Should I stay independent or join the hospital?

Presented by:
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Today’s industry expert:

Mark Anderson, FHIMSS, CPHIMS, is a leading expert in ACOs and physician practice management best practices.

- 40+ years in healthcare IT
- CIO at 4 IDNs
- Spent over $2B in HCIT
- National speaker > 1,400 sessions since 2001
- Advisor to the numerous medical societies
- Consultant to over 25,000 physicians and over 200 hospitals
- Annual survey of top hospital and physician-based EHR products by function, size, end-user satisfaction, price, and ability to affect change
- Expert witness on numerous legal cases involving HCIT software
- Helped establish 2,300 provider ACO run by providers
Questions for today

1. What factors are affecting physician ownership?
2. Has physician ownership changed in the past 3 years?
3. What is the difference in thinking between hospitals and independent physician?
4. Does physician ownership affect overall medical costs?
5. Are there differences in culture?
6. Will my annual salary increase if I join a hospital?
7. What are my alternatives?
8. What should I be concerned about?
Question 1: What factors are affecting physician ownership?

- Supply and demand for primary care physicians
- Financials of physician-run vs. hospital-owned ambulatory practices
- Hospital balance sheets becoming stressed
- Hospital purchases of practices actually raise healthcare costs
- Culture matters
- Anecdotal evidence divestitures
Healthcare costs for a family of four

2017 Milliman Medical Index

Source: http://careers.milliman.com/insight/Periodicals/mmi/2017-Milliman-Medical-Index/
The changing market – moving to VBR

Source: “The View from Healthcare’s Front Lines: An Oliver Wyman CEO Survey”
The shifting healthcare landscape

• How will the movement from fee-for-service reimbursement to value and outcome-based reimbursement affect my decision?
• How will payer contracts affect my decision?
• Shifting risk to larger healthcare organizations
• You could lose 50% of your patients
• Reimbursement will continue to tighten
• New technologies around care coordination and patient engagement will be required
• In 2020, 68% of patients will be tied directly to one health system for all services
Prediction:

MD supply will diminish significantly while demand for their services will grow as chronic disease incidence and access through ACA expands.
United States has low physician-to-population level

Doctor visits are sharply higher for those over 65

First-year MD enrollment per 100,000 population has declined since 1980
Primary care supply and demand

Question 2: Has physician ownership changed in the past 3 years?
Recent trends have mimicked the activity of the 1990’s however we see this trend slowing and maybe even reversing.

- **1993-1995:** Number of hospital-owned physician practices tripled.
- **1995-2002:** Hospital-owned physician practices suffered significant operating losses. Acquisitions slowed, divestitures increased.
- **1998:** PhyCor collapses.
- **2007-Present:** Is history being repeated?

General Trends in Hospital Acquisitions
Physician Practices (VMG Health 2012)
Hospital ownership trend increases

- Hospital ownership of physician practices has increased by 86% in the last three years, according to a new report.
  - In 2012, about one in seven physician practices were owned by a hospital. In mid-2015, one in four medical practices, or 67,000 practices, were owned by hospitals.
  - The report also found that in the same three-year period, physicians employed by hospitals increased by 50%.
- In 2015, about 140,000 physicians were employed by hospitals or systems, a rise from the 95,000 physicians who were employed by hospitals in 2012.
- Overall, about 38% of physicians in the U.S. are employed by a hospital or system, according to the report.

Source: healthcare consulting firm Avalere Health and the not-for-profit Physicians Advocacy Institute
Hospital ownership trend increases

- The dramatic ownership and employment shifts reflect the change in reimbursement payment models.
- CMS increasingly favors integrated health systems as opposed to independent medical practices.
- Rapid changes in the healthcare delivery system has also made it increasingly more challenging for small medical practices to stay compliant.
- By aligning themselves with a large system, physicians have the support staff to understand changes while also addressing important issues like patient safety and quality.
- Large hospitals are attracted to small medical practices because their patients are more likely to stay within a system for additional services and treatment.
PWC research institute survey 2017

- 66% of physicians want to be more closely aligned with their hospitals
- 63% of cardiologists want to be employed by the hospital
- 58% of primary care providers want to be employed by the hospital
- 55% of specialists want to be employed by the hospital
- 56% of all physicians surveyed wanted to be employed by the hospital
- 79% of all physicians surveyed thought that they would become more integrated with the hospital in the next 5 years
Percentage of doctors interested in hospital employment by specialty:

