

The Health Management Academy Issue Forum V

Physician Alignment, Affiliation Agreements & Network Strategies

Ronald Barkley, MS, JD

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Case Study

- Comfort Zone Medical Center seeking to affiliate with Anytown Oncology Associates (AOA);
- Comfort Zone operates two hospitals: Anytown and Painless
 - Anytown qualifies for 340B drug pricing
- AOA has on-campus practice sites at both Hospitals and a satellite office in Harvestown.
 - All sites within 35 miles of Anytown

Case Study

- Comfort Zone interested in converting AOA sites to provider-based outpatient facilities;
- AOA physicians not interested in selling their practice outright or becoming Comfort Zone employees;
- AOA physicians want to preserve some elements of independent private practice;
- Parties have determined to pursue a professional services and co-management relationship.

Case Study

Features of PSA/Co-Management arrangement to be considered include:

- Professional medical staffing of all sites by AOA;
- Medical directorship and clinical oversight of Comfort Zone medical oncology services;
- Administrative Co-Management of Comfort Zone oncology service line;
- Business and clinical staff to support provider-based services at AOA sites (clinical staff at on-campus locations only);
- AOA as Comfort Zone's billing and collection agent for services at AOA sites;
- Oversight of oncology clinical research program.

Professional Services Agreement (PSA)

PSA: Introduction

Professional Services Agreement

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

PSA: Introduction

- Potential economic win-win
- AOA 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, ongoing management services
- Comfort Zone 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

