



Health Directions

Business solutions for healthcare organizations

Physician Employment Revisited

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Hospitals in most markets cannot survive without a strategy for physician employment

- Provides a vehicle for recruitment and retention
- Meets physician need for security
- Provides an infrastructure to negotiate/manage support of hospital groups
 - Anesthesia
 - Trauma
 - Intensivist
 - Hospitalist
 - Radiology

The Challenge

How to make your hospital's affiliated group more attractive to physicians and consumers

Characteristics of Better Performing Hospital Affiliated Practices

- Strong financial performance providing physician options to maximize income
 - Focus on developing alternative sources of revenue
- Strong brand recognition in market.
- Strong physician leadership + broad physician input + strong practice management = Performance above 75th percentile

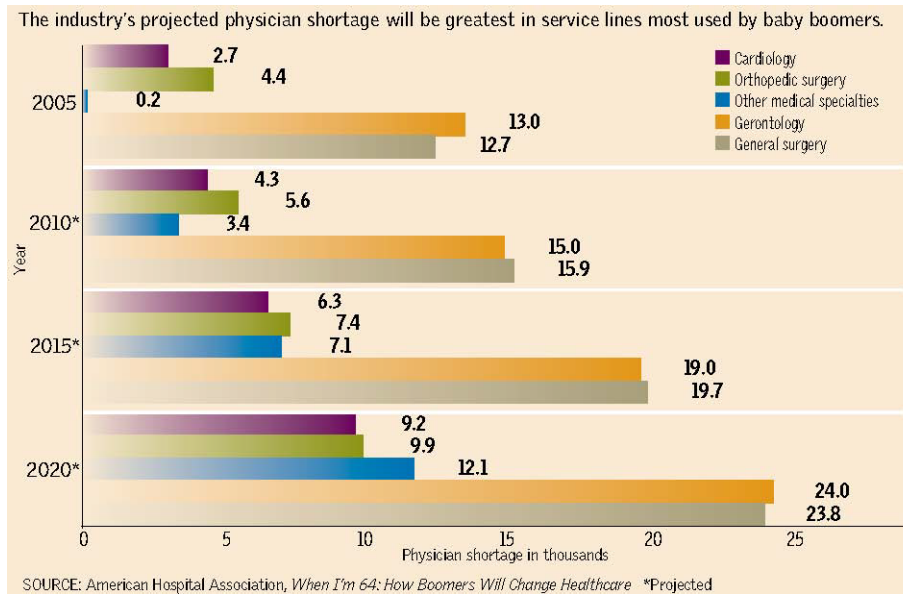
Characteristics of Better Performing Practices

- Utilized EMR to improve practice performance and linked with consumers
- Physician compensation aligned with the goals of the practice
- Mid-level providers utilized
- Innovation and focus on meeting physician needs at different stages of their career

Major Trends Impacting Employment

- Movement to larger groups to accelerate employment
- Physicians expect their practice to “make up” the decline in the value of their 401K
- Financial pressure on corporations will result in a decline in healthcare premiums and a decline in physician reimbursement
- Intensifying competition for physicians

