Your New Practice: 
Macro and Micro Issues

Graduate Medical Education
Business of Medicine Conference

Presented by:
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Laura Hassemer, CPA
Macroeconomic Issues
Stages of Healthcare

- Cottage industry
- Collaboration
- Consolidation
- Integration
- Independence
Parallels to Other Industries

Banking

Brewery
Shifting Environment – Patient Community, Industry, & Clinical

Sick care → Health maintenance
Conflicting incentives → Community incentives
Fee for service → Capitation
Fragmented → Seamless
Purchaser risk → Provider risk
Physician satisfaction → Patient satisfaction
Healthcare Inflation
U.S. Healthcare Expenditures

$ Trillions

Source: CMS

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National Health Care Expenditures 2007

- Hospital care: 31%
- Physician/clinical services: 21%
- Other professional services: 10%
- Nursing home care: 6%
- Home health care: 3%
- Retail - Rx drugs: 10%
- Retail - Other products: 3%
- Program Administration: 7%
- Govt. public health activities: 3%
- Investment: 6%

Source: CMS
Integrated Delivery System

- 450,000 covered lives
- 275 Primary Care Physicians
- 255 Specialty Physicians
- Hospitals 300 Beds
- Hospitals 300 Beds
- Hospitals 300 Beds

Source: New England Journal of Medicine
Importance of Primary Care Physicians

- 4,000 Annual Primary Care Visits
- 1,000 Visits to Specialists
- 75 Ambulatory Surgeries
- 100 Admissions
- 100 Admissions
- 400 Patient Referrals

Impact on Surgery Centers / Hospitals

Source: 1989 Federal Government
# Board Certified Physicians Per Capita in the U.S.

<table>
<thead>
<tr>
<th>Board Certified Physicians, from 1930 – 2008</th>
<th>Total</th>
<th>Per Capita in U.S. per 100,000 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allergy &amp; Immunology</td>
<td>5,801</td>
<td>2</td>
</tr>
<tr>
<td>Anesthesiology</td>
<td>43,612</td>
<td>15</td>
</tr>
<tr>
<td>Colon &amp; Rectal Surgery</td>
<td>1,998</td>
<td>1</td>
</tr>
<tr>
<td>Dermatology</td>
<td>13,950</td>
<td>5</td>
</tr>
<tr>
<td>Emergency Medicine</td>
<td>28,564</td>
<td>10</td>
</tr>
<tr>
<td>Family Medicine</td>
<td>97,818</td>
<td>33</td>
</tr>
<tr>
<td>Internal Medicine</td>
<td>227,387</td>
<td>76</td>
</tr>
<tr>
<td>Medical Genetics</td>
<td>2,762</td>
<td>1</td>
</tr>
<tr>
<td>Neurological Surgery</td>
<td>5,764</td>
<td>2</td>
</tr>
<tr>
<td>Nuclear Medicine</td>
<td>5,168</td>
<td>2</td>
</tr>
<tr>
<td>Obstetrics &amp; Gynecology</td>
<td>48,014</td>
<td>16</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>24,563</td>
<td>8</td>
</tr>
<tr>
<td>Orthopaedic Surgery</td>
<td>27,880</td>
<td>9</td>
</tr>
<tr>
<td>Otolaryngology</td>
<td>17,245</td>
<td>6</td>
</tr>
<tr>
<td>Pathology</td>
<td>30,526</td>
<td>10</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>93,720</td>
<td>31</td>
</tr>
<tr>
<td>Physical Medicine &amp; Rehabilitation</td>
<td>9,193</td>
<td>3</td>
</tr>
<tr>
<td>Plastic Surgery</td>
<td>7,569</td>
<td>3</td>
</tr>
<tr>
<td>Preventive Medicine</td>
<td>9,798</td>
<td>3</td>
</tr>
<tr>
<td>Psychiatry &amp; Neurology</td>
<td>62,376</td>
<td>21</td>
</tr>
<tr>
<td>Radiology</td>
<td>53,915</td>
<td>18</td>
</tr>
<tr>
<td>Surgery</td>
<td>58,103</td>
<td>19</td>
</tr>
<tr>
<td>Thoracic Surgery</td>
<td>7,493</td>
<td>2</td>
</tr>
<tr>
<td>Urology</td>
<td>13,291</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: ABMS, Chicago
Medical Group/Hospital Perspectives

**Hospitals**
- Big
- Established/diversifying
- Community focus
- Long-range perspective
- Management control
- Bureaucratic
- Delegated decision making
- Need and want integrated system

**Groups**
- Little
- Young/growing
- Internal focus
- Short-term perspective
- Owner (doctor) control
- Anarchistic
- Consensus based
- Need, but don’t want integrated system
Medical Practice Organization Alternatives

Solo practice
Physician PPO
Shared/lease staff
IPA
Groups without walls
Primary care group
Multi-specialty group

Less integration
More integration

Source: “Alternatives in Restructuring Hospital Physician Relationships,” 1/91
Solo Practice

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Integrated Medical Group Practice

Payers

Medical Group

Shareholder & Employed Physicians

© Davis Wright Tremaine
Range of Hospital-Physician Affiliation Models

- Traditional hospital-staff relationship
- Hospital-based service bureau
- Hospital-affiliated IPA
- Physician-hospital organization
- Hospital-based MSO
- Hospital-based clinic
- Hospital-employment of physicians