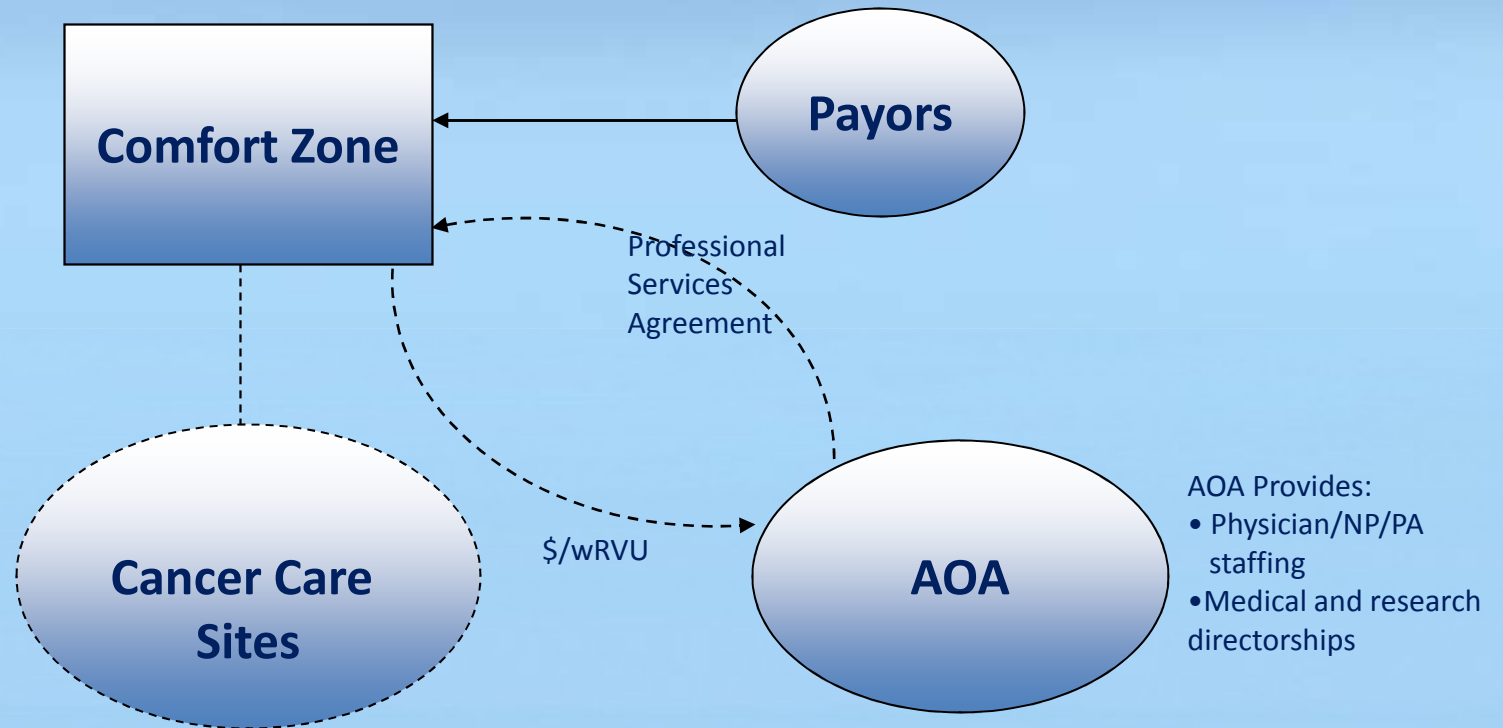
PSA Transaction

- AOA provides professional medical staff
 - Physicians/NPs/PAs
- AOA provides service line medical director and clinical research director
- Avoid “under arrangements” transaction—AOA cannot “perform the service”
 - Comfort Zone takes assignment of leases of AOA sites from landlords?
 - Comfort Zone purchases HOA’s FFE and inventory at fair market value?

Professional Services Agreement

Comfort Zone provides:

- Licensed provider
- Provider-based status
- 340B drug pricing



Principal PSA Legal Issues

Stark Law

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

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
- Comfort Zone hospital license requirements/physical space standards/JCAHO
- CON issues
- Clinically, financially and administratively integrated with Comfort Zone
- Comfort Zone reporting lines

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 AOA Physician

How to handle: 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 AOA under PSA for Professional Medical Services

Note: AOA still has practice admin costs and malpractice
to pay out of proceeds to AOA 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/decision making of service line
- wRVU valuation issues
 - Relation to existing physician compensation/ margins on drug
 - Other continuing expenses (e.g. med mal, accounting)
 - Harmonizing with alternative payment arrangements
- No overlap of duties/double payment
- Where applicable, timing of 340B eligibility/cost report

Other Key PSA Issues

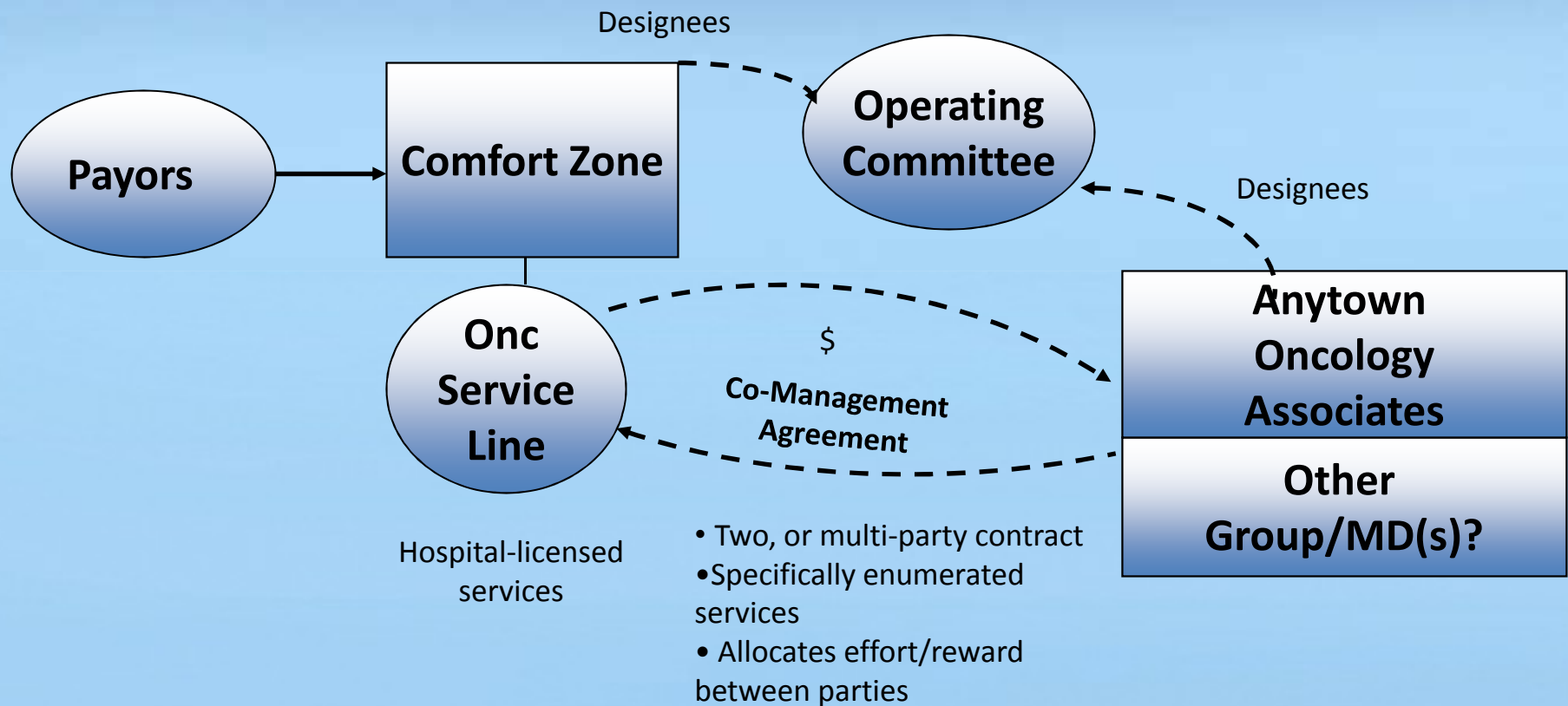
- USP 797 Standards
- Exclusivity and other existing relationships
- Staffing Issues
 - Split staff (off-campus) and salary/benefit differentials
 - Any union issues
- **Unwind/breakup rights**
 - Asset repurchase
 - Lease assignment/real estate repurchase
 - Solicitation of employees
 - Data/records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