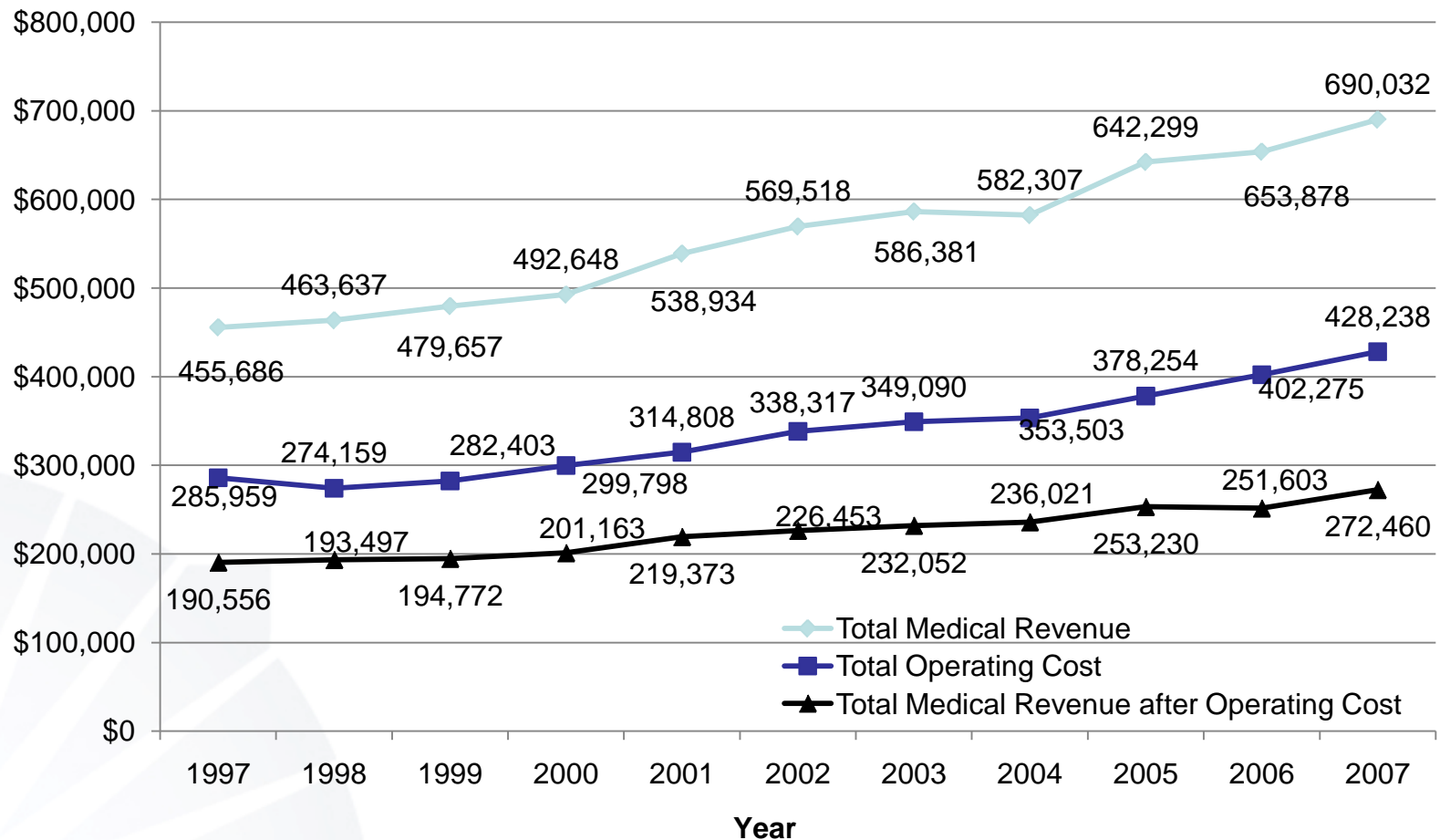
National Shortage of Physicians



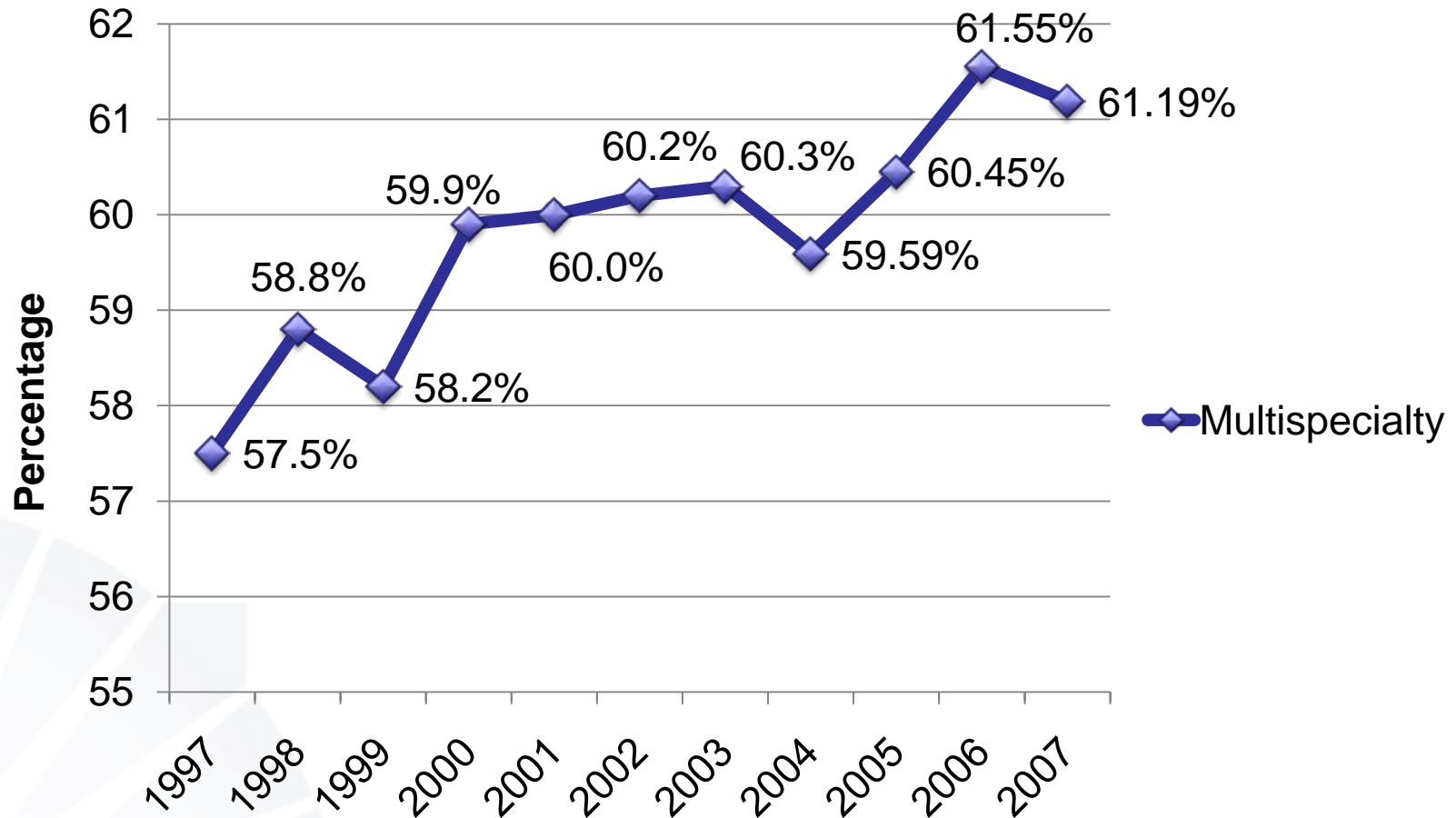
The Real Challenge For Hospitals Is How To Attract and Retain Primary Care Physicians

- Only 2% of 4th year medical school students choosing General Internal Medicine
- Competition increasing for PCPs
 - Walgreens
 - CVS
 - Pharmacist as PCP
- Multi-Specialty Group offering higher opportunities

Median total medical revenue, total operating cost and total medical revenue after operating cost (per FTE physician) for multispecialty practices, 1997-2007



Growth of Practice Overhead Driving Need for Ancillary Revenue



Case Study I

Problem:

- Medical subspecialty group in South having difficulty recruiting and retaining quality physicians due to compensation



Solution:

- Developed an array of ancillary services generating significant financial returns
- Refuse to take ER call for unassigned patients

Subspecialty Group in South Generates \$100,000 in Ancillary Profit Per Partner

| Providers | |
|---------------------|----|
| Internal Medicine | 13 |
| Nephrology | 4 |
| Pulmonary | 20 |
| Oncology/Hemoc | 2 |
| Endocrinology | 2 |
| Rheumatology | 2 |
| Cardiology-Invasive | 1 |
| GI | 1 |
| Hospitalists | 29 |
| PAs | 7 |
| FNPs | 6 |
| Diabetes educators | 2 |

