



2011 CANCER CENTER BUSINESS SUMMIT



Achieving Accountable Cancer Care

October 13 – 14, 2011

Palmer House Hotel • Chicago, Illinois



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Successful Hospital-Oncologist Alignment & Compensation Models

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Successful Hospital-Oncologist Alignment & Compensation Models

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Introduction

- The members of the panel
- The facts of the case study

Case Study

- Northwind Medical Center desires to affiliate with Hematology Oncology Associates (HOA) for clinical integration and quality/efficiency improvement purposes
- Northwind operates two Hospitals: Starburg and Forestburg
 - Starburg qualifies for 340B drug pricing
- HOA has on-campus practice sites at both Hospitals and a satellite office in Harbortown
 - All sites within 35 miles of Starburg

Case Study

- Northwind is interested in converting all HOA sites to Hospital-licensed outpatient facilities
- HOA physicians are not interested in selling their practice or becoming Northwind employees
- HOA physicians want to preserve opportunity for independent private practice
- Parties interested in exploring hybrid PSA/Co-management arrangement

Case Study

- Features of PSA/Co-management arrangement to be considered include:
 - Professional medical staffing of all sites by HOA
 - Medical directorship and clinical oversight of Northwind MO services
 - Administrative co-management of Northwind MO service line
 - Business and clinical staff to support provider-based services at HOA sites (clinical staff at on-campus locations only)
 - HOA as Northwind's billing and collection agent for services at HOA sites
 - Oversight of MO clinical research program

Professional Services and Co- Management Arrangement

PSA: Introduction

- Professional Services Agreement
 - Contract between Northwind and HOA to staff Northwind facilities in exchange for fair market compensation
 - Powerful tool
 - to convert existing HOA sites, including Harbortown (off-campus) site to hospital licensed facilities paid at hospital outpatient payment rates
 - Integrate and align Northwind and HOA to improve quality, efficiency and operations of Northwind's oncology service line