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiology</td>
<td>63%</td>
</tr>
<tr>
<td>Psychiatry</td>
<td>61%</td>
</tr>
<tr>
<td>Surgery</td>
<td>53%</td>
</tr>
<tr>
<td>OBGYN</td>
<td>50%</td>
</tr>
<tr>
<td>Internal Medicine</td>
<td>49%</td>
</tr>
<tr>
<td>Anesthesiology</td>
<td>48%</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>48%</td>
</tr>
<tr>
<td>Emergency Medicine</td>
<td>48%</td>
</tr>
<tr>
<td>Family Medicine</td>
<td>46%</td>
</tr>
<tr>
<td>Dermatology</td>
<td>45%</td>
</tr>
<tr>
<td>Pulmonology</td>
<td>43%</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>38%</td>
</tr>
<tr>
<td>Radiology</td>
<td>31%</td>
</tr>
<tr>
<td>Neurology</td>
<td>31%</td>
</tr>
<tr>
<td>Gastroenterology</td>
<td>27%</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>25%</td>
</tr>
<tr>
<td>Urology</td>
<td>25%</td>
</tr>
</tbody>
</table>

Most interested in employment:
- Cardiology
- Psychiatry
- Surgery

Interested in employment:
- OBGYN
- Internal Medicine
- Anesthesiology
- Pediatrics
- Emergency Medicine
- Family Medicine
- Dermatology
- Pulmonology

Least interested in employment:
- Radiology
- Neurology
- Gastroenterology
- Orthopedics
- Urology
Question 3: What is the difference in thinking between hospitals and independent physicians?
Physician behaviors are driven largely by macro-economics while hospital behaviors are largely driven by micro-economics

**Physician perspective: Hospital as a shield**
- Economic:
  - Reimbursement cuts
  - Healthcare not truly recession proof
  - Rising operating costs – healthcare IT
  - Rising malpractice requirements
- Political:
  - Resentment over ACA
  - Uncertainty about the future of healthcare reform
- Cultural:
  - Demographic shift towards younger physicians
  - Shifting desire for work/life balance
  - Less willingness to run and manage the complexities of a “small business”
  - Different motives for practicing medicine

**Hospital perspective: Shrinking margin gap**
- Market:
  - Market tidal waves - Herd mentality
- Income statement necessity:
  - Secure/expand referral network – defensive strategy
  - Advantageous reimbursement – driven by economies of scale
- Human resources:
  - Addressing staffing shortages
  - Need for call coverage
- Political:
  - Healthcare reform– ACOs
  - Positioning for place in value based future
- Outcomes:
  - Need to improve and exhibit quality of care
Physicians attitudes largely driven by financial & political motives

95% of physicians say losing their wealth is a primary concern. Where does this fear come from?
- The effect of regulations on profits.
  - Negative impact of rules and regulations
  - Effect of regulations on profitability will grow worse going forward.
- Liability issues.
  - The significant risk of malpractice lawsuits makes liability a key concern
  - Roughly the same percentage (82%) said the difficult environment for liability issues will get worse.
- Downward pressure on incomes.
  - 86% of physicians said they're worried about their incomes being reduced.

70% of practice acquisitions have actually come from physicians presenting themselves to hospitals.
- Another 16% of physicians plan to leave their practices in the next year
- Attitudes about the ACA display polar opinions in the physician community
- 55% of physicians believe the law should be repealed
- 31% believe it did not go far enough to address cost & access issues and believe a single payer system can accomplish this.
Question 4: How does physician ownership affect overall medical costs?
Physician owned multi-specialty group financial performance significantly exceeds that of hospital owned ones.

### Hospital Owned Medical Group Performance

<table>
<thead>
<tr>
<th></th>
<th>Best Non-Hospital MS Groups</th>
<th>Rest of Non-Hospital MS Groups</th>
<th>Best Hospital / IDN MS Groups</th>
<th>Rest of Hospital / IDN MS Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overhead %</td>
<td>58.3</td>
<td>60.0</td>
<td>56.8</td>
<td>83.4</td>
</tr>
<tr>
<td>Gross Charges Per FTE MD</td>
<td>$1,372,247</td>
<td>$1,069,530</td>
<td>$995,303</td>
<td>$755,855</td>
</tr>
<tr>
<td>Physician RVUs Per FTE MD</td>
<td>13,096</td>
<td>12,809</td>
<td>9,714</td>
<td>9,117</td>
</tr>
<tr>
<td>Total MD Revenue After Operating Cost Per FTE MD</td>
<td>$351,082</td>
<td>$280,439</td>
<td>$261,865</td>
<td>$69,881</td>
</tr>
</tbody>
</table>

Source: Physicians Foundation – Gans 2017
Physician owned multi-specialty group financial performance significantly exceeds that of hospital owned ones

<table>
<thead>
<tr>
<th></th>
<th>Hospital Owned</th>
<th>Physician Owned</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures</td>
<td>8,748</td>
<td>12,195</td>
<td>3,447</td>
</tr>
<tr>
<td>Charges/Procedure</td>
<td>$123</td>
<td>$138</td>
<td>$15</td>
</tr>
<tr>
<td>Medical Revenue/Procedure</td>
<td>$66</td>
<td>$77</td>
<td>$11</td>
</tr>
<tr>
<td>Total Operating &amp; Non-Provider Costs/Procedure</td>
<td>$55</td>
<td>$49</td>
<td>($6)</td>
</tr>
<tr>
<td>Provider Costs/Procedure</td>
<td>$42</td>
<td>$31</td>
<td>($10)</td>
</tr>
<tr>
<td>Net Income (Excluding Physician Salaries)/Procedure</td>
<td>($21)</td>
<td>$1</td>
<td>$22</td>
</tr>
</tbody>
</table>

Similar pattern seen across family practice, OBGYN, pediatrics practices
Hospital balance sheets

Practice acquisition significantly stresses already thin margins and delicate balance sheets

• The short term negative credit impact of ramping up physician employment can be significant because the main benefits of the strategy might only emerge over a longer period, while the costs are effectively immediate, possibly causing material stress on operations in 2018 and 2019.

