-oriented, available and affable.

Any physician considering a concierge care practice must also consult his or her health care attorney to assess whether the contemplated program will violate Medicare balance billing

rules, state insurance laws or provider contracts with private insurers. The Medicare statute requires that physicians submit claims for services performed on Medicare patients regardless of whether the physician accepts assignment or not.

In addition, Medicare and provider contracts with most managed-care companies prohibit charging the beneficiary more than the covered fee (otherwise known as “balanced billing”). Check your contracts with third-party payors before deciding how to proceed.

Last, before converting to a concierge practice model, physicians should become well-versed in the positions of all the major industry organizations. A number of physician organizations and medical ethicists, such as the American College of Physicians and the American Medical Association, have studied the concept of concierge care and issued opinions.

Suffice to say, the concept isn’t universally embraced. Critics believe concierge care will lead to a two-tier medical system based on income levels. Advocates say it creates additional opportunities for entrepreneurial health care providers.

What do your patients want?

Although concierge care is receiving more and more publicity, and the number of practices offering it is growing (albeit slowly), it remains a business model that requires the right physician in the right market. The question is: Would your patients want concierge care from you? Would enough of them want it to make concierge care worth your while? These will be key questions for forward-thinking physicians to ask themselves as the effects of health care reform continue to evolve.

Stable practice, stable business

Steady leadership is critical for staying successful

Among the most important characteristics of any medical practice are its history and distinctive culture. Whether your practice is led by a solo practitioner or a group of doctors, it's important to remember that you attracted your loyal, long-term patients based on the personalities and styles of your physicians and staff. These attributes translate into a culture that must continue if the practice expects to retain its patients during times of change. Leadership must be steady and committed.

It's critical for partners to communicate a mutual vision — something that even the most mature practices must maintain. Effective leadership begins with the group defining expectations for the practice, identifying job responsibilities and selecting the appropriate individuals to fill each role.

Some practices even define two jobs: president and chief financial officer. Most establish the CFO role as a preparatory position for eventually becoming president, ensuring a smooth succession when the time comes. In other words, having a qualified leader helps to maintain stability in the practice; having two assures it.

Recognize the importance

A medical practice typically goes through many periods of instability during its life cycle. These may include when:

- A partner suddenly dies or becomes disabled,
- A key employee joins or leaves,
- Cash flow becomes a serious problem, or
- The practice moves to a new location.

It's at these times that strong and consistent leadership is vital. A physician-partner must rise to the occasion and guide the organization through the changes, providing clear direction, making sound decisions and relying on facts — not emotions.

When considering the importance of leadership, think of the practice as you would a nonmedical business. You would never consider investing in a multimillion dollar corporation that didn't have effective leadership. Venture capital groups evaluate not only each business opportunity, but also, more importantly, the management team and structure. They won't invest in any idea if the leadership involved

is weak or unstable — a sure sign that the organization is vulnerable to failure. The same holds true of a multiphysician practice generating \$3 to \$6 million in gross annual revenue; yet leadership is often considered less important in the health care sector.

Many physician partnerships consist of one partner who becomes the principal of the practice. This individual assumes the role of practice administrator, responsible for many of the practice's day-to-day issues. Consequently, the other partners take a more passive role, as they're uninterested in or have resigned themselves from dealing with the everyday issues. But problems arise when passive partners become interested in issues that affect only them and not those that affect the practice as a whole.

Evolve or die

Just as any business must evolve and change over the course of its life, so, too, must a medical practice. If a practice stagnates, it can die. Every important operational transformation of a practice, however, may alter its vision. So, as the economy and marketplace shift, the partners must agree on a change in vision for the partnership to stay viable.

Without all the partners understanding a change and its impact, problems can occur. Modifications in vision include expansion or the addition of services or procedures, the opening of new offices, or the addition of new staff or physicians. For example, the introduction of electronic medical records would change a practice's vision and operations considerably. Such major changes need to be communicated to all partners and buy-in is essential.

If leadership determines that a practice is in good shape business-wise, it's time to look at the profile of the partners. For each partner, determine his or her future plans. Ask questions such as:

- How much longer will he or she be practicing?
- Does a partner want to work less?
- Will a partner be decreasing his or her call coverage?

The practice must decide whether it has enough physicians to sustain the added costs of growth. Deciding to add a new physician is done through financial analysis of the hire's effect on the practice. Study both expense and cash flow impact.