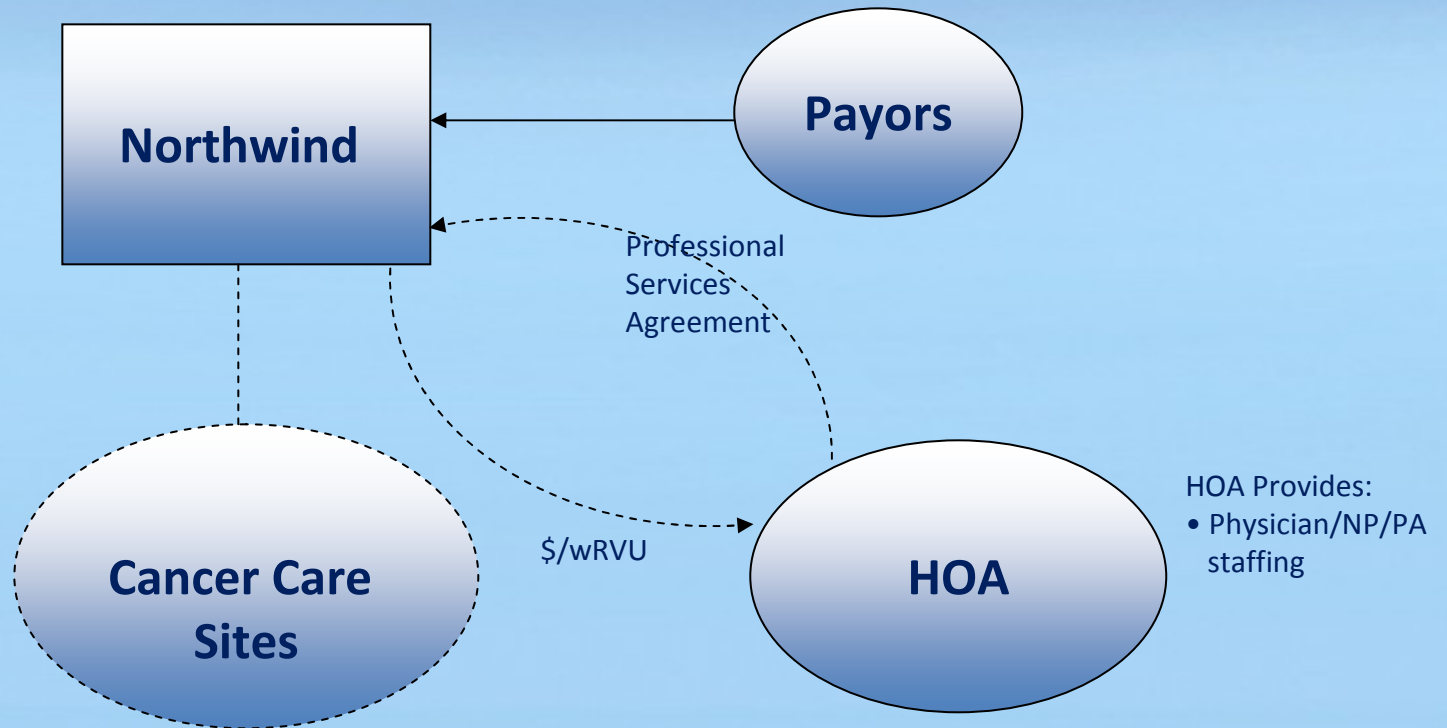
PSA: Introduction

- Potential economic win-win
- HOA paid fair market value compensation on an aggregate fixed fee or wRVU basis
 - Eliminates risk of reimbursement reductions and collection risk (free care/bad debt)
 - Other: purchase of equipment, management services, employee lease?
- Northwind establishes new satellite sites and new book of oncology business
 - Good contribution margin due to combination of hospital rates and physician office cost structure
 - 340B drug pricing at all sites
- Potential economic losers
 - Payors—higher rates for “same” services
 - Higher patient co-pays

Professional Services Agreement

Northwind provides:

- License
- Provider-based status
- 340B drug pricing



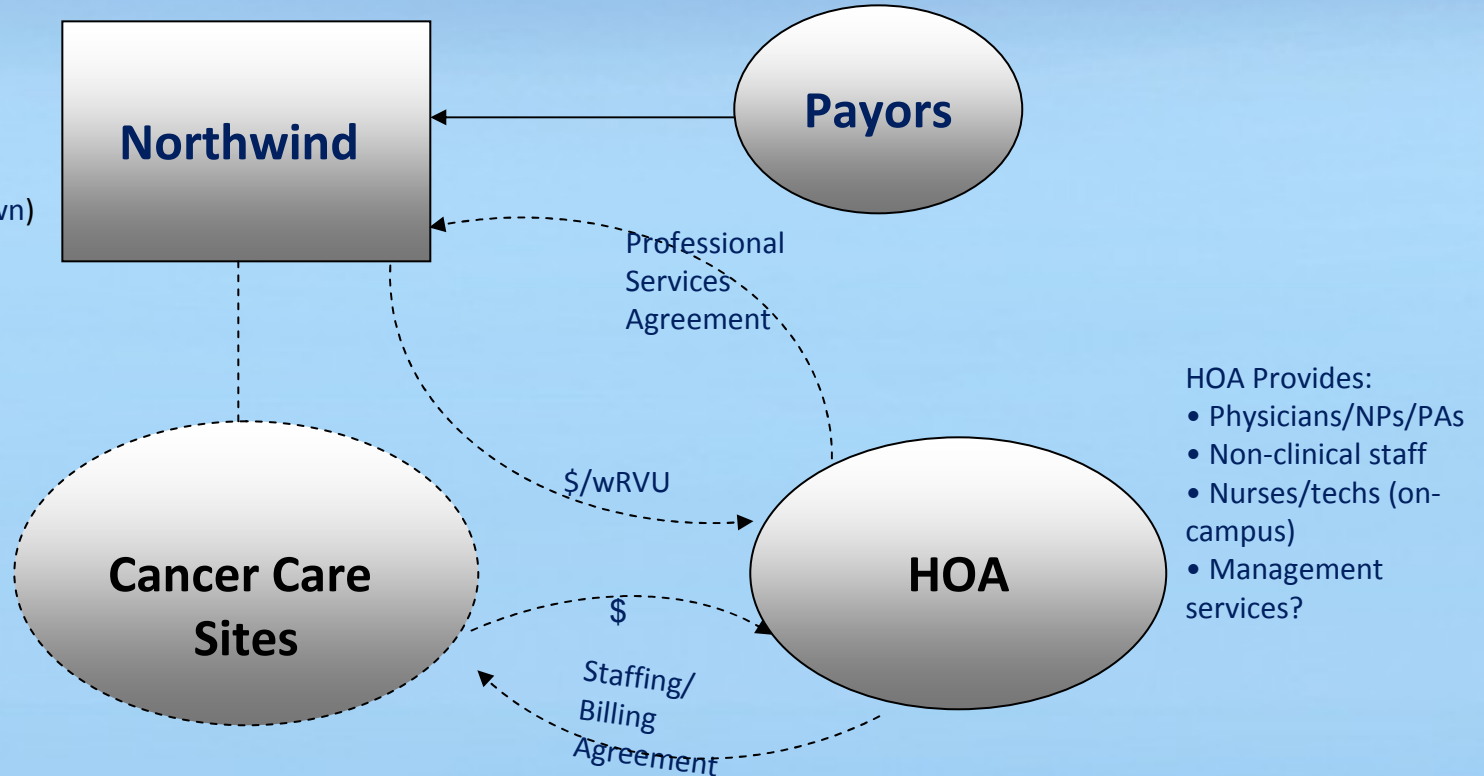
PSA Transaction

- Avoid U/A transaction—HOA cannot “perform the service”
 - Northwind takes assignment of leases of HOA sites from landlords
 - Northwind purchases HOA’s FFE and inventory at fair market value?
 - Northwind employs HOA’s nurses/techs at Harbortown (to meet Medicare provider-based status rules for off-campus locations)
- HOA provides all other staff
 - Physicians/NPs/PAs
 - Non-clinical/administrative staff at all sites
 - Nurses and techs at on-campus sites (Starburg/Forestburg)

Professional Services Agreement

Northwind provides:

- License
- Provider-based status
- 340B pricing
- Space/equipment
- Nurses/techs (Habortown)



HOA Provides:

- Physicians/NPs/PAs
- Non-clinical staff
- Nurses/techs (on-campus)
- Management services?

Notes:

- PSA on fair market wRVU basis
- Employee lease on a cost plus fair market mark-up basis
- Billing services at fair market percentage of collections or fixed fee per claim?

Principal PSA Legal Issues

- Stark Law
 - Under arrangements prohibition: cannot have investment interest in entity (including own medical group) that “performs” the DHS service
 - Personal services, fair market value or indirect comp exception: fair market value requirement/independent appraisal strongly advised

Principal PSA Legal Issues

- Anti-Kickback Statute
 - Approximate personal services and management contracts and/or space or equipment rental safe harbor
 - fair market value/independent appraisal strongly advised
 - Some irreducible AKS risk: aggregate compensation not set in advance if wRVU based

Principal PSA Legal Issues

- Tax Exemption Considerations
 - No inurement/private benefit
 - No excess benefit transaction
 - Rebuttable presumption of reasonable compensation process
 - Rev. Proc. 97-13 and private use of bond financed space or equipment/duration limitations (3 years/2 year out)

Principal PSA Legal Issues

- Provider Based Status Regulations
 - Within 35 miles of main hospital campuses
 - Northwind hospital license requirements/Physical space standards
 - CON issues
 - Clinically, financially and administratively integrated with Northwind
 - Northwind reporting lines
 - Northwind must directly employ mid-level direct care providers (other than NPs/PAs) at off-campus sites (Harbortown)

PSA Financial Model

- What level of compensation for professional medical services is supportable by FMV appraisal?
- Why FMV? To comply with Stark and AKS re: compensation for personal services.
- Where do you find support for FMV compensation rates?
- Physician Comp & Production Survey (MGMA); Comp & Financial Survey (AMGA); Physician Comp & Productivity Survey (Sullivan & Cotter).