Ancillary Profitability Analysis

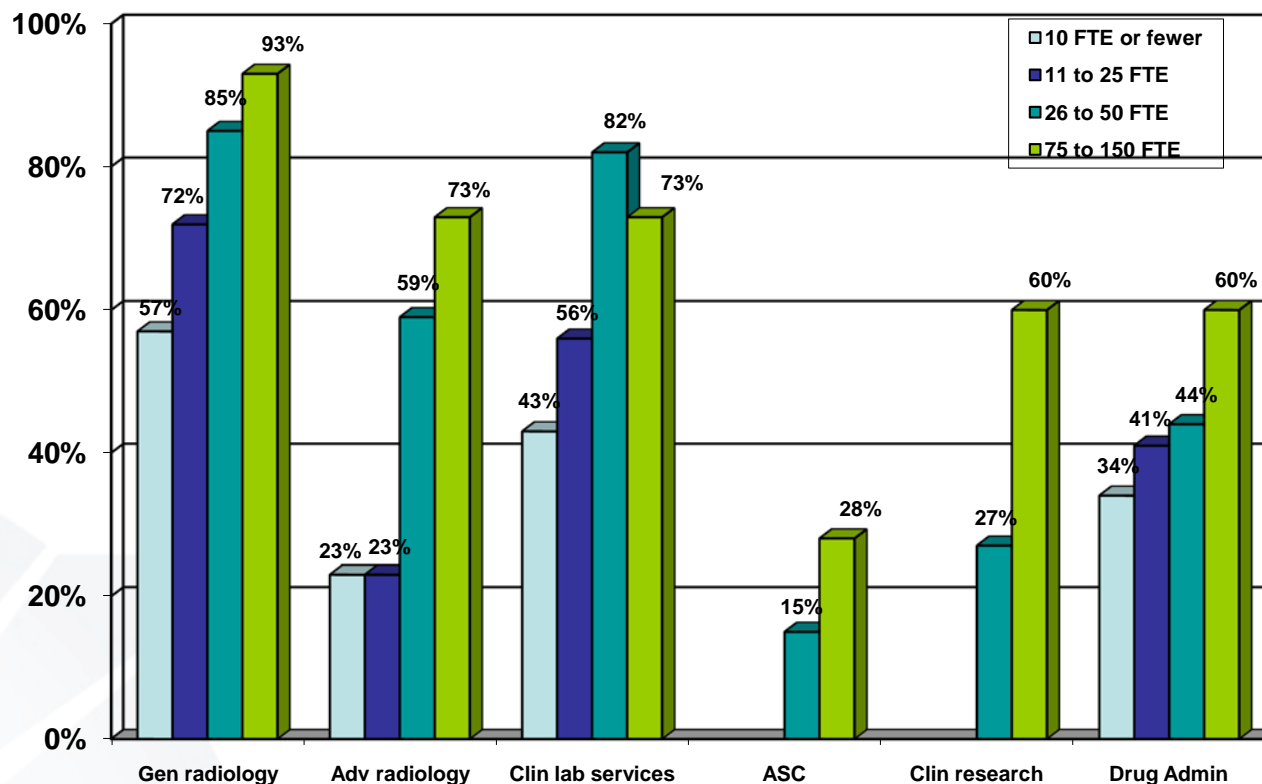
| | Total collections | Total profit/(loss) | Profitability percent |
|----------------------------|-------------------|---------------------|-----------------------|
| EKG | 144,000 | 112,000 | 77.79% |
| Radiology-bone density | 308,000 | 186,000 | 60.64% |
| Radiology-MRI | 936,000 | 445,000 | 47.47% |
| Laboratory | 2,688,000 | 1,176,000 | 43.73% |
| Cardiology laboratory | 966,000 | 396,000 | 41.04% |
| Radiology-CT scan | 1,050,000 | 390,000 | 37.03% |
| PFT laboratory | 112,000 | 36,000 | 32.23% |
| Radiology-plain film | 360,000 | 91,000 | 25.33% |
| Radiology-nuclear medicine | 506,000 | 110,000 | 21.86% |
| Radiology-vascular | 360,000 | 67,000 | 18.51% |
| Sleep lab | 192,000 | 34,000 | 11.70% |
| Radiology-mammography | 410,000 | 28,000 | 6.90% |
| Physical therapy | 151,000 | (9,000) | -5.90% |
| Radiology-ultrasound | 142,000 | (36,000) | -25.62% |
| Totals | 8,236,000 | 3,032,000 | 35.94% |

Physician medical s

Ancillary Revenue Growth

- Better performing practices generating greater than 30% of physician income from ancillary revenue
- Average physician receiving \$50,000 revenue from ancillary services
- Dependence on ancillary revenue driving growth of physician groups
 - Multi-specialty
 - Single specialty
- Growth of vertically integrated group practices
 - Physicians
 - Diagnostics
 - Treatment

Dependence on Ancillary Revenue Driving Movement to Larger Practices



Employment Trends

Hospital Affiliated Groups Becoming Vertically Integrated Groups

From:

Primary
care

Practice
start-up

To:

Primary care
•Family practice
•Internal medicine
•Pediatrics

Specialty
•Cardiology
•General surgery
•ENT
•Neurosurgery

Ancillary
•CT
•MR
•PET
•Radiation therapy
•Ambulatory
surgery

Source: 2008 Mapping Medical Staff – Physician Strategy Summit

Successful Hospital Affiliated Groups Develop Brand Recognition

University of Pittsburgh Medical Center

- Physician services
- Broad access
 - Physician
 - Specialists
 - Office Location
- Application of research to clinical care

Case Study II

Situation

- Midwest system has several physician organizations at multiple hospitals
- Consumers in market do not associate physicians with system
- Practices under performing
- Practices not driving market share

Intervention

- Create common organization
- Develop “brand image in market”
- Develop consistent business practices

Branding Drives Successful Employed Physician Models

- Name associated with quality, accessible care
- Broad geographic coverage
- Care when it's needed

Outcome

- Employed physicians driving growth in market share
- Competing hospitals without a mature physician organization struggling

Physician Groups

- Physician groups that are successful have developed a consistent brand image focused on
 - Access
 - Quality
 - Service
 - EMR

Access

- Locations – close to home and work
- Same day appointment
- After hours/weekends
- Return phone Calls

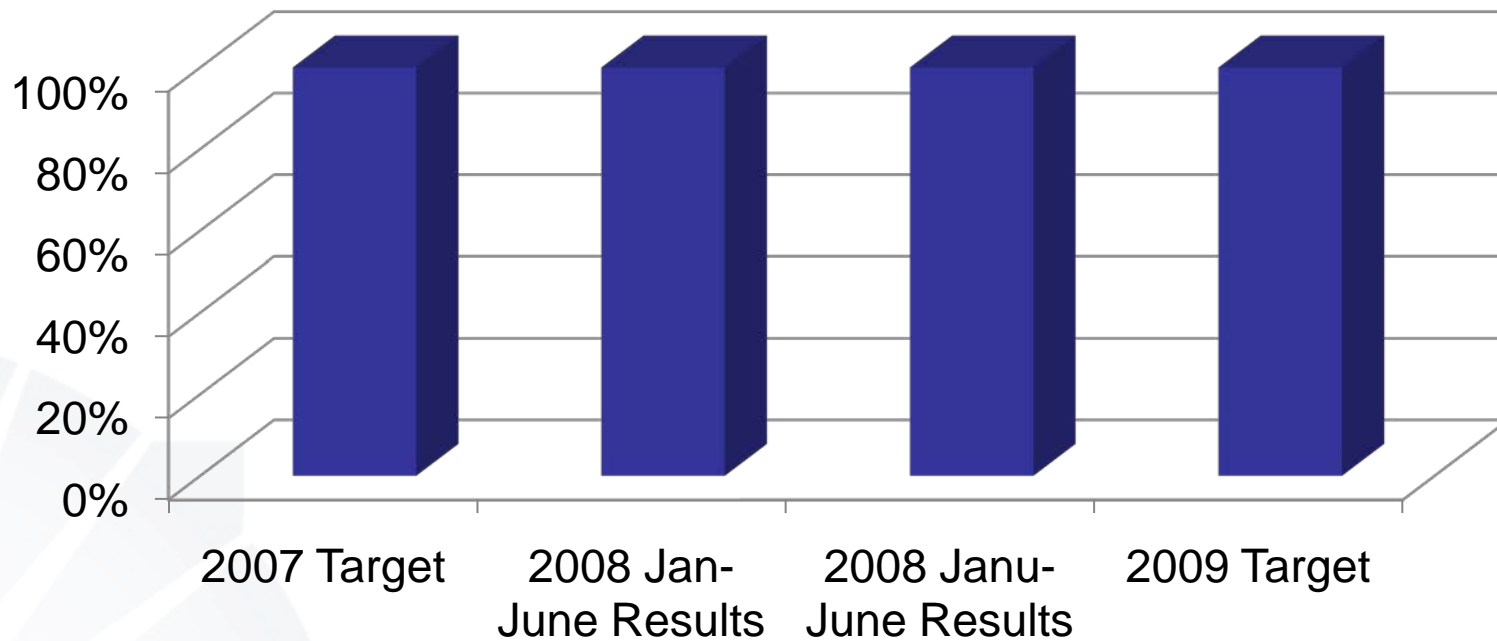
Quality

- Care must link clinical practice with clinical research
- Focus on prevention/wellness
- Consistent standard of care
- Follow up calls
 - Newborn within 48 hour of hospital discharge
 - Episodic care
 - Test results
- Management of chronic illness