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Management Service Organization

Medical Group

$\$\$

Payers

$\$\$

Turnkey Management Services Agreement

Management Services Organization (MSO)

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Equity Model

Payers

Contract Negotiation

$\$\$

Physician Governance

For-Profit Group Practice

Hospital Services

Hospital

$\$\$

$\$\$

Contractual relationship

Ownership relationship

Growth:
New Recruits
Practice Purchases

Physician Clinic

For-Profit Group Practice

Equity Model

Payers

Contract Negotiation

$\$\$

Physician Governance

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Hospital Services

Hospital

$\$\$

$\$\$

Contractual relationship

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Growth:
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Physician Clinic

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## Appraising Provider-Based Integrated Delivery System Models

### Transitional Models
- **Entry Models:**
  - Service Bureau: C+
  - GPWW: C-
  - Open PHO: C-
- **Selective Models:**
  - Closed PHO: B-
  - MSO: B

### Sustainable Models
- **Foundation Model:** A-
- **Hospital Employment Model:** A
- **Physician Equity Model:** A+
The Future in Summary

1. Costs will continue to rise
2. Change will be incremental
3. No silver bullets
4. New ideas will proliferate
5. It is in your hands!
Microeconomic Issues
Economics of Compensation
Group Compensation

- Standard fee for service
- Discounted fee for service
- Capped fees
- Primary care capitation
- Full capitation

Least Risk  Most Risk
Key Financial Drivers

• Contracts with payors
• Collecting accounts receivable
• Controlling overhead costs
Example

<table>
<thead>
<tr>
<th>1 OB/Gyn FTE, annual amounts</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Gross charges</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Collection %</td>
<td>55%</td>
</tr>
<tr>
<td>Receipts</td>
<td>825,000</td>
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</table>

**Operating costs:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support staff</td>
<td>$(251,460)</td>
</tr>
<tr>
<td>Information technology</td>
<td>$(11,303)</td>
</tr>
<tr>
<td>Drug/medical/surgical supplies</td>
<td>$(47,933)</td>
</tr>
<tr>
<td>Building and occupancy</td>
<td>$(61,545)</td>
</tr>
<tr>
<td>Admin supplies</td>
<td>$(13,613)</td>
</tr>
<tr>
<td>Malpractice/liability insurance</td>
<td>$(43,313)</td>
</tr>
<tr>
<td>Outside professional fees</td>
<td>$(13,530)</td>
</tr>
<tr>
<td>Clinical lab</td>
<td>$(16,253)</td>
</tr>
<tr>
<td>Radiology</td>
<td>$(10,725)</td>
</tr>
<tr>
<td>Other</td>
<td>$(21,863)</td>
</tr>
</tbody>
</table>

**Amount available for compensation**

<table>
<thead>
<tr>
<th>Amount available for compensation</th>
<th>$333,465</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a % of gross charges</td>
<td>22%</td>
</tr>
<tr>
<td>As a % of receipts</td>
<td>40%</td>
</tr>
</tbody>
</table>
Compensation by Specialty

Average Compensation (Salary and Bonuses)

- Anesthesiology
- Cardiology
- Family Practice
- General Surgery
- OB/Gyn
- Radiology

MGMA data, Modern Healthcare
Physician Compensation: Method of Pay

- Salary
- Salary with Bonus
- Income Guarantee
- Other

Merritt Hawkins & Associates
Important considerations regarding compensation

• Understand the method of pay
  – Bonuses:
    • How calculated?
    • When paid?
  – Income guarantees:
    • Based on gross income or net income?
    • What are the stipulations?
• Seek the advice of a healthcare business consultant and a health care attorney
Possible Employment Incentives

- Relocation allowance
  - $2,500 - $25,000… average $10,000

- Signing bonus
  - $5,000 - $75,000… average $25,000
Common Fringe Benefits Provided to Physician Employees

- Health insurance
- CME time
- Disability insurance
- Malpractice insurance
- Pension / Profit Sharing
- CME tuition
- Hospital dues
- Vacation
Other Fringe Benefits Provided to Physician Employees (less common)

- Life insurance
- Educational loan forgiveness
- Dental insurance
- Auto allowance
Evaluating your Opportunities

• Why is the employer looking to hire a new physician?
• What is the practice’s draw area; how many physicians of your specialty serve this area?
• What is the future vision?
• Has anyone left the group in the past 10 years?
Evaluating your Opportunities

- What locations will you be expected to work at?
- What support staff are available?
- How is call divided?
- When is partnership offered to new physicians?
- What is the cost of partnership buy-in?
- What is the payor mix of the region?
Iceberg Model of Corporate Culture

**Surface:** Dress, rituals, stories; How we describe ourselves; What we want others to believe

**Assumptions:** Beliefs about people, work, organization

**Values:** Values behind basic assumptions
Top Ten Keys to Running a Successful Practice

1. Have a clear practice vision
2. Identify your core values
3. Share your vision and core values with your staff
4. Build a team, not your ego
5. Hire the best
6. Acknowledge Excellence
7. Love your patients
8. Define and deliver quality
9. Do your best every day
10. Love yourself

Source: Dr. Ron Arndt
Any Questions?
GOOD LUCK!