PSA Financial Model

- Physician Comp & Production Survey (MGMA 2010)
Hematology/Oncology

Table 82A: Physician Compensation

	25 th %tile	Median	75 th %tile	90 th %tile
Single Spec	\$277,886	\$367,564	\$522,247	\$783,651
Multi Spec	\$267,373	\$349,003	\$463,174	\$737,801
Midwest	\$280,925	\$373,395	\$518,257	\$870,793
Blend	\$275,395	\$363,320	\$501,226	\$797,415

PSA Financial Model

- Physician Comp & Production Survey (MGMA 2010)
Hematology/Oncology

Table 82D: Physician Work RVUs (NPP excluded)

	25 th %tile	Median	75 th %tile	90 th %tile
Single Spec	4,253	5,185	7,411	9,251
Multi Spec	3,455	4,434	6,046	7,736
Midwest	3,444	4,119	5,889	7,936
Blend	3,717	4,579	6,448	8,307

PSA Financial Model

- Physician Comp & Production Survey (MGMA 2010)
Hematology/Oncology

Table 82E: Comp to Phys Work RVUs Ratio (NPP excluded)

	25 th %tile	Median	75 th %tile	90 th %tile
Single Spec	\$66.54	\$81.10	\$114.33	\$154.20
Multi Spec	\$66.20	\$79.29	\$102.43	\$125.64
Midwest	\$64.54	\$76.98	\$97.82	\$117.48
Blend	\$65.76	\$79.12	\$104.86	\$132.44

PSA Financial Model

wRVU Breakdown per HOA Physician

Conundrum: chemo admin RVUs account for 12%-13% of total wRVUs

Category	MD #1	MD #2	MD #3	Total
Chemo Admin RVUs	815	923	907	2,645
E&M RVUs	5,863	6,017	5,980	17,860
Totals	6,678	6,940	6,887	20,505
Chemo Admin RVUs as % total	12.2%	13.3%	13.2%	12.9%

PSA Financial Model

Payment to HOA under PSA for Professional Medical Services

Note: HOA still has practice admin costs and malpractice
to pay out of proceeds to HOA under the PSA (\$50,000 per MD per year)

Patient Care Medical Services	\$105 per wRVU X 6,700 wRVUs	\$703,500
Service Line Medical Directorship	12 hours per week x \$225 per hour	\$135,000
Service Line Clinical Research Directorship	8 hours per week x \$200 per hour	\$80,000

Other Key PSA Issues

- Payor pushback
- Role in governance of service line
- wRVU valuation issues
 - Relation to existing physician compensation/ margins on drugs, imaging, labs, etc.
 - Other continuing expenses
 - New physicians/NPs/PAs
 - Anti-dilution protection
 - Harmonizing with alternative payment arrangements
- No overlap of duties/double payment
- Timing of 340B eligibility/cost report