• There are often high initial costs involved with new physician employment — salary guarantees, physician integration, or even practice acquisition.

Moody’s Investors Service, 2017
What about costs?

Limited evidence that hospital owned practices influence total healthcare costs positively

- Center for Studying Health System Changes
  - “Hospital Purchases of physician practices raises healthcare costs”
  - Poor execution drives cost increases while connectivity and communication – factors that don’t necessitate hospital ownership drive any cost savings

- Robert Wood Johnson Foundation
  - Meta analysis of all available studies on the topic found no evidence of clinical gains or cost reductions as a result of hospital-physician consolidation.
  - Prominent integrated organizations such as Geisinger, Intermountain or Mayo represent ad hoc examples selected for their results – they do not constitute research evidence
Question 5:
Are there differences in culture?
What about Culture?

The role of culture cannot be overlooked. Hospital executives have experience running a fundamentally different business than physicians are used to.

The Physician Professional Culture: “Expert Culture”
- Autonomy
- Need for rapid decision making
- Consensus in group decisions
- Training: Biomedical Science
- Trained to work independently

The Hospital Administration Culture: “Collective Culture”
- Embraces organizational mission, values & vision
- Avoids conflict
- Unlikely to take risk
- Respects hierarchy
- Training: Social and Management Sciences
- Trained to delegate and work in groups
- Hospital culture will have to drastically change from being a revenue generating organization to cost center in the new world of value based payments
Hospitals are emphasizing value over productivity

- Hospitals have traditionally encouraged higher levels of productivity.
- Focusing on volume is not a silver bullet in an increasingly value-based environment, but at the same time, hospitals cannot just "let physicians do what they want in terms of productivity."
- Therefore, in compensation plans, hospitals are incentivizing physicians to focus their energy and efforts on high-level cases instead of "churning numbers."
- Instead, advanced practice clinicians, such as nurse practitioners and physician assistants, are helping with simpler cases, a process that has boosted their compensation as well.
- Physicians have to practice at the top of their skill level
- Therefore, nurse practitioners need to operate at the top of their skill level, too. When the value goes up, compensation goes up, and it frees up time for more complicated cases for physicians.
Question 6:
Will my annual salary increase if I join a hospital?
Hospital-affiliated primary care physicians will eventually see their salaries increase more

- Primary care is a major emphasis within the healthcare reform law.
- For example, in November, CMS released a final rule that said primary care physicians will be paid Medicare rates for Medicaid primary care services for this year.
- In addition, qualifying physicians will receive higher payments if primary care services are rendered by certain physician extenders — such as nurse practitioners — who work under the qualifying physicians' supervision.
- We're going to see an increase in primary care physician compensation because the value of primary care is high now and will be higher over the next several years.
- Of course specialists will still remain in high demand and command high salaries due to a general shortage of physicians.
Compensation arrangements between hospitals and physicians involve quid pro quo elements

- Of course, hospitals must pay physicians fair market value, but there are certain quid pro quo elements.

- Hospitals will offer a perk that physicians may not have had before, and although it's not as much as other industries, physicians may not have to be on call 24/7, as they would be in private practice. For example:
  - Physicians will receive various benefits outlined in the hospital benefit plan, but it may not be as extensive as benefit plans in other industries.
  - A hospital may offer a physician a sizable sum of money to help pay down medical school loans, but the hospital may ask that physician to commit to work at the hospital for a predetermined amount of time.
Question 7:
What are my alternatives?
These trends highlight what we believe is an interesting opportunity for practices that can effectively manage and get ahead of the transition

- Eat or be eaten
  - Fixed supply and demand for certain specialties
- Value based payments = opportunity
  - Understanding costs and outcomes critical
- Alternative arrangements with other players
  - Hospital partnership as part of larger organization rather than acquisition
  - IPA’s
Question 8:
What should I be concerned about?
Concerns with hospital-employed model

- Large hospital systems could dominate market
- Employed physicians & patients will not have choice of specialists
- Employed physicians & patients will be required to exclusively utilize hospital ancillary services
- Employed physicians will be pressured to order additional ancillary services
- Ultimately health care will cost more which will drive all provider reimbursement even lower
Poll and questions for Mark...
Mark Anderson

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