Case Study III

Prevention - Mammography

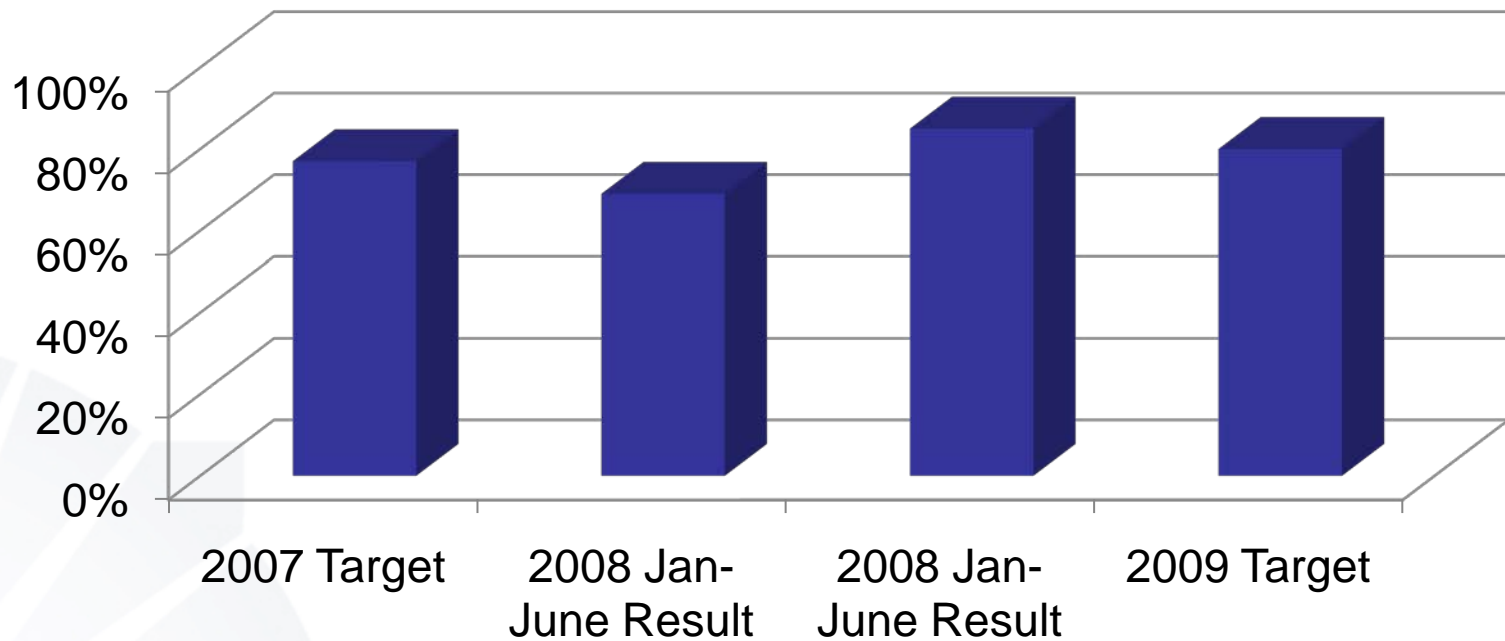
Preventive Health: Mammography



Case Study

Success- Childhood Immunizations

Preventive Health: Childhood Immunizations



Outcome

- 21% improvement in Q measures
- Multiple improvements in progress
- Bonus of \$25,000 per physician

Service

- Service must exceed that available at CVS and private offices
- “Healthcare Destinations”
 - Consistency
 - Greeted by name with direct eye contact
 - Phone answered by a person by third ring
 - Physician/follow-up call
 - Wait time limited
 - Physician encourages communication

Electronic Medical Records

- EMR ensures quality, coordinated, accessible care
- EMR offers opportunity to establish sustainable “link” to patients
 - Core management
 - Test reporting

EMR

- Provides physicians an incentive to join
- Physicians can earn between \$44,000 to \$64,000 over five years from Medicare / Medicaid if they are utilizing an EMR in 2011
 - Late adopters will receive significantly less
 - Providers may receive incentives under only one of the programs
 - 2015: reductions in Medicare/Medicaid fees for non-EHR users

Medicare Incentive Payments

- First Payment Year
 - \$18,000 if the first payment year is 2011 or 2012
 - \$15,000 if the first payment year is 2013
 - \$12,000 if the first payment year is 2014
- Second Payment Year: \$12,000
- Third Payment Year: \$8,000
- Fourth Payment Year: \$4,000
- Fifth Payment Year: \$2,000
- If eligible professionals and hospitals do not demonstrate meaningful use by 2015, Medicare payments will be reduced

Employment

- Employment is a strategy some hospitals need to consider to strengthen/protect a service line

Case Study IV

- Situation
 - Heart: Strategic Priority
 - Largest program
 - Average age of cardiologists: 56
 - Hospital dependent on 30% of revenues from cardiac services