Other Key PSA Issues

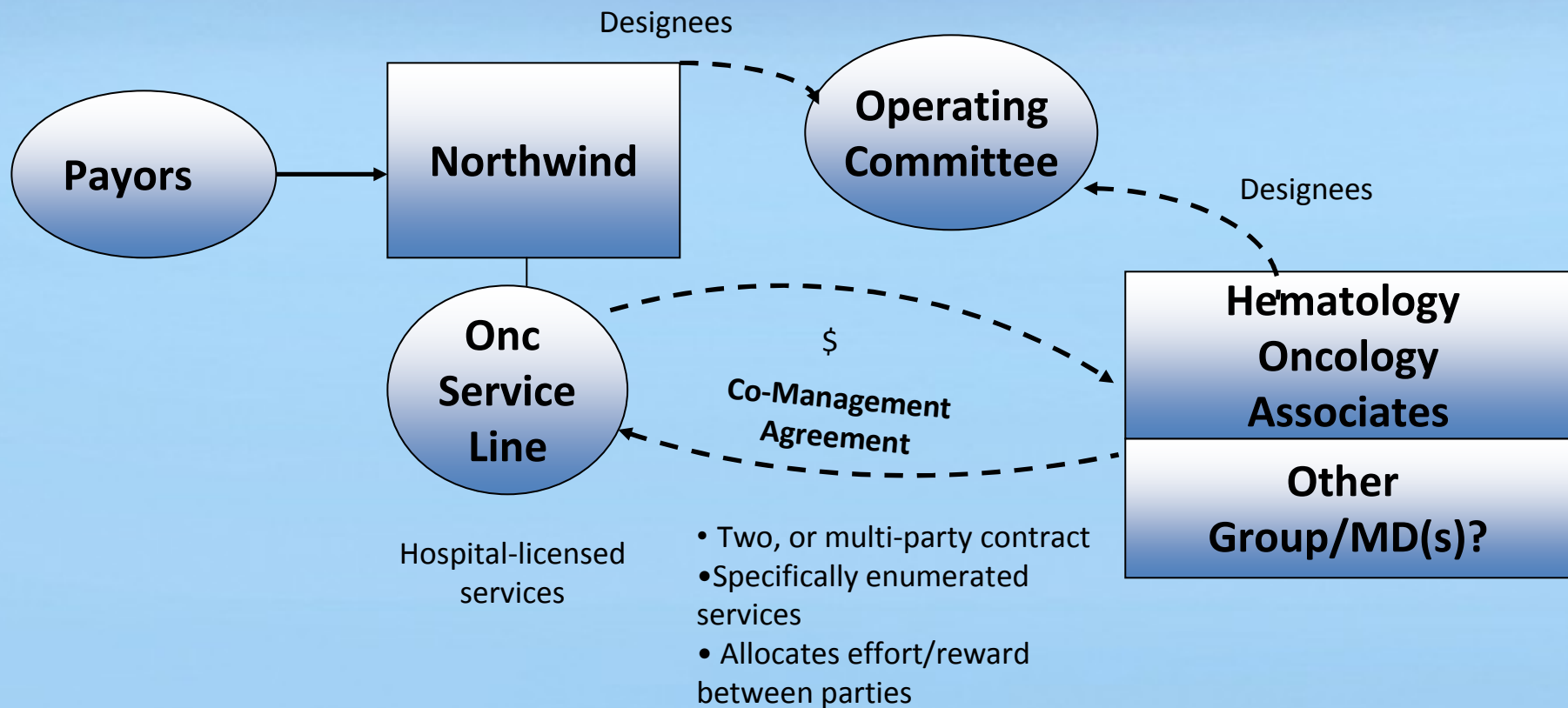
- USP 797 Standards
- Exclusivity and other existing relationships
- Staffing Issues
 - Split staff (off-campus) and salary/benefit differentials
 - Union issues
- Unwind rights
 - Asset repurchase
 - Lease assignment/real estate repurchase
 - Solicitation of employees
 - Data/records access/transfer
 - Systems issues
 - Non-compete exception

