

Clinical Enterprise Outreach & Growth Workgroup

Hospital-Physician Alignment Strategies

May 9, 2007



Conclusions from HCAB Study

- Specialist competition rooted first and foremost in deteriorating physician economics; years of inadequate reimbursement from government and other payers, coupled with rising malpractice and other costs, leaving many physician practices in dire economic straits.
- Specialists are increasingly are looking for other ways to maximize revenue per hour – often by moving “upstream” into ancillary services and in-office or ASC-based procedures.



Conclusions from HCAB Study

- Nexus of conflict between physicians and hospitals clearly the competition for growing and profitable outpatient business – particularly ambulatory surgery and diagnostics; hospitals increasingly finding themselves forced to joint venture with doctors to hold on to business
- Multiple sources of financial pressure forcing physicians to seek out any and all sources of increased revenue, and continued clinical innovation making it possible for doctors to spend much more time in ambulatory settings



Conclusions from HCAB Study

- Result of specialist shortage has been a substantial increase in the bargaining power of physicians
- Technology making it possible for physicians to take much of their business out of the hospital entirely; with advances in surgical techniques and clinical care, nearly 80% of all procedures are now performed on an ambulatory basis
- Result of technological innovation has been the creation of whole new markets for ambulatory surgery; growth of ambulatory surgery volumes has been nearly twice as fast outside the hospital's walls as within



Conclusions from HCAB Study

- The traditional value proposition of the hospital to specialists – providing a centralized workshop for the performance of clinical duties – has eroded steadily over time
- Dominant strategy among hospitals looking to make up ground on outpatient growth has been to form equity joint ventures with potential defectors



Degree of Hospital-Physician Alignment

- Integrated Salary Employment
 - Equity Joint Venture
 - Gainsharing
 - Comanagement
 - Leasing Arrangements
 - Participating Bond Transactions
 - Management Services Organization
- Highest
- Lowest



Summary

- Whatever the approach, bridging the widening gap between hospitals and physicians sure to entail greater risk and cost for the hospital; worth asking which models for collaboration seem to be yielding the greatest success.
- Example strategies:
 - Guaranteeing start-up income
 - Reducing exposure to practice costs
 - Increasing procedural efficiency
 - Subsidizing income shortfalls



Emerging Models

- Ancillary Lease – Hospital arranges to lease ancillary equipment from specialist-owned equipment leasing company; goal is to consolidate ownership of equipment with the specialists who primarily use it, while retaining hospital-rate technical fees for outpatient ancillary business.
- Buy, Lease-Back Arrangement – Hospital simultaneously leases surgicenter OR space and equipment, purchases management services from a physician collective for expansion of a clinical program.



Emerging Models

- Pre-Loaded JV Agreement – Hospital develops board-approved partnership policy, contract terms, and rigorous proposal evaluation process for JVs with specialists in advance of specific competitive opportunities or threat.
- Gainsharing – Hospital engages physicians in targeted cost-reduction initiatives by rewarding participation with a percentage of resultant cost savings
- Volume-Indexed Comanagement – Hospital forges comanagement contract with non-referring specialists that ties potential management payout to program volume.



Local Competition

Mercy Health Partners is developing management partnerships with physicians; departments/groups would be given the responsibility of achieving specific targets (e.g. quality control, infection rates, increased volume, decreased expenses, etc.) with payment for achievement of goals. Mercy is also looking at joint ventures in property development to assist physicians with building offices with the understanding that all labs, radiology, and other ancillary services would be directed to Mercy facilities.

Promedica is providing employees to do scheduling and precertify tests and procedures at Promedica facilities.

Joint ownership of ASCs



Emerging Models

- Performance-Linked Ownership Options – Hospital makes equity-sharing option available to physicians who first achieve aggressive performance targets under program-management contract



What are UTMC's Options?

- Management or comanagement agreements
- Gainsharing (according to narrow OIG approved guidelines)
- Leasing arrangements
- Equity joint venture