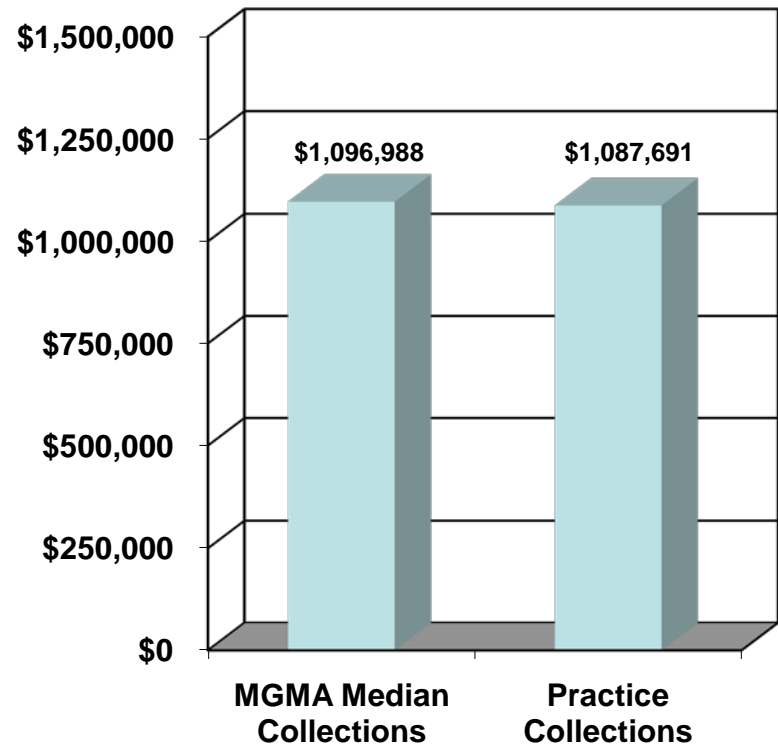
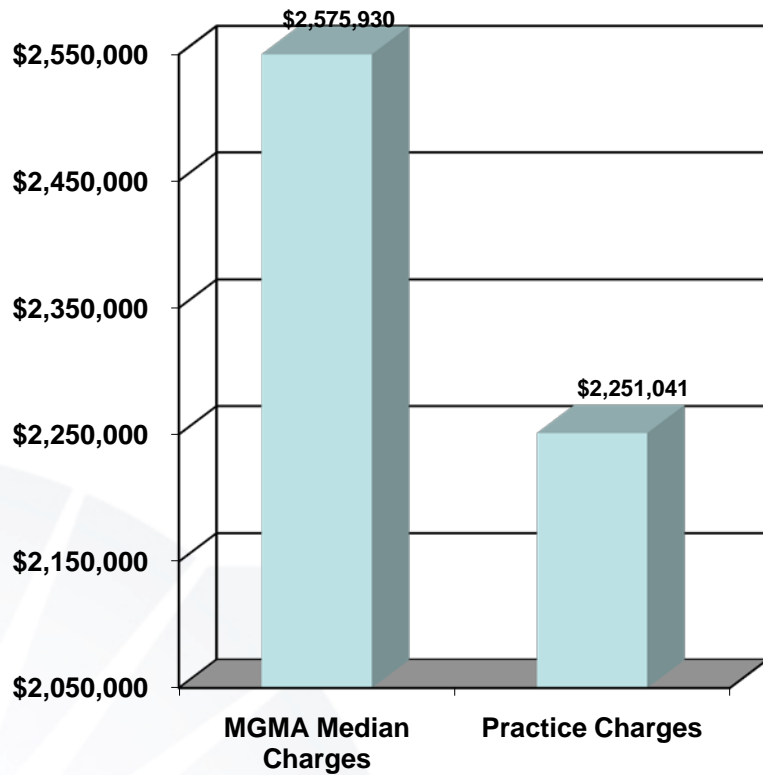
Issues

- One dominant cardiology group (8 cardiologists)
- Aging cardiologists
- Difficulty recruiting new physicians
 - Salary expectations exceed local benchmarks
 - Size, mix and seasonality of the population a challenge
- Service
- Need for improved infrastructure and IT support for the practice
- Need for additional financial support to expand the referral base and improve practice performance

Physician Issues

- Overly compensated physicians resentful of objective compensation system
- Dysfunctional group culture
- Young physician leaves for competing group
- Medical staff fear growth of employed physicians
- Impact/perceptions of other medical staff

Practice Poorly Managed



MGMA 2008 Cost Survey based on 2007 Data, All Cardiology Practices

Expenses High, Physician Compensation Low

| | Practice | MGMA Median | MGMA 75 th %tile |
|--|-----------|-------------|-----------------------------|
| Total Costs Before Physician Expense | \$727,551 | \$587,999 | \$723,821 |
| Total Cost Before Physician Expense to Net Medical Revenue | 59% | 48% | 54% |
| Physician Compensation to Net Medical Revenue | 37% | 49% | 54% |

MGMA 2008 Cost Survey based on 2007 Data, All Cardiology Practices

MGMA 2008 Compensation and Productivity Survey based on 2007 Data, Over 1 Year in Specialty, All Physicians

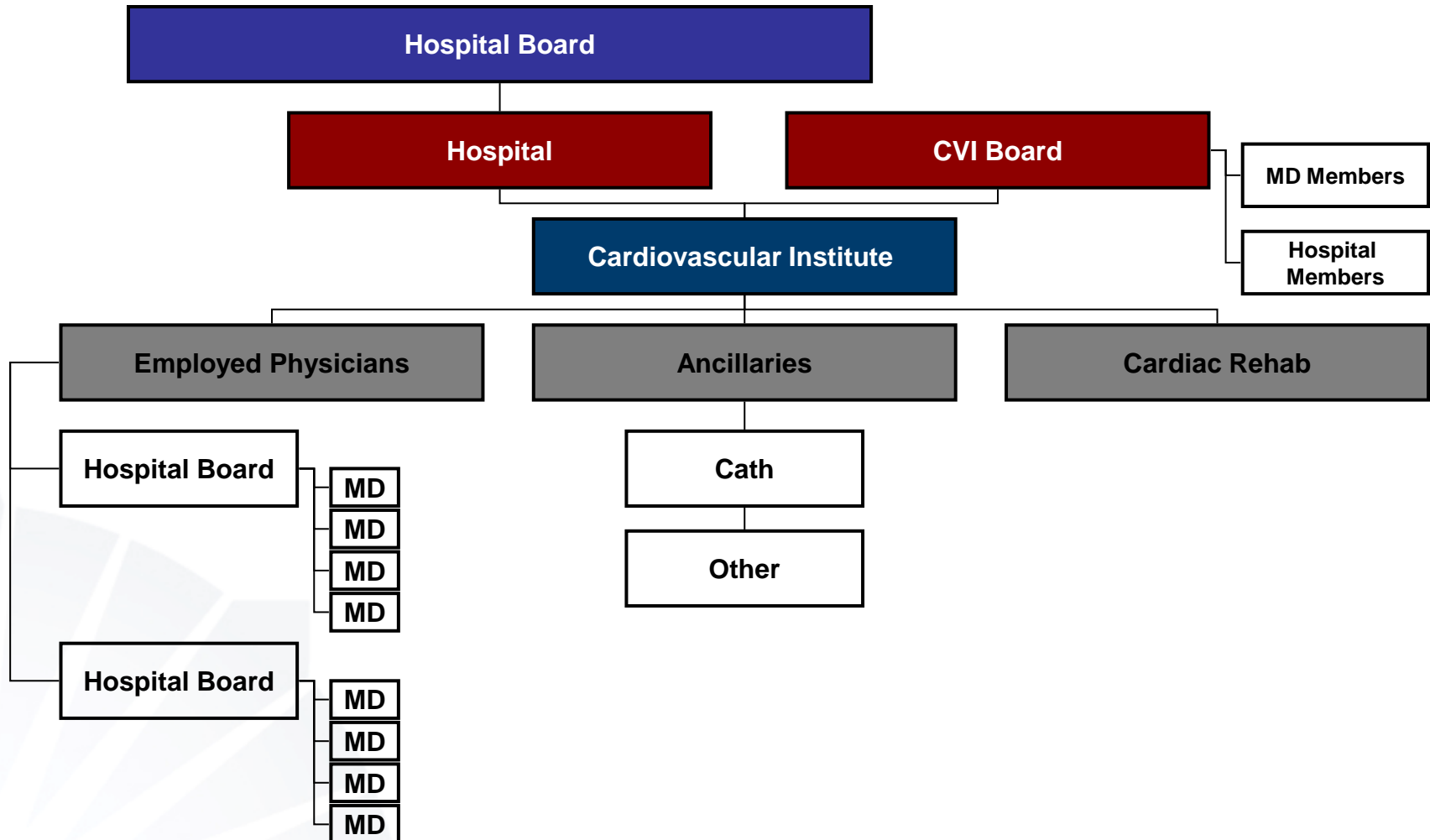
Practice Improvement Opportunities: \$500,000

