Physician Alignment Strategies and Options

June 1, 2011
Today’s Discussion

• Review physician-hospital alignment objectives

• Understand the changing paradigm

• Evaluate alignment strategies for a new delivery model

• Define a successful approach to building a sustainable alignment strategy
Driving Forces for Alignment

Health System Objectives
- Gain Leverage for Growth Strategy
- Stabilize Market / Secure Access
- Transform Care Delivery
- Strengthen Financial Position

Physician Objectives
- Stabilize Income from Declining Reimbursement
- Secure Patient Capture / Referral Network
- Improve Work-Life Balance
- Private Practice Exit Strategy
Historical measures of success are fleeting

Success in the Pre-Reform Era

**Physicians**
- More Volume
- Favorable Payer Mix
- Effective Time Management
- Manage Practice Costs

**Hospitals**
- Fill Beds
- Manage LOS
- Control Labor Costs
- Manage Balance Sheet
“Bottom line, if you attempt to use the same care delivery model moving forward, faced with the magnitude of reductions in forecasted revenue, you will go out of business.” Michael Sachs, Sg2
The real issue is clear – An Insolvable Budget Crisis

Average Annual Increases
Total Spend: 7.0%
Medicare Spend: 6.8%
Private Insurance Spend: 7.1%

Source: “U.S. Healthcare Costs” KaiserEDU.org
‘08 Breakdown of Healthcare Expenditures

Total Healthcare Spend:
- $2.3 Trillion

Key Drivers of Increases:
- Technology & Drugs
- Chronic Disease
- Aging Population

Source: “U.S. Healthcare Costs” KaiserEDU.org
CMS Global Payment per Enrollee

A CO Objective is to **SLOW** the growth of Medicare Spending

<table>
<thead>
<tr>
<th>Medicare Reimbursement per Enrollee</th>
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<tbody>
<tr>
<td>National Average</td>
</tr>
<tr>
<td>90th %ile</td>
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<td>50th %ile</td>
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<td>10th %ile</td>
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Optimizing value by focusing on quality, safety, satisfaction and costs

Value (V) = \frac{\text{Quality (Q)} \times \text{Service (S)}}{\text{Cost (C)}}

- **B**: Adding costs to improve quality/service
- **C**: Cutting costs at the expense of quality/service
- **X**: Effectiveness: Improved quality/service at the same or lower cost
- **Y**: Innovation: Improvement in all dimensions
- **Z**: Efficiency: Cutting costs without impacting quality/service

Source: Lean Hospitals, Graban, CRS Press, 2009, p10
Alignment Strategies

From Volume to Value
Physician Alignment Models

Degree of Alignment

High

Tactical

Strategic

Transformational

Low

IT Deployment

PHO

IPA

MSO

Individual Employment Contracts

Joint Venture

Physician Enterprise

ACO

HIZ

Foundation

Institute

PCMH

Clinical Integration

Institute

Directorship / Pay for Call

Recruitment Support / Income Guarantee

Volunteer Medical Staff

Source: Sg2
Alignment Strategies Shifting from Volume to Value

Historical “Volume” Paradigm Promoted Employment

• Fixed Compensation
• Productivity Compensation
• Administrative Responsibilities – compensation for lost volume
• Defend markets and provide outreach
• Competitive advantages with sub-specialties

New “Value” Paradigm Promotes Integration

• Integration as a way to align incentives
  – Volume & Cost
  – Physician Leadership
• Demonstrates Quality across a continuum
  – Common IT
  – CMS Core Measures / Outpatient Measures
  – Patient Satisfaction
Co-Management as a model to improve *Value* for a Health System

Hospital

Governance Committees

**Physician LLC**

- FMV Compensation
- Management Fee Distributions
- Management Services
- Investment

**Fixed Duties**

- Committee Involvement
- Day-to-Day Mgmt
- Strategic Plan Dev
- Clinical Care Mgmt
- Quality Improvement
- Staff Oversight
- Materials Mgmt
- Budget Development

**Performance Metrics**

- Clinical Outcomes
- Patient Safety
- Satisfaction
- Operational Processes
- Financial Performance

**Equipment**

- Equipment*
- Staffing*
- Supplies

*Only one of two may be included

**Source:** Dixon Hughes

*Only one of two may be included*
PHO / IPA Approach to Clinical Integration

ONE Network that can Demonstrate Value
A Simple Definition for Clinical Integration

Primary care physicians, specialists and hospitals working together, using proven protocols and measures, to improve patient care.
Economic Benefits to Physicians and Hospitals

- Governmental Funds
- In-Network Referrals
- Reduction of Costs
- Improve Efficiency
- Increase Revenues

Degree of Impact

*Source: Health Care Advisory Board interviews and analysis*
Clinical Integration Program Components

- Physician – Hospital Collaboration
- Optimized IT Infrastructure
- Measurement and Reporting
- Payment Incentives
Flexibility for Shifting Risk

- Consumers
- Employers
- Health Plans
- Government Payers

Risk Shift

- Physicians
- Medical Groups
- Hospitals
- Other Providers

Source: Pricewaterhouse Coopers | Dixon Hughes Goodman
Building A Sustainable Alignment Strategy
Alignment Evaluation Process

1. Assign Accountability
   Objective: Establish Hospital and Physician Leadership responsible for assessing the physician alignment evaluation process.

2. Define the WIN-WIN Relationship
   Objective: Document the desired future state relationship for the physician(s) and the hospital in order to create unity between parties.

3. Evaluate the Opportunity
   Objective: Evaluate the financial implications of aligning for both the physician(s) and the hospital.
Sample: Physician Alignment Matrix

- **Low Integration**
  - **Significant Opportunity**
    - Primary Care Group
      - Practice Support, Medical Directorship
    - General Surgeons
      - Call Contract
    - Multi-Specialty Group
      - Independent Med. Staff
  - **Minimal Opportunity**
    - Medical Oncology
      - Independent Med. Staff

- **High Integration**
  - **Significant Opportunity**
    - Orthopedics
      - Co-management
    - Cardiology
      - Co-management
  - **Minimal Opportunity**
    - Neurosurgeons
      - Call Contract

**Co-management**

**Employment**

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Alignment Evaluation Process

4. Determine the Alignment Model
   Objective: Determine the optimal alignment built around a WIN-WIN foundation with which both parties are satisfied.

5. Create the Business Plan
   Objective: Develop a transparent set of assumptions and data to evaluate the chosen alignment model.

6. Measure and Monitor Performance
   Objective: Analyze the performance and on-going relationship(s) resulting from the alignment initiative at regular intervals.
Questions

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