Don't force it

A planned change is much better than one that's unexpected or forced. Yet, no matter how much planning occurs, crises are

inevitable. Good financial and procedural benchmark data can help a practice steer clear of pitfalls, however. Such information is fundamental to determining whether the practice is ready to invest in growth or needs to step back to reassess its basic business operations.

Expanding and innovating without a well-performing practice infrastructure is a recipe for disaster. Too many practices hope to succeed by starting some new service or opening an additional office. Unfortunately, the odds of success are about the same as those of winning the lottery.

Attempt expansion and innovation only if your practice is already operating successfully. Hoping an expansion or innovation will fix a current problem isn't a good reason to proceed with it. In an instance such as this, evaluate your operations critically and hold off on expansion until you're in a safe position to move forward.

As a practice evolves, so should its partnership issues and strategies. Ask your practice advisors to review all partner agreements, compensation models, noncompete clauses and share valuation models to be sure that the documents reflect the current mindset of the partners. Remember that partnership documents are written for those times when things turn sour. They must reflect the *current* thinking of the partners or the practice could suffer irreparable harm should serious problems arise.

Stay in shape

Leadership, vision, business plans, competent management, strategic information and up-to-date corporate documents all lead to a stable practice and business success. Unfortunately, with time, all of these items can incur "wear and tear" that puts a practice at risk. Stay in shape and you'll more likely stay successful.



Bridging the performance gap

3 factors contribute to disparity in hospital physician salaries

The median net income of hospital-employed physicians went from a loss of \$58,000 in 2004 to a loss of more than \$108,000 in 2009. Why? What are the factors that contribute to hospitals investing large sums of money in physician practices when there is an obvious performance gap?

Hospitals and physicians tend to blame each other when performance doesn't meet expectations. The reality is that both parties are to blame and have issues they can and cannot control. Blanket assumptions pertaining to the investment losses will only cause distrust and never lead to a well-developed physician group or network.

Generally, the performance gap of employed physicians can be broken into three major areas: 1) factors not controlled by physicians, 2) accounting and finance issues, and 3) physician-controlled factors. Let's take a look at each of these areas in greater detail.

In many instances, physicians join hospital practices assuming that the managed-care contracts are better than those they had in private practice, only to find out that the hospital hasn't negotiated contracts for the employed physicians or that physician fees are kept lower to increase hospital fees. Major changes in payor mix to Medicaid or self pay will negatively affect projected revenue.

How the hospital or health system incorporates the physician practice or group into their legal structures may add costs of compliance with The Joint Commission or

and tracked separately to get a better picture of the performance of the physician or group. Examples of accounting issues that affect the financial performance of a physician include:

- Setting the amortization schedule too aggressively,
- Adding system overhead allocations,
- Transferring ancillary revenue from the practice to the hospital,
- Allocating system expenses,
- Spending money on information technology costs, and
- Allocating practice costs.

Other areas where the hospital can control the financial outcome of physician performance include the efficiency of the management services organization (MSO), the cost of the MSO, front office collections, the capture of economies of scale for the group, physician incentives and practice standards.

3. Physician-controlled factors

Physicians who leave private practice and join hospitals and health systems understand that they need to control their performances through efficient patient scheduling and fulfillment. Factors influencing performance that are controlled by physicians and staff include:

- Practice office costs and use of supplies,
- Clinical hours,
- Use of extenders,
- Number of patient slots,
- Visits per hour,
- Revenue per visit,
- Accurate coding, and
- Motivation to produce.

A number of factors are controlled by both the physician and the hospital. These include the compensation formula and model, patient communications, staff training, staff experience and clinic operations. Although physicians may believe that clinic operations and office staff are the hospital's responsibility, the reality is that, in the best-performing practices, the physicians monitor and manage the clinic operations and staff. The hospital may be the staff's employer and the clinic manager, but the physician sets the tone for the office and the staff.

Margins in a physician practice are much different from those in hospitals, and the revenue per visit is much smaller. Physician practices are much more sensitive to expenses than are hospital departments. Hospitals managing physician practices is analogous to General Motors managing 1,000 7-Eleven stores: The culture, systems, scale and accounting are vastly different in these two organizations.

Determining success

When determining the success or failure of hospital-employed physicians, the objective should be to understand what each party can control and to hold each other accountable for those factors. Doing so may help at least partly bridge the performance gap that persists in this sector.



other regulatory agencies that the physician cannot control.

Procedures, consultants and

surveys that are unnecessary in the private setting add to overhead costs and result in greater losses. The agreed-upon purchase price of the practice and assets or guaranteed premiums paid to the physician during acquisition shouldn't be held against the physician. Although both parties agreed to the transaction, the hospital had the opportunity to say "no" to an agreement that won't work long-term.