- Practice management improvements \$450,000
- Ancillaries \$50,000
- Total \$500,000

Intervention

- Created a hospital/cardiology task force to evaluate options:
 - Option 1: Remain an independent cardiology practice and address infrastructure/cultural issues
 - Option 2: Become an employed hospital cardiology group

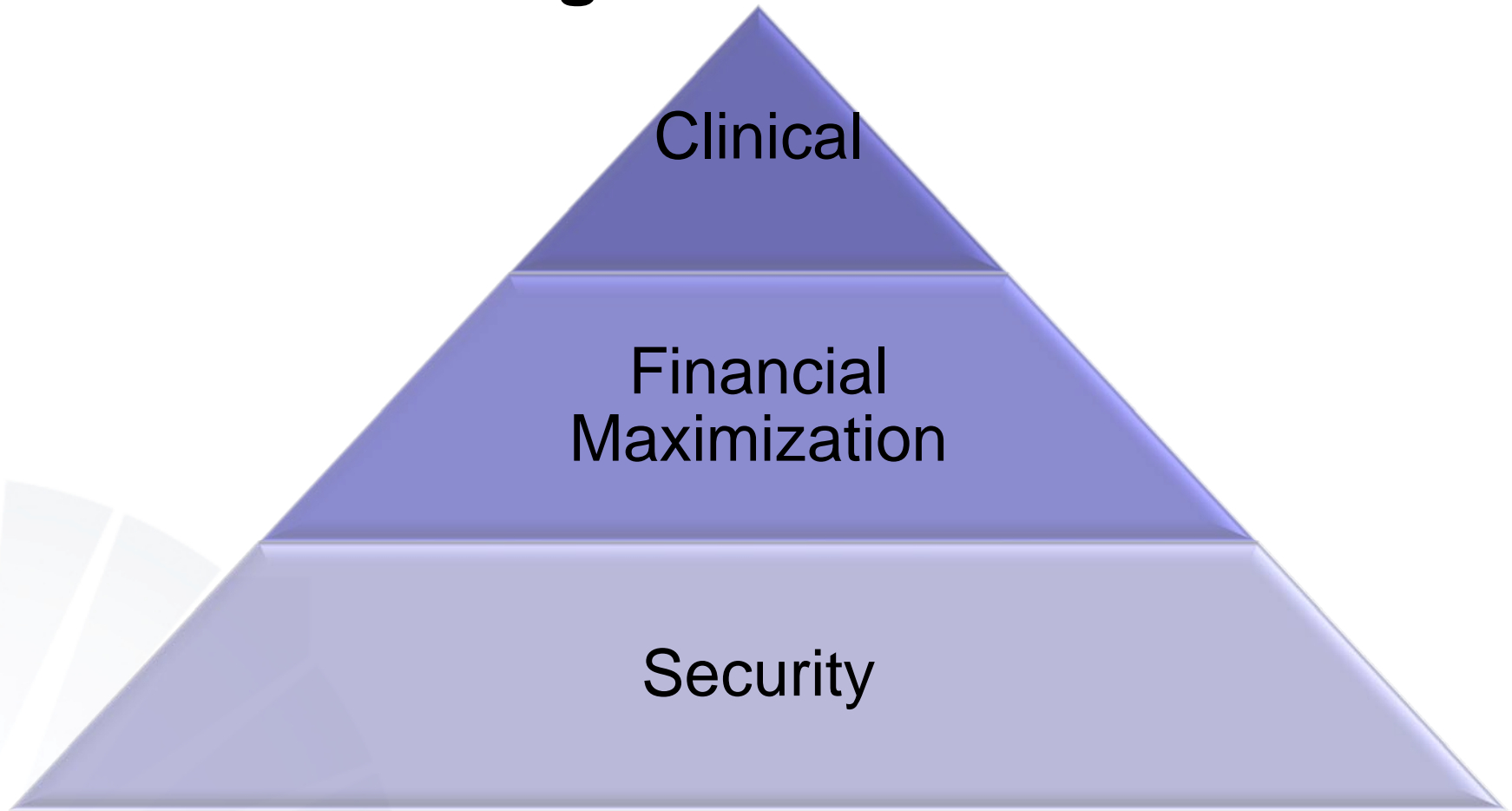
Outcome: Create Cardiovascular Institute



Outcome

- Two new cardiologists recruited
- Practice profitable
- Cardiology market share growing

Meets Cardiologist Need for:



Critical Issues for Attracting/Retaining PCPs

- Life Style
- Income
- Ability to meet personal and professional needs
- Innovation

Innovation

- Medical Home offers opportunity for physician self actualization

Case Study V

- MercyCare's Mission: Our mission is to deliver the highest quality, compassionate, patient-oriented care and to provide a stable, fulfilling environment for healthcare professionals

Background

- Established July 1995
- Started with 14 physicians
- Currently employ 83 providers
 - 56 Physicians
 - 27 Mid Level
- 21 locations in Cedar Rapids and surrounding communities
- Multi-specialty group – neonatology, pulmonology/critical care, pediatrics, physiatry, occupational medicine, nephrology, internal medicine, family practice, and endocrinology
- Provide MSO services to 45 providers in eastern Iowa

MercyCare

- MercyCare has a waiting list of PCPs who want to join the group
- Group success is attracting and retaining physicians

Organization's Success

- Physician based culture
- Productivity based compensation model
- MercyCare image in service area – service style, access, patient flow, building design, and building architecture
- Broad coverage in service area
- Physician led organization – focus at the point of service

Developing a Physician Led Organization

- Leadership vs. Management

- Develop culture based on quality patient care
- Develop strong physician relations – identify organization champions
- Develop strong physician leaders
- Focus on decisions at point of service vs. at the administrative level

Governance Process and Management

- Management system based on model of quality improvement
 - Regular quality meetings
 - Active agenda, minutes and quality improvement plans
 - Development and refinement of practice processes and guidelines
 - Meetings focus on improving quality, safety, and the patients experience
 - Physician demands input and feedback
 - Staff evaluated and rewarded based on quality and safety improvement ideas

Mid Level Providers

- Mid Level providers are critical to the provision of primary care and will be increasingly important as the supply of PCPs shrink

Nurse practitioners can generate \$57,000 in net revenue

| | Midwest NPP Median |
|---|-----------------------|
| Collections* | \$365,000 |
| Compensation -Base \$84,375* -Incentive \$5,556 | \$89,000 |
| Overhead 60%** | \$219,000 |
| Margin | \$57,000 |

