Can Hospitals and Independent Community Practices Work Together?

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Setting the Context

Challenges faced by Community Providers

• The need to see higher volumes of patients due to aging population
• Severe reimbursement pressures
• Decline in chemotherapy margins
• Utilization of radiation is under attack
• Continued escalation of the technology wars
• Erosion & uncertainty of physician compensation
• Hospital consolidation of PCs, FP, specialists and control of referrals

Setting the Context

Challenges faced by Community Providers

• ACCC Survey –
  – Consolidation of cancer programs/practices is increasing; hospitals, regional & national organizations
  – Relationships between hospitals and community based practices are increasing with physician employment being a clear trend
  – Community based oncologists have significant concerns around the stability of their practices and income
  – Growing use of EMRs and other technology related to care delivery: eprescribing, meaningful use, etc.
  – Capital costs: drugs & technology
Setting the Context
Demographic Shift in Payer Make Up

Today
Government 45%
Managed Care 50%
Other 5%

2020
Government 54%
Managed Care 45%

Setting the Context
Impact of Healthcare Reform

Setting the Context
Value Based Reimbursement

• Integrated networks
• Utilization risk transferred to providers/networks
• Significant management needs
  – Information technology
  – Care management
  – Process improvement & efficiency
Setting the Context
Oncologist Compensation

Modern Healthcare (2010)
Range: $273K - $419K

Understanding the Landscape
Why are Hospitals focused on Oncology?

• A 2010 survey of hospital CFOs by Merritt Hawkins reported that “employed specialists” generate revenue of between 5 to 10 times their base salary
  – Hematology/Oncology:
    • Ave. Salary = $335K
    • Ave. Revenue = $1.4MM

* Of note is that the $1.4MM is a decrease of over 18% from 2002

Understanding the Landscape
Why are Hospitals focused on Oncology?

• Oncology is considered one of “The Big 3” profit centers –
  – Cardiovascular
  – Orthopedics/Musculoskeletal
  – Oncology

• Highly profitable but only when comprehensive and fully integrated
  – Medical
  – Radiation
  – Surgery – general, breast, gyn
  – Ancillaries – chemo, radiation, imaging, lab
  – Research
Understanding the Landscape
Hospital (CEO) Challenges/Focus with Oncology

- Recruitment of high quality physicians with both clinical and business acumen
- Retaining, motivating and managing of physicians and other key staff
- Developing and managing of a fully integrated, multispecialty oncology delivery system recognized for high quality care and customer service combined with state of the art technology
- Coordination of care and services – “difficult to keep all physicians and staff on the same page”
- Operational efficiencies and effective management – drugs, technology, reimbursement (code for cost management & productivity)
- Ability to develop and maintain research programs
- Implementing, integrating and maximizing EMR functionality
- Tracking, monitoring, benchmarking and standardization of quality and performance metrics/outcomes
- Increasing shift to under-insured and uninsured population
- Effectively marketing oncology services

Understanding the Landscape
Hospital (TAB) Challenges/Focus with Oncology

- Accountable Care (ACOs) is seen as an inevitable long-term outcome of health care reform but most CEOs are focused on short term program and business needs rather than ACO preparedness
- Physician employment or alignment to improve coordination of care
- Improved quality measures and tracking along with pathways/disease management
- Implementation of integrated EMRs and HIT systems
- Benchmarking of “best practices” including operational efficiency

Where is this Heading?
Two Potential Industry Driven Options

Institutional Systems
- Fully integrated – vertically & horizontally – institutional healthcare organizations
- Likely to be the unique exception
- Likely to be physician employment models

Integrated Virtual Provider Systems
- Provider-based systems that are integrated – virtually
- Likely to be the more common model
- Payment mechanisms that foster & reward collaboration and value
- Physician independence
### Options for Collaboration

#### Hospital Employment Option

- **Practice is purchased by hospital**
  - Assets, A/R, leases, goodwill, other consideration (i.e. malpractice tail coverage)
- **PC/PA may continue for a wind down period**
- **Physicians and practice employees become hospital employees**
  - Physicians would enter into an employment agreement with hospital (3 – 5 years); compensation models vary but typically they are structured around a base and productivity incentive (RVUs), may also include medical director fees
  - Payroll, benefits, etc. fall under the hospital entity
- **Practice’s payer contracts cease**

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#### How this benefits the hospital:

- Gains leverage for growth strategy
  - Protects market share at risk to other providers
  - Grows share in current market and acts as a platform for larger market share – local or regional
  - Attracts physicians & attracts new physicians
  - Enhances payer relations
- Stabilizes market/Secure access
  - Retains physicians who might otherwise leave the market
  - Subsidize physicians for care of low-pay/no-pay patients
  - Drives volume through other services
- Transforms care delivery
  - Able to subsidize/reward physicians for quality and efficiency improvements
  - Incentivize for implementing cost effective treatment processes/pathways, etc.

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#### How this benefits the physician:

- Stabilizes income (potentially)
- Reduced burden of personal investment liability
- Reduced burden of administrative & management issues
- Focus on patient care
- Life/Work balance
- Income from sale of the practice equity (potentially)
Options for Collaboration

Hospital Alignment Option

• Practice (PA/PC) remains independent
• Practice sells and/or leases assets to hospital
• Practice employees become hospital employees
• Hospital assumes revenue stream for professional & technical services
• Hospital contracts for professional services and medical direction with physicians through a Physician Services Agreement (PSA)
• Hospital pays physicians for direct professional services related to patient care at FMV based on RVUs and hourly professional rate for non-patient care activities
• Hospital and physicians are both incentivized to focus on quality and costs to insure long term economic viability

Options for Collaboration

Hospital Alignment Option

How this benefits the hospital:
• Growth of market share
• Ease of entry – buy vs. build
• Consolidation and integration of services and providers
• Expanded access for patients
• Expanded or enhanced clinical offerings
• Enhanced revenue streams
• Expands service catchment area & footprint
• Enhanced brand
• Potential for 340B margins
• Positioning with payers and ACO strategy

Options for Collaboration

Hospital Alignment Option

How this benefits the physician:
• Physicians/practice remain independent (relatively speaking)
• Reduces burden of drug purchasing
• Reduces burden of practice management
• Steady/stable income stream, potentially higher
• Access to larger pool of patients
• Focus on patient care
• Affiliation with a large institution/brand
• Life/work balance improved
Options for Collaboration
How do you decide what option is most advantageous?

- Market dynamics
  - Hospital focus on acquiring physicians
  - Referral base control
  - Payer dominance
- Ability to expand and diversify services
  - Ability to develop an integrated Virtual Provider Network independent of the hospital systems
    - Oncology specific services
    - Ancillary services
    - Support services
- Payer dynamics
  - Market share strength

Questions & Discussion