Oncology Service Line Co-Management Arrangements

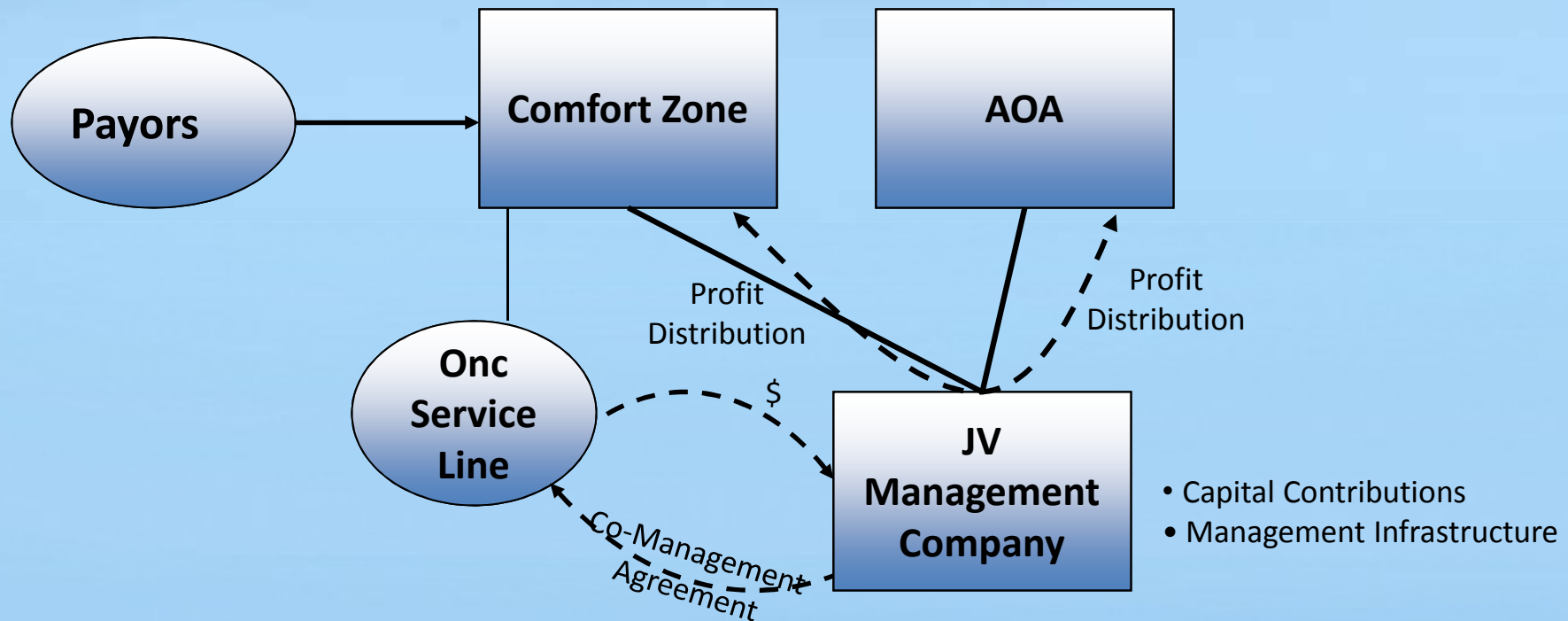
What Is Service Line Co-Management?