Charitable care policies and collection procedures can further affect the revenue of a physician's practice. A charitable sliding scale fee schedule based on family income, for example, may affect revenue normally generated in a private practice. Also, many hospitals don't pursue collection opportunities for sums less than \$500, while most open balances in physician practices are less than \$500 and pursued.

2. Accounting and finance issues

Accounting and finance issues aren't controlled by physicians but can be controlled — or at least identified — by the hospital employer

1. Factors not controlled by physicians

You can't control everything. That's why business plans and pro-forma projections must account for factors beyond the control of either hospitals or the physicians employed therein. These include:

- Payor mix,
- Mission-driven charitable care policies,
- Health system adverse selection,
- Joint Commission costs,
- Health system compliance costs,
- Health system staff wages and benefits, and
- Union issues and collection policies related to the health system.

Leadership of hospitals and health systems frequently forget that their charitable missions may not compare favorably with those of private practices, which often serve as industry benchmarks. When investing in new physicians, management must take care to account for differences in payor mix between the private practices from which those doctors originate and the hospital-owned practice in question.



Roegiers Goldin Chappel Nall & Associates was established to help physicians develop efficient and profitable practices. Our level of involvement with our clients varies based upon each individual situation. From a turnkey management solution to on-site practice management services to individual project work, our size affords us the flexibility to fit the needs of each practice. Our professionals can assist you with the following health care services:



Gene B. Goldin

Gene is the managing partner of Roegiers Goldin Chappel Nall & Associates and director of the firm's Health Care Services Group. As such he provides clients with specialized assistance in revenue enhancement services, practice merger/sale planning, income distribution planning, practice management evaluation, accounting and financial management, bill paying and payroll services, personal financial planning, retirement planning, and shareholder agreements.

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Commercial reasonableness & fair market value

How do these terms affect you?

Commercial reasonableness. Fair market value. Why does the hospital keep throwing these terms at you? You can't even work with a hospital on a joint venture or an employment relationship without a hospital attorney or administrator saying, "We must have a fair market review completed before we can go forward."

The concept of commercial reasonableness and fair market reviews comes from the Stark II rules, which state:

... [a]n arrangement will be considered "commercially reasonable" in the absence of referrals if the arrangement would make commercial sense if entered into by a reasonable entity of similar type and size and a reasonable physician (or family member or group practice) of similar scope and specialty, even if there were no potential designated health service referrals.

This means that any arrangement between a physician and a hospital must have nothing to do with referrals that the hospital could generate from the relationship. The measure of these arrangements is the commercial reasonableness or fair market value. The physician and hospital must feel comfortable that any other health system could enter into the same relationship without resulting in a referral opportunity.

8 key questions

The responsibility for meeting this standard is on both parties. It's vital that physicians understand how the process works so they can be fully engaged and expectations of all

parties will be clear. As physicians and hospitals study potential arrangements, both sides may want to seek answers to the following eight key questions regarding the potential transaction:

1. What is the business reason for establishing and entering into the arrangement?
2. What are the specific purposes/objectives of the arrangement?
3. Why are the items or services necessary from these physicians?
4. How do the items or services provided by the physicians relate to the business plan or clinical service strategies for the hospital?
5. Is the arrangement duplicative of other arrangements?
6. Do monitoring and auditing mechanisms exist to assure and validate that contracted items and services were provided and a demonstrable outcome resulted from the arrangement?
7. Will there be a regular assessment or evaluation conducted to determine whether the arrangement is effective and if there's a need for continuing/renewing the arrangement?
8. Will the outsourcing of items or services to the physician group increase or decrease historic operating costs?

When conducting a fair market review, you should always document the process from the start. That said, analyzing an arrangement through a detailed business plan and due diligence questions won't guarantee compliance with all federal rules and regulations. But a thorough planning process and review will assure the leaders of all parties that intentions are good and the program/arrangement has a purpose that may allow for a successful venture free of any referral opportunities.

A reality of today's world

Commercial reasonableness and fair market value testing have become a reality of today's health care world. Many hospitals and health systems have developed compliance plans that delineate the appropriate compensation levels for physicians and the structure of allowable deals.

Some health systems are even forming board-level committees to review physician-compensation plans and individual physician compensation in an effort to better ensure compliance with federal rules and regulations. We hope that knowing these terms and understanding what they mean will enable you to better determine their effect on you.