**Hybrid PSA/Service Line
Co-Management Arrangement**

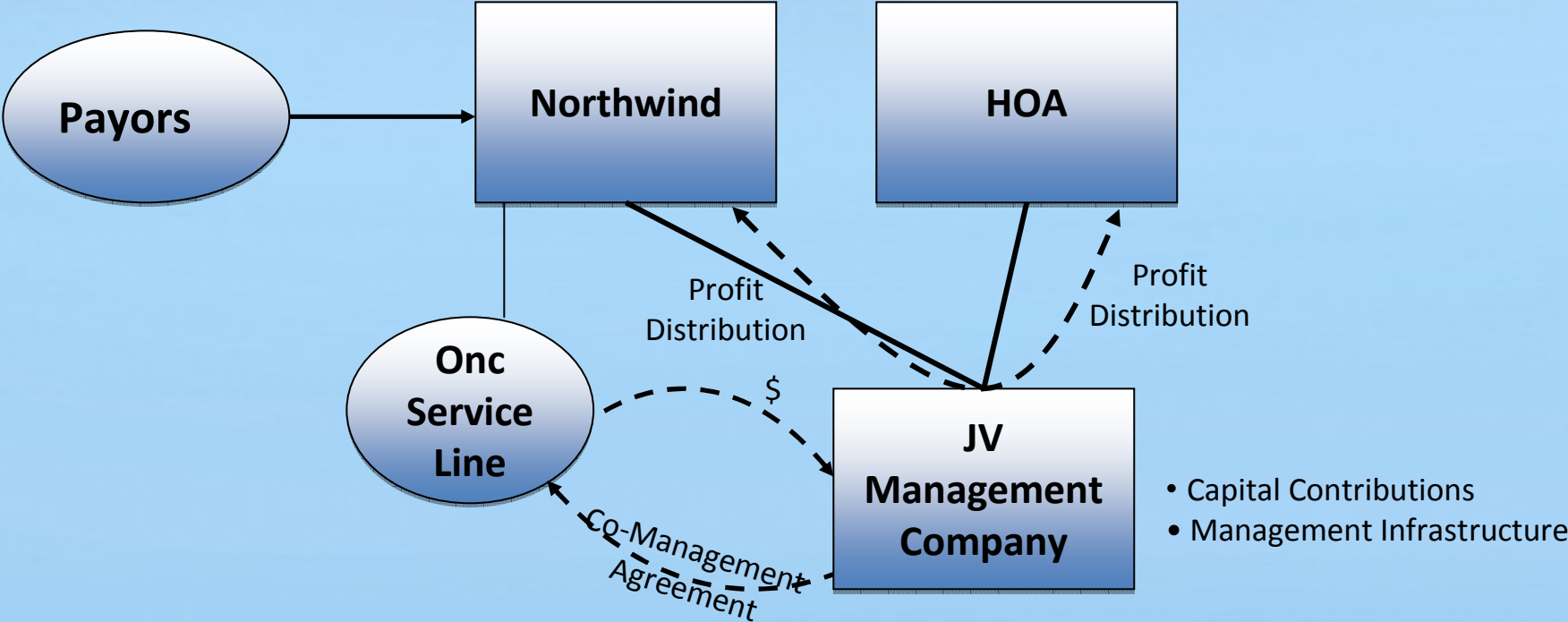
What Is a Service Line Co-Management Arrangement?

- Independent contractor relationship between Northwind and HOA, or between Northwind and a joint venture LLC comprised of Northwind and HOA
- Focused on Northwind's oncology service line
 - Scope
- To engage HOA physicians as a business partner in co-managing, overseeing and improving service line quality and efficiency

Service Line Co-Management Direct Contract Model



Service Line Co-Management Joint Venture Model



Service Line Co-Management Arrangement

- Two levels of payment to HOA as manager:
 - Base fee – a fixed annual base fee that is consistent with the fair market value of the time and effort participating HOA physicians dedicate to service line development, management, and oversight
 - Bonus fee – a series of pre-determined payment amounts, each of which is contingent on achievement of specified, mutually agreed, objectively measurable, program development, quality improvement and efficiency goals
 - Aggregate payment generally approximates 3-6% of service line revenues
 - Fixed, fair market value; independent appraisal strongly advised

Sample Medical Oncology Performance Standards

- Increase in percentage of patients with written treatment plans at start of infusion
- Increase in percentage of written treatment plans with indication of:
 - Staging
 - Intention of therapy
 - Approved treatment regimen for tumor site/staging
- Increase in percentage of written treatment summaries at completion of course of treatment

Sample Medical Oncology Performance Standards

- Comply with NCCN/QOPI guidelines
- Increase in patient satisfaction
- Increase in staff satisfaction
- Decrease in infusion site infections
- Substitution of lower cost drugs/items for drugs/items of equivalent efficacy and quality
- Increase in patient accruals for hospital clinical trials

Regulatory Considerations

- There are legal constraints on Service Line Co-Management Agreements (i.e., Stark, CMP, and AKS):
 - No stinting
 - No steering
 - No cherry-picking
 - No gaming
 - No payment for changes in volume/referrals
 - No payment for quicker-sicker discharge
 - No reward for changes in payor mix, case mix
 - Must be FMV; independent appraisal required

Co-Management Financial Model

Case study: services to be provided by HOA

- ✓ PSA - Professional medical staffing of all sites by HOA
- ✓ PSA - Medical directorship of Northwind MO services
- ✓ PSA - Oversight of MO clinical research program
- Administrative co-management of Northwind MO service line
- Business and clinical staff to support provider-based services at HOA sites (clinical staff at on-campus sites only)
- HOA as Northwind's billing and collection agent for services at HOA sites