*Sullivan Cotter 2008

** MGMA Multi-Specialty 2008

Case Study VI

Situation

- Hospital in geographically challenged location losing market share
- Survival depends on attracting patients from the secondary market
- Medical staff has diverse factions
 - Specialists
 - 50% international graduates
 - Financially focused
 - Fearful of competition
 - Primary Care
 - Deteriorating practice base
 - Difficult to recruit young, well trained physicians

Intervention

- Established MSO/employed physician group
- Increased physician base to 175
- Developed a network of offices in primary and secondary markets

Outcome

- Short term
 - Dramatic growth in market share and hospital profitability
- Longer term
 - Fraction of medical staff feared competition
 - Medical staff forced unwinding of the employed group through a vote of “no confidence”
 - Market share growth declined; referrals to specialists decreased

Outcome (continued)

- Hospital profitability declines from \$10 million to \$2 million loss
- Hospital reestablishing practice management program after 10 year exit

Lessons Learned

- Provide an array of physician support options
- Support “non-employed” physicians on an ongoing basis
- Physician compensation rewards performance
- Physician leadership is essential
- Engage physicians in open dialogue
- Management of conflict is crucial
- Communicate and work with the existing medical staff organization

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APPENDIX

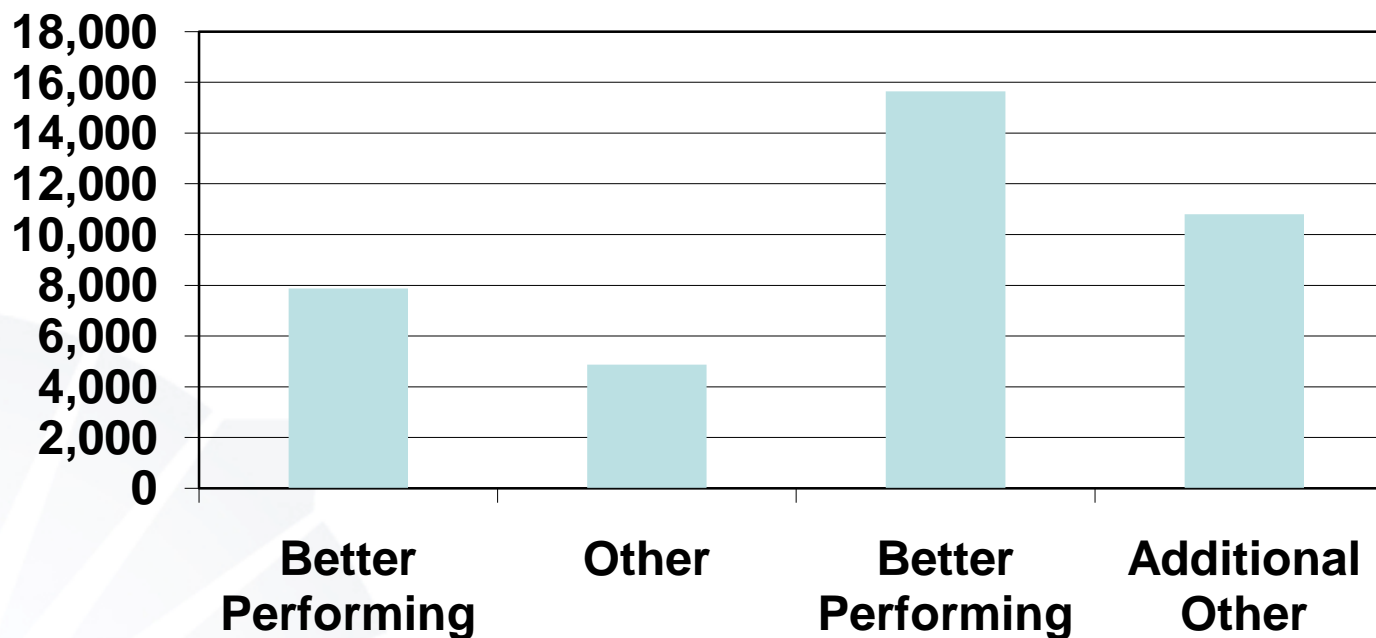
Physicians in better performing practices understand what drives financial performance and use it to monitor practice performance

Better Performing Practices See More Patients

Multi-specialty

Encounters

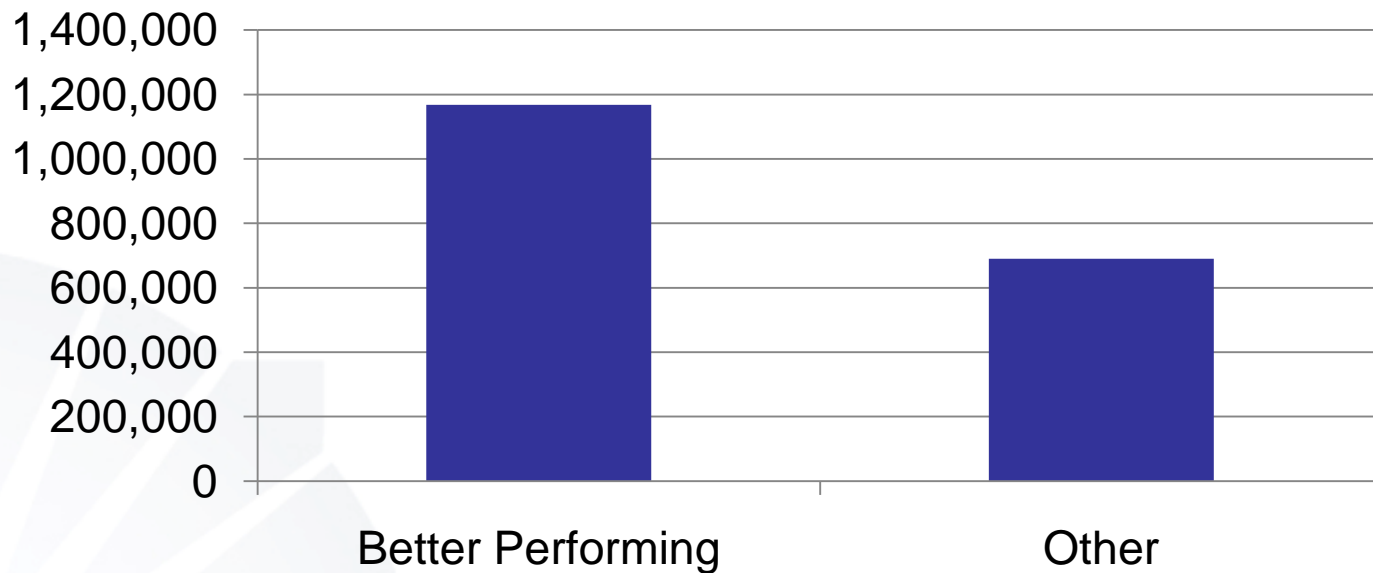
Procedures



Performance and Practices of Successful Medical Group 2008 Report Based on 2007 Data MGMA