- Independent contractor relationship between Comfort Zone and AOA, or between Comfort Zone and a joint venture LLC comprised of Comfort Zone and AOA (possibly other medical groups – rad onc?)
- Focused on Comfort Zone oncology service line
- To engage AOA physicians as a business partner in co-managing, overseeing and improving service line quality, efficiency and bottom line performance

Service Line Co-Management Direct Contract Model



Service Line Co-Management Joint Venture Model



Service Line Co-Management Arrangement

Two levels of payment to AOA as manager:

- Base fee – a fixed annual base fee that is consistent with the fair market value of the time and effort participating AOA 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 net 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
 - Indication of tumor site/staging
- Increase in percentage of written treatment summaries at completion of course of treatment

Sample Medical Oncology Performance Standards

- Comply with NCCN guidelines or pathways program
- Comply with quality initiative (e.g. QOPI)
- 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

Co-Management Financial Model

Case study: services to be provided by AOA

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

Administrative Co-Management Specific Programs

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

- Develop, implement, manage clinical pathways program
- Implement, manage QOPI quality program
- 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 - \$60,000 annual depending on number of disease committees.
- Bonus compensation based on reduction in drug cost ratios.

Implement, Manage Quality 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 \$80,000 to \$100,000 annual.
- Bonus compensation tied to Comfort Zone 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

- AOA 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

- AOA provides personnel to staff service line business and infusion functions (a.k.a. “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 payroll 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

AOA as Comfort Zone 's Billing and Collection Agent

- AOA assumes responsibility for oncology-specific revenue cycle: pre-authorization, charge capture, coding, claims submission, tracking, denials management, rebilling, posting
- Can't "double dip" the staff 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. Assuming 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
- What scope of services line under management
- Performance standards and targets
 - Validation
 - Achievability
 - Reset

Putting It All Together

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

The Oncology Medical Home

What Is It?

- The **Oncology Medical Home** is a practice model which reorganizes cancer care coordination processes and accountability with resulting reductions in total cost of care. Applicable in private practice or hospital-based settings.
- It incorporates the tenets of PCMH, that is “organizing care around patients, working in teams and coordinating and tracking care over time” and applies these tenets to cancer patients (NCQA).
- The oncology medical home has become a popular and timely concept within the oncology sector and may represent the new preferred practice model.

The Oncology Medical Home

What Does It Do?

- Markedly reduces total costs of cancer care
 - Work process redesign results in standardization and cost reduction within practice
- Opens new dialogue with Payors about payment methodology re-design, including bundled pricing
- Positions oncology practice to engage with primary care medical home and ACO initiatives. Establish dialogue as PCMH-Neighbor.