Administrative Co-Management

**Base fee + bonus fee for programmatic development,
implementation, management**

1. Develop, implement, manage clinical pathways program
2. Implement, manage QOPI program
3. Community seminars to promote service line growth

Develop, Implement, Manage Clinical Pathways Program

- Physician disease committees formed to refine and adopt NCCN guidelines or acquire template pathways program for service line-wide implementation.
- Process for routinely updating pathways and monitoring compliance.
- A powerful tool for enabling a newly appointed service line medical director.
- Base compensation: range of \$40,000 annual depending on number of disease committees.
- Bonus compensation based on reduction in drug cost ratios.

Implement, Manage QOPI Program

- Practice implements and manages Quality Oncology Practice Initiative (QOPI) program service line-wide;
- QOPI is an ASCO program with 89 oncology-specific quality measures – a “plug in” for hospital service line
- Base compensation: range of \$100,000 annual.
- Bonus compensation tied to Northwind’s Value Based Purchasing initiative, that is, improvement over historic performance or outcomes against national benchmarks. To be determined during implementation phase.

Community Seminars to Promote Service Line Growth

- Practice responsible for content, program design, recruiting outside speakers.
- Hospital marketing department responsible for promotion, logistics, event management.
- Programs presented in local community Quarterly.
- Base compensation: \$60,000 annual
- Bonus compensation: under consideration, but how to bonus program growth (referrals)?

Administrative and Clinical Staff to Support Provider-Based Services

- Practice provides personnel to staff service line business and infusion functions (“employee leasing”);
- Need clear lines of reporting. Hospital v. practice personnel policies. Hospital v. practice benefit package
- Compensation: payroll cost plus 5% to 12%
- Business staff payroll at \$0.9 M plus nurse/tech payroll at \$1.2 M = \$2.1 M x 6% = \$126,000

Infusion clinical staff at on-campus sites only); staff engaged in billing & collections functions removed from business staff payroll – these staff are accounted for in billing & collections arrangement

HOA as Northwind's Billing and Collection Agent

- Practice assumes responsibility for oncology-specific revenue cycle: pre-authorization, charge capture, coding, claims submission, tracking, denials management, rebilling, posting
- Can't "double dip" as leased employees
- Difficult to implement: choice of billing system, interface/integration with hospital enterprise-wide systems; reconcile with hospital admissions and finance functions; risk of compromised and unworkable hybrid systems.
- Compensation: ranges from 3% to 6% net revenues (collections). Assume service line net revenues of \$20 M x 4% = \$800,000

Co-Management Financial Model

Summary

Element	Methodology	Amount
Pathways	Hourly	\$40,000
QOPI	Hourly	\$100,000
Seminars	Hourly	\$60,000
Employee lease	6% above cost	\$126,000
Billing & Collections	4% net revenue	\$800,000
Total		\$1,126,000

Other Key Service Line Co-Management Issues

- Additional work for already busy physicians
- Scope of service line under management
 - Service line co-management services
 - No overlap with, e.g., PSA, employee lease, Medical Director agreement or other agreements
- Performance standards and targets
 - Validation
 - Achievability
 - Reset

Key Service Line Co-Management Issues

- Term/durability
 - Rev. Proc. 97-13 (5/3 years if 50%+ fixed)
 - Valuation duration
- Dilutive effect of adding physicians due to fixed FMV fee for services rendered
- Cost of independent monitor, valuation, security offering (for JV)
- Some irreducible legal risk

Hybrid PSA/Co-Management Financial Model

Element	Methodology	Amount
Patient Care Medical Services	\$105 per wRVU X 7 med oncs	\$4,500,000
Service Line Medical Directorship	12 hours per week x \$225 per hour	\$135,000
Service Line Research Directorship	8 hours per week x \$200 per hour	\$80,000
Pathways	Hourly	\$40,000
QOPI	Hourly	\$100,000
Community Seminars	Hourly	\$60,000
Employee lease	6% above cost	\$126,000
Billing & Collections	4% net revenue	\$800,000
Total		\$5,841,000