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Today’s Webinar Presenters

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Webinar Agenda

- Healthcare Reform and Accountable Care Organizations (ACO)
- Partnering with Physician Organizations: Goals and Challenges
- Impact of ARC (Architecture, Routines, Culture) on Physician Practice Models
- Physician Business Models: Models, Design Components, and Value Creation
Healthcare Reform Is Here

- The Patient Protection and Affordable Care Act (Public Law No. 111-148)
- "Title III – Improving the Quality and Efficiency of Health Care"
  - "Linking Payment to Quality Outcomes"
  - "The Secretary...shall establish a national strategy to improve the delivery of health care services, patient health outcomes, and population health."
The Patient Protection and Affordable Care Act

Medicare Shared Savings Program (Section 3022)

- "Not later than January 1, 2012, the Secretary shall establish a shared savings program...that promotes accountability for a patient population and coordinates items and services under parts A and B, and encourages investment in infrastructure and redesigned care processes for high quality and efficient service delivery."
The Patient Protection and Affordable Care Act

Medicare Shared Savings Program (Section 3022)

- "groups of providers of services and suppliers meeting criteria specified by the Secretary may work together to manage and coordinate care for Medicare fee-for-service beneficiaries through an accountable care organization" or "ACO."

- "ACOs that meet quality performance standards established by the Secretary are eligible to receive payments for shared savings."
The Patient Protection and Affordable Care Act

Medicare Shared Savings Program (Section 3022)

- "Eligible ACOs" include:
  
  "(A) ACO professionals in group practice arrangements."
  
  "(B) Networks of individual practices or ACO professionals."
  
  "(C) Partnerships or joint venture arrangements between hospitals and ACO professionals."
  
  "(D) Hospitals employing ACO professionals."
  
  "(E) Such other groups of providers of services and suppliers as the Secretary determines appropriate."
Physician Business Organizations: Design Components

- ARC represents the design components of Architecture, Routines, and Culture
- Culture is the dominating influence on healthcare organizational design
- Understanding the difference between physician and hospital cultures is essential to the creation of a successful physician-hospital enterprise
ARC of Physician Entity Drives Value

ARC determines ability of physician group to coordinate care, improve quality, reduce costs, control operations, reduce risk, and access capital.

ARC determines suitability of a physician group as potential partner, regardless of the form of business organization.
Organizational ARC: Culture
Physician Culture and Value System

- Physician training is deeply rooted in a professional culture:
  - Based on autonomy
  - Values the individual
  - Distributes accountability and rewards on an individual level

- The physician value system reflects the professional culture:
  - Holds individuals accountable for outcomes
  - Rewards goal-directed physician behavior
  - Streamlined decision-making
  - Encourages individual decisions
Organizational ARC: Culture
Hospital Culture and Value System

- Hospitals operate in a culture of affiliation:
  - Based on interdependence
  - Values shared success
  - Distributes accountability and rewards on a shared basis
  - Ability to act collectively favors proactive response to change

- The hospital value system reflects a corporate culture:
  - Holds group processes and policies accountable for outcomes
  - Rewards hospital administrators who are team players and mission-directed
  - Encourages collaboration
Organizational ARC: Architecture
Three Components of Firm Structure

- Association of subunits
- Governance and reporting relationships
- Compensation policies
Organizational ARC: Architecture Association of Subunits

- Functional (management role)
  
  - CEO
    - Senior Manager
      - Function (Finance)
      - Function (HR)
    - Senior Manager
      - Function (Marketing)
      - Function (Purchasing)

- Divisional (service line or market)
  
  - CEO
    - Service Line
      - Finance
      - Operations
    - Service Line
      - Finance
      - Operations
Organizational ARC: Architecture Governance and Reporting

- Physicians practice democratic majority rule:
  - Limited governance structure with control concentrated to leaders
  - Flat management architecture: limited authority and reporting
  - Tendency to make individual decisions

- Hospitals have governance structure: board and committees
  - Reflects interdependence, shared decision-making, and group accountability
  - Leader can adopt consultative decision-making process
  - Engagement in time-consuming consensus-building (mission-oriented)
Organizational ARC: Architecture Compensation Policy

- Physician groups are “Professional Service Firms”
- Compensation may be based on individual factors
- Partnership agreement dictates compensation
- Hospitals have traditional compensation systems
- Compensation is process-based and team-oriented
- May use indirect indicator of unit performance, e.g., patient satisfaction, supervisor assessments
Organizational ARC: Routines

- Physicians
- Interface with many venues
- Have practice autonomy that favors individual practice styles
- Share information across organizational boundaries
- Engage in trade associations

- Hospital employees
- Typically work in one venue
- Use standardized routines to facilitate interface with functions of other units
- Observe obligations of business confidentiality
- May be unionized
## ARC and Form of Organization: Impact on Operational Management

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<thead>
<tr>
<th>Business Attribute</th>
<th>Solo Practice</th>
<th>Group Practice</th>
<th>IPA</th>
<th>Physician Partnership MSO</th>
<th>Employee PPMC</th>
<th>Foundation or Hospital-Owned Medical Group</th>
<th>Physician Employment Model</th>
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<td>Moderate</td>
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<td>Minimal</td>
<td>Limited to local area</td>
<td>Moderate in region</td>
<td>High</td>
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<td>Related to hospital system potential</td>
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## ARC and Form of Organization: Impact on the Balance Sheet

