The Reardon Group Newsletter

MEDICAL MINUTES

The Reardon Group of Companies:

Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting

Weiss + Reardon & Company, P.C.
Healthcare Accounting, Tax & Compliance Services

Valuation Advisors, Inc.
Valuations for Practice Mergers & Acquisitions, Estate & Gift Taxes and Litigation Services

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CMS STARK III REGULATIONS NOW AVAILABLE

On Tuesday, August 28, 2007, CMS released the Stark III Final Rule which is now available on the **Physician Self Referral section of the CMS WEBSITE** and will appear in the September 5 Federal Register. It is 516 pages of updates and changes. It is to be officially titled "**Medicare Program; Physicians' Referrals to Health Care Entities With Which They Have Financial Relationships (Phase III)".** The regulations will be effective 90 days after the publication date, which is expected to be September 5, 2007. *Keep an eye out for further updates from our Firm.*

PHYSICIANS AND HOSPITALS WORKING TOGETHER AGAIN

To those who remember the healthcare paradigm of the early to mid 80's, physician practices were being acquired by hospitals left and right as hospital executives scrambled to control market share and fend off what they perceived to be, at times, predatory acquisitions by competing institutions. The feeding frenzy ended in the 1990's leaving behind a trail of red ink and dissatisfied players on both sides. Physicians thought that hospitals did not understand the dynamics of the physician's clinical/surgical practice and hospitals felt that physicians' entrepreneurial spirit was diminished once they were no longer owners in the enterprise. Even the management service organizations (MSO's) and physician practice management companies (PPMC's) that hit the public sector which included very promising stock offerings from these upstart companies faltered. The last decade has seen a reestablishment of the independent physician practice along with the hospitals doing what hospitals have traditionally done best.

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However, that landscape is changing – yet for different reasons. Changing dynamics and reimbursement patterns, the complexity of operating medical practices along with massive regulatory oversight has made the attractiveness of independent physician practice diminish.

Many physicians have begun looking for a simpler answer – the ability to just practice medicine without the added administrative burdens, responsibilities and serious regulatory repercussions for infractions that they could not foresee. In addition, assisting physicians to start up their practices in rural and certain suburban communities as well as urban centers has been diminished by regulatory intervention. Hospitals are precluded in most instances from providing financial incentives to physicians to come to the community unless they follow a rather rigorous prescribed set of guidelines that oftentimes are perceived as being more complex than the benefit that they offer.

Reardon Consulting has just completed its eighth (8th) National Healthcare Webinar on September 18, 2007 titled "A Guide to Physician Compensation".

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Adding to these pressures are the difficulties that many communities face amassing a sufficient patient base to assure the volume necessary to sustain a physician's competitive compensation in a number of specialties. These shortages have denied many communities access to healthcare providers in numerous specialties and subspecialties in addition to creating deficits in pockets where primary care once was plentiful.

Because of the regulatory restrictions, many institutions have found that the only practical vehicle available to them to respond to their community needs is to directly employ physicians once again so that the protective safe harbors that exist for the employment relationships can be applied.

There are many lessons to be learned from the mistakes of the past. Clearly, an arrangement with physicians through employment can be a viable solution for the institution, the community and the physician. The key is understanding how best to structure that relationship by looking at the experiences of the past and knowing what did work and what did not work.

It doesn't take a genius to understand that the dynamics that drive a medical practice are different and unique from those which drive a hospital facility. Hospitals that create, where permitted by law, subsidiary entities for the employment of physicians, empowered by the physicians, with their own semi-autonomous set of governances, by applying attributes specifically needed for the successful operations of the clinical/surgical practice, make the most sense. This begins to get back to a structure where physicians remain in control of their destiny, have adequate representation by individuals who understand their circumstances, and a governance mechanism of sympathetic and prudent advisors to assist them in creating a matrix for success that meets the needs of physicians and hospitals before meeting the needs of their common denominator, the community.

The idea of physicians in an entity (subsidiary corporation or otherwise) operating with some degree of autonomy can be threatening to many senior hospital executives. However, that need not be the case.

A new model, which we term QPS for Qualified Physician Subsidiary, that empowers the physicians to excel and aligns the incentives to facilitate enhanced performance is emerging. This model is designed to keep the cost structure in line with clinical/surgical practice operations so that the cost benefit relationship can remain in sync by preserving the favorable attributes of a "group practice" organization.