Better Performing Practices Generate More Revenue Per Physician

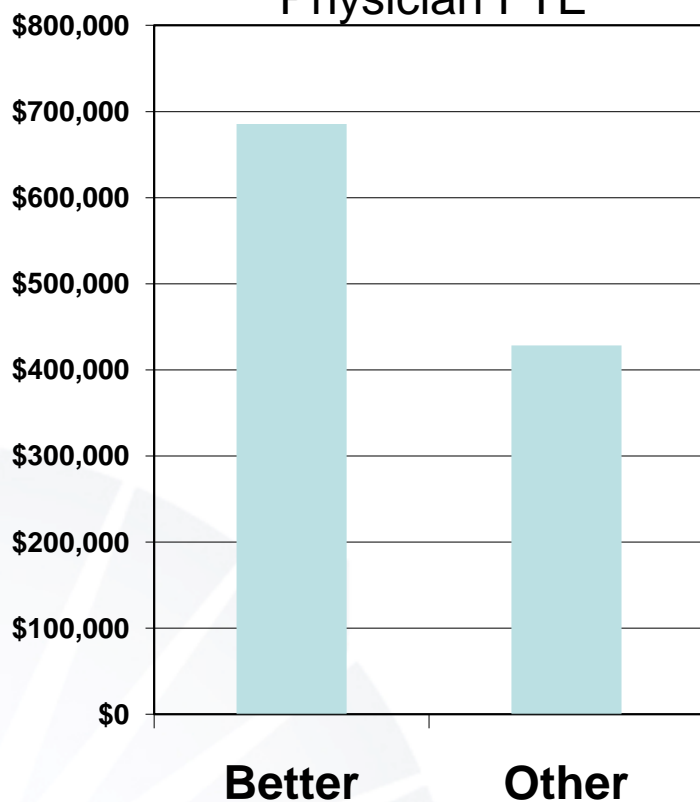
Multispeciality Net Revenue



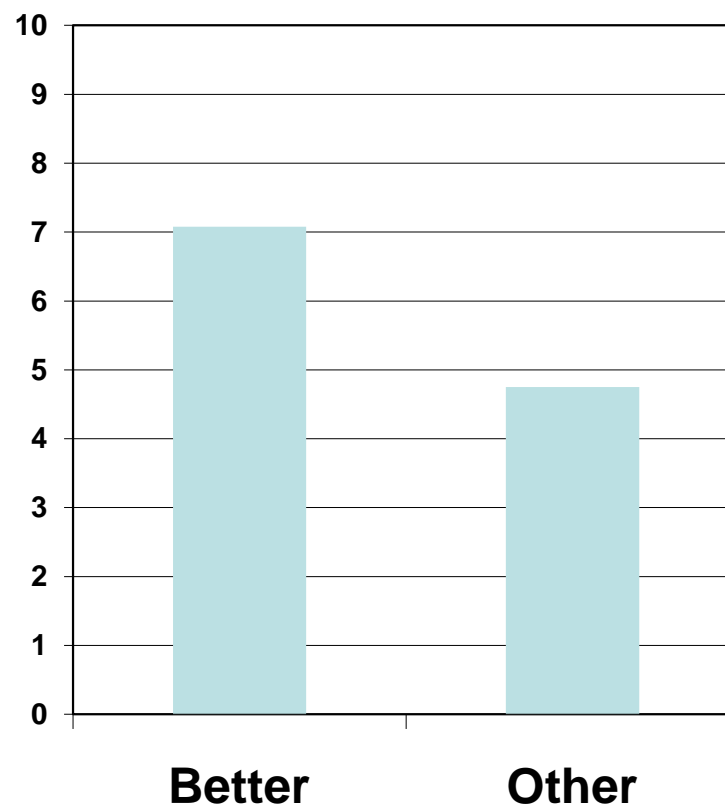
Performance and Practices of Successful Medical Group 2008 Report Based on 2007 Data MGMA

Better Performing Practices Have Higher Operating Costs

Total Operating Cost per Physician FTE



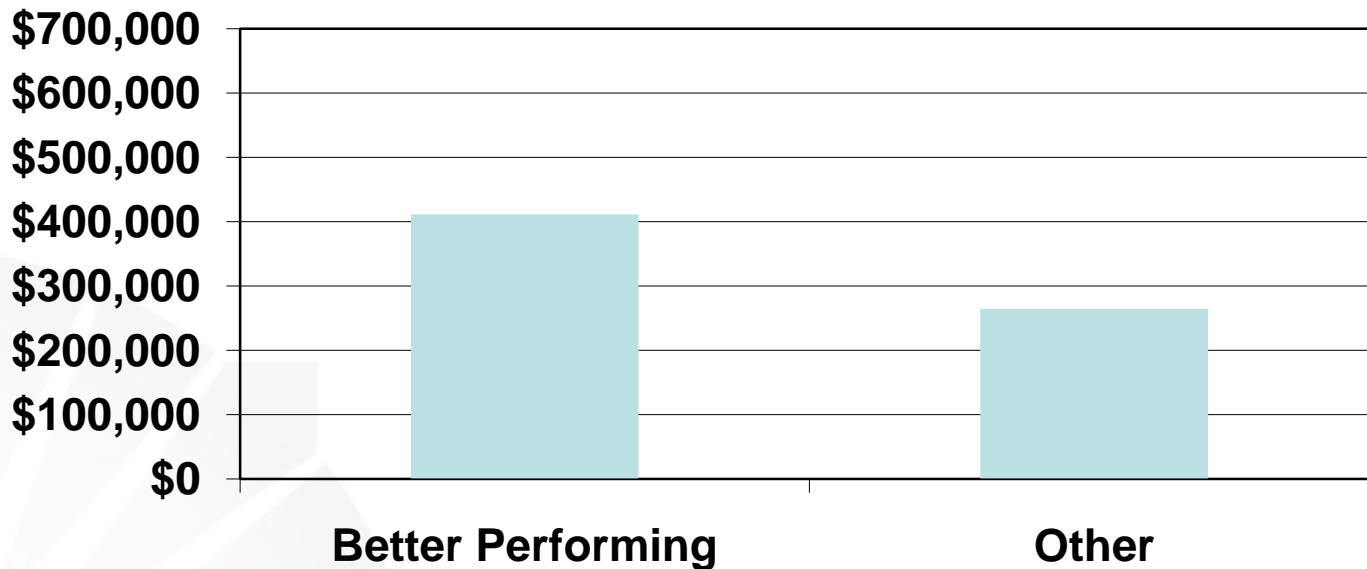
Total Support FTEs



Performance and Practices of Successful Medical Group 2008 Report Based on 2007 Data MGMA

Better Performing Practices Generate More Money for Physician Compensation

Multispecialty Group Total Physician Cost



Performance and Practices of Successful Medical Group 2008 Report Based on 2007 Data MGMA

Better Performing Practices Do a Better Job of Collecting

Net Collection %

Days over 120

Days in
Receivable