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</thead>
</table>
| **Valuation basis** | Minimal       | Asset-based    | None | Large group:   
• Equity based  
• MSO cash flow  
• Comparables | Cash flow Comparables | Contractual | No ownership |
| **Ownership structure** | PC            | PC Large group LLC or occasional S corp | None | LP or LLC: relates to need for equal share and exit strategy | Privately held | Hospital | None |
| **Governance** | Autonomous | Flat management Shadow board with large groups | Moderate to low Limited control | High potential Shadow board in small firms | *Professionally managed  
*Governance by private/public investors | Moderate to low. Committee representation | Shared governance or hospital-dependent |
| **Access to capital** | Small business loan | Small business loan | Hospital partner | LOC AR financing | LOC AR financing Greater potential for large firm | • Tax-exempt  
• Grants | Provided by hospital employer |
Management Service Organization (MSO)

- **Features:**
  - MSO acquires tangible assets
  - Selling practice is independent
  - MSO leases assets to selling practice
  - MSO provides management and administrative services

- **Pros and Cons:**
  - Physician group does not need to manage the business side
  - Allows dual (functional and divisional) structure to achieve economies of scale
  - Tax-exempt status may not be likely
  - Selling physicians remain at risk for reimbursement of professional services
Foundation Model

Features:
- Physician group sells complete practice
- Physicians contract with the foundation to provide services
- Foundation controls reimbursement
- An affiliate of a hospital or medical center
- Physicians provide their own benefits

Pros and Cons:
- Physician group does not need to acquire capital assets
- Allows dual (functional and divisional) structure to achieve economies of scale
- Tax-exempt status may not be likely
- Selling physicians remain at risk for reimbursement of professional services
Hospital-Owned Medical Group

- **Features:**
  - Foundation entity in health care system acquires group
  - Employment agreements with the selling physicians
  - Affiliate purchasing the medical practice may qualify for tax-exempt status

- **Pros and Cons:**
  - Potential to use tax-exempt bond proceeds
  - Acquirer is responsible for billing and collection for professional services, physician compensation, and benefits
Management Service Organization

Physician LLC or LP

Tax-exempt pass-through

Wages and year-end distribution to partners as “additional compensation”

Group Practice P.C.

Group Practice P.C.

Group Practice P.C.

MSO

Reimbursement to Group after payment to MSO for leasing & services

Payment to intermediary MSO

Payers

Medical groups bill payers for professional services
Foundation Model

Tax-exempt status if foundation and hospital jointly provide a system of care

Foundation pays the independent physicians for professional services rendered

Payment to foundation as owner of the practices

Medical groups bill payers for professional services
Physician Hospital Joint Venture

Medical groups bill payers for professional services

Payer reimburses JV

JV bill payers for technical services
Challenges in Partnering or Acquiring Physician Practices

- Complications related to stock versus asset purchase
- Potential for double taxation to shareholder with sale of corporate assets
- Neglecting to use negotiated compensation in valuation
- Failing to use after-tax figures for discounted cash flow
- Protection against investment in goodwill
- Tax-exempt purchaser fails to use same valuation methods for its acquisitions
- Need to consider "Stark Law" limitations in compensation
- Regulatory risk is a consideration for all models
ARC and Form of Organization: Impact on Risk Management

Risk considerations in all models:
- Antitrust
- Stark law
- Anti-kickback
- IRS (tax-exempt status)
- State regulators (CON, insurance)
- Tort liability
ACOs and Clinical Integration

- "An ACO shall meet the following requirements:"

  "(A) The ACO shall be willing to become accountable for the quality, cost, and overall care of the...beneficiaries assigned to it."

  "(B) The ACO shall enter into an agreement with the Secretary to participate in the program for not less than a 3-year period."

  "(C) The ACO shall have a formal legal structure that would allow the organization to receive and distribute payments for share savings...."

  "(D) The ACO shall include primary care ACO professionals...."

  "(G) The ACO shall define processes to promote evidence-based medicine and patient engagement, report on quality and cost measures, and coordinate care...."
ACOs and Clinical Integration

Clinical Integration

- 1996 Department of Justice and Federal Trade Commission Statements of Antitrust Enforcement Policy in Health Care

- "[A]n active and ongoing program to evaluate and modify practice patterns by the network's physician participants and create a high degree of interdependence and cooperation among the physicians to control costs and ensure quality."
Clinical Integration

Clinical integration programs often include:

- Integration and delivery of patient care in a coordinated fashion
- Clinical resource management program, including the sharing of clinical information to improve outcomes and decrease resources
- Non-exclusive participation by members
- Electronic medical records
- Clinical practice guidelines and performance goals
Summary

- Healthcare reform is here
- Provider partnerships are likely to occur
- Clinical integration and ACOs are likely to grow
- Impact of ARC (Architecture, Routines, Culture) may dictate form of business model
- Success depends on design of model and dedication of parties involved
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Thank You.