This design maximizes on the ability to retain a qualified group practice concept under existing regulatory guidelines while leveraging the advantages of a clinical/surgical practice cost structure and thus emulating the best practices of similar organizations in private practice. The objective is to build a medical practice organized around a concept that rewards entrepreneurial behavior by providing the safety net of a more comprehensive corporate structure designed to assure the physician participants greater stability, longevity, with the attendant access to capital resources (not often available in private practice) to encourage state of the art delivery systems as well as legal and financial resources available through the corporate parent. There is no free ride. The intended result is for these entities to be self-sustaining (assuming the patient revenue base is sufficient to attract the volumes of comparable patients available to the private sector). To the extent that some institutions are required to invest in practices where the corporate practice of medicine is not precluded by state law, owing primarily to a dearth of adequate volume and in light of the necessity to retain certain basic services to the community, this structure enables the hospital to control its cost. Such a structure enables the hospital to predict the anticipated future cost of operations of such an enterprise in order to determine the cost/benefit of the investment.

In addition, the QPS format engenders a sense of corporate identity among the collective providers and staff with sufficient distance from the hospital economics so as to mitigate the traditional tendency of the physicians to fall back on the hospital to subsidize inefficient behavior. By aligning the incentives, and preserving a separate sense of corporate identity, the false safety net of the hospital purse strings is taken out of the equation.

Much like in corporate America, when an analyst is able to evaluate the productivity of the executives who are in control of the organization, the appropriate incentives can more often be applied to reward successful accomplishment and encourage sound business practices that provide a reasonable return for the investment in those services by a hospital board.

The QPS model is geared to reflect fair market value compensation arrangements that are compliant with the regulations attributable thereto.

As such, it can be the catalyst for a win/win dynamic. By separating the physician organization into a qualified physician based subsidiary, it becomes easier for the hospital Board to track and understand the dynamics of such a vehicle in the health system delivery chain and the physician can retain a sense of identity and pride with their employment model.

FROM PLAN TO ACTION
A Solid Business Plan is Your Key to Success

How can you get ambitious objectives to translate into action and results?

All too often, Physician Groups work hard to create a strategic plan but get derailed when it comes to implementation.

A group practice's ability to succeed is co-dependent on its ability to have a clear roadmap of expectations which administratively equates to a well developed business plan to follow.

Aristotle said "It is possible to fail in many ways…While to succeed is possible only in one way". Thus, every successful business has identified its "one way".

What is Key?

Start by developing your practice's vision of success. Every successful plan finds its origins in its fundamental beliefs about its role and its expectations.

Your strategy begins with identifying your own goals and objectives and translating them into a workable operating plan for all to follow.

A sound and reasoned basic budget can serve as a very useful tool to track the progress of your practice's business plan.

You should update your budget on a regular basis (monthly or quarterly) depending upon your practice size and ability to track your economic progress.

Begin by identifying your goal and then set milestones (which we call objectives) to help you gauge if you are on track to accomplishing your goal. What's the difference between a goal and an objective? A goal is an end result, whereas the objective is a target that gets you closer to that goal.

Make your operational plan measurable in economic terms – have a budget. Your budget sets out your road map for the year. It provides specific objectives that support your ultimate goal. It has been said "If you can measure it, you can manage it".

Reardon Consulting and NACVA will be sponsoring its second 5-day National Consulting Workshop on Healthcare: Philadelphia, PA – Oct. 29 – Nov. 03, 2007
Call for details

Three management techniques that can point you toward success:

- First – develop your goal and the objectives to accomplish that goal with a consultant or your accountant, then share it with your fellow Stakeholders, get their input and buy-in. Then refine it and record it!
- Second – the budget is a barometer. It must be kept up to date. Stakeholders need to know where they stand relative to the practice overall in order to succeed.
- Third – the budget project must have a defined and realistically achievable target and it must be adjusted to respond to changing conditions at least quarterly.

Most practices have abandoned their budgets because they grow stale before the ink is dry. However, a fluid budget is not rocket science and by enlisting the aid of 1 or 2 of your outside advisors, it can help to assure that your group stays focused on success. That is success as you have defined it, from your value perspective.

No matter what the size of your practice, each practice manager needs to be able to convert the goal into daily, weekly, monthly and annual operating objectives with measurable targets. Physician leaders and you look to execute the plans within the budget, the desired time and with the desired results.

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The Reardon Group specializes in helping medical practices and hospitals define issues of mutual interest and develop integrated solutions. We are experienced in Stark and Fraud and Abuse Compliance Programs as well as responsibility for SOX related corporate governance matters. We would be pleased to meet with you to discuss how your organization may better respond to these compelling issues from assisting you to develop an affordable and cost-efficient internal compliance program up through serving as your outsourced agency for ongoing compliance monitoring. We welcome the opportunity to meet with you to explore cost-effective meaningful solutions.

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