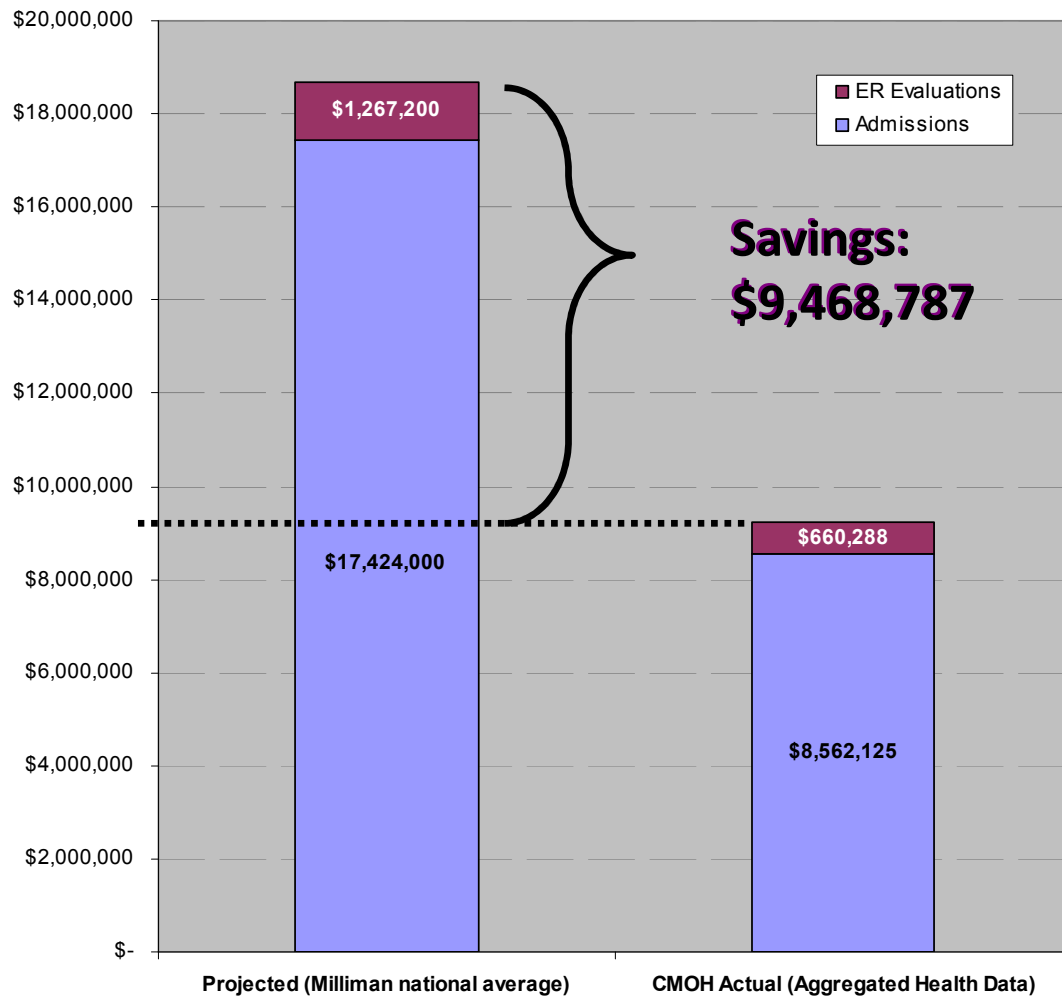
Payor Economic Impact of Oncology Medical Home

- **Projected % Reduction in Cancer Care Cost**
 - 1.0%-3.0% Chemotherapy pathways program
 - 4.0%-6.3% Inpatient hospitalizations (5-25% reduction)
 - 0.6%-1.1% ER evaluations (20-40%)
 - 0.1%-0.4% Diagnostics
 - 0.9%-1.9% End-of-life care coordination
- **Total 6.6 to 12.7 % reduction**
- **U.S. annual cancer “spend” at \$125 B = \$8 B to \$16 B savings in U.S. cancer spend annually**

Adapted from preliminary evaluation of OPCMH application to cancer care by National Consulting Firm

Markedly reduces total costs of cancer care

2010 Projected Savings from one practice



- \$ 8,861,875 from Hospital Admissions
- \$ 606,912 from ER Admissions
- \$11,955 per chemo patient
- \$1.0 M per hem onc
- **Medical Home Practice**
 - **792 chemo patients**
 - 479 Hospital Admissions
 - **724 ER Evaluations**
 - \$17,875 calculated average from health system
 - \$912 calculated average from health system
- **Milliman, Inc. national study as benchmark**

Why Should Oncologists Do It?

- To improve communication and care coordination with primary care and other oncology providers;
- To take leadership a role on payment re-design methodology in oncology, e.g. bundled pricing;
- To be compensated fairly for providing enhanced care management services to patients;
- To position oncologists with a seat at the table as local health reform initiatives crystallize, e.g. ACO initiatives.

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Thanks For Your Interest!
Questions, Answers, Critique

Ronald Barkley, MS, JD
rbarkley@ccbdgroup.com

