

Reardon Consulting...Bringing Physicians & Hospitals Together Again



The Qualified Physician Subsidiary

Physicians Thought That Hospitals Didn't Understand

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.



The Landscape Is Changing

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

Communities Are Losing Qualified Physicians Due To Economics

Many communities face an insufficient 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.

Reardon Consulting Has Solutions.....

Many Hospitals Are Now Forced To Hire Physicians To Keep Them In Their Community

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.

A Qualified Physician Subsidiary Is A Solution

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 governance, 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.

A New Model

A new regulatory compliant model, which we term **QPS** for "Qualified Physician Subsidiary" that empowers the physicians to excel and that 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.

Keeping Costs and Physicians in Balance



Keeping them in town

Balanced With Appropriate Rewards

This design maximizes on the ability to retain a qualified group practice concept under existing Stark guidelines while leveraging the advantages of a clinical/surgical practice cost structure. It emulates the 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, and 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 for these entities is 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.



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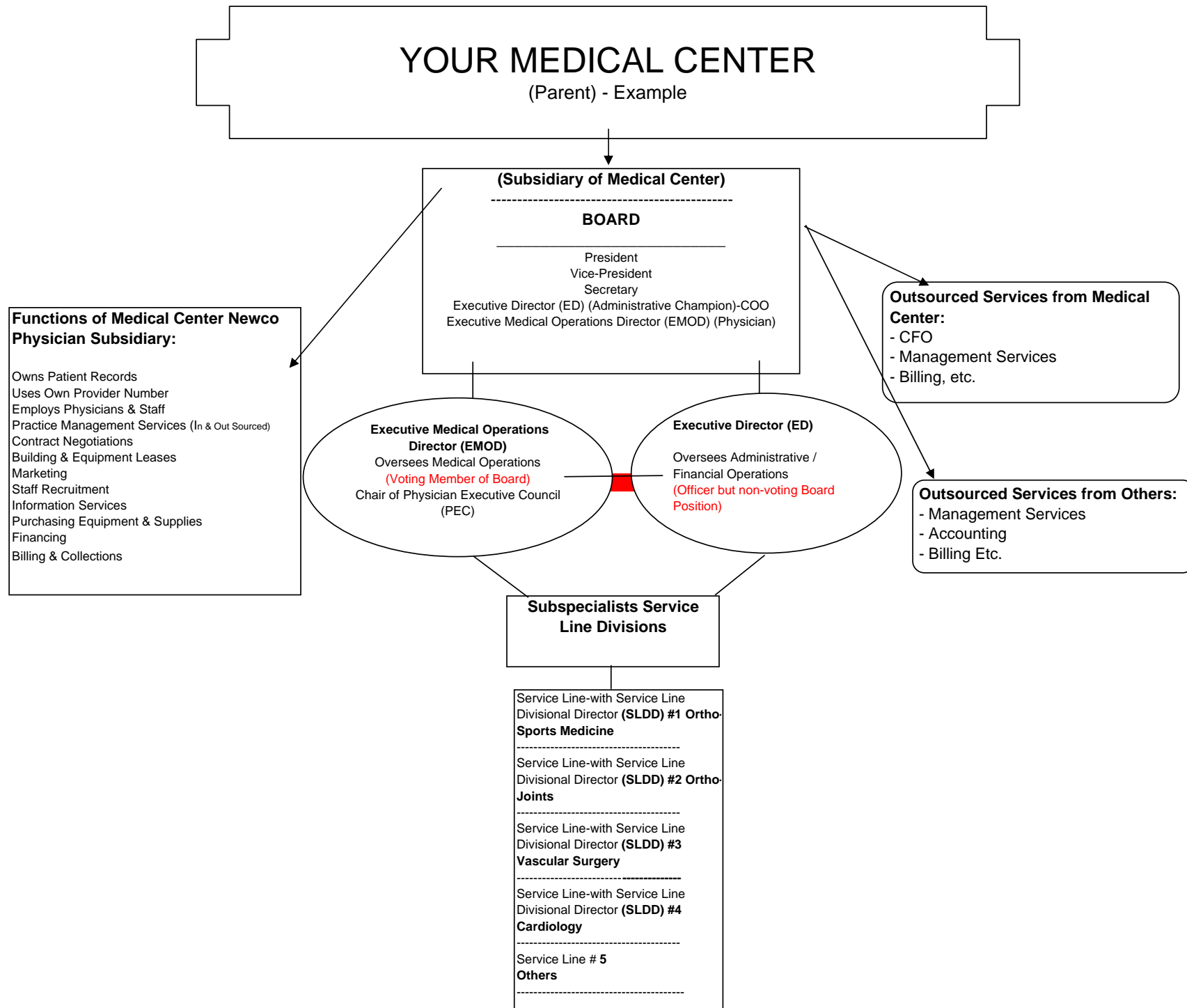
A QPS Mirrors A True Practice Model

Much like 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 behavior 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.

A QPS Can Be The Catalyst For A Board's 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 with their employment model.

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Advantages of Model:

- 1 Lay Board Expertise
- 2 More Funds to support technology and expansion
- 3 Improved ability to recruit top quality physicians
- 4 Can support a broad spectrum of physicians / subspecialties
- 5 Direct contracting independent of other groups and hospital
- 6 Offers possibility of Stark - "Group Practice Exceptions"
- 7 Presents a more accountable system akin to private group practice
- 8 Provides physician office services and ancillaries
- 9 Can pay Medical Center or other "Out-sourced" providers for services
- 10 Separately functioning: Financial, Medical Records and Information System Operations
- 11 Keeps Physicians moving toward medical practice goals
- 12 Marketplace clout for contracting

Requirements:

- 1 May require Bylaw Amendment
- 2 May Require Governance Changes
- 3 May Require Procedure / Protocol Amendments
- 4 May Require Benefits Plan Restructuring (to accommodate physicians)
- 5 May Require Malpractice Revisions (e.g. corp. malpractice coverage to protect A/R)
- 6 Will Need Counsel To Test Organization Structure For Qualification For Stark Group Practice Safe Harbor