Physician Employment Losses: Alarming Trend or Misunderstood Performance Metric?

Douglas K. Anning, Jon-David Deeson

Net Loss per FTE Physician

Hospital/IDS Owned – Multispecialty
2005 – 2010

1998 Loss per Physician = $83,000

83% increase in last 2 years

Net Loss per FTE Physician

Net Loss per FTE Physician

Hospital/IDS Owned – Multispecialty
Number of Physician FTEs

<table>
<thead>
<tr>
<th>Number of Physician FTEs</th>
<th>10th %tile</th>
<th>Median</th>
<th>90th %tile</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤10 (n=94)</td>
<td>$467,108</td>
<td>$189,910</td>
<td>$18,273</td>
</tr>
<tr>
<td>11-25 (n=22)</td>
<td>$315,900</td>
<td>$118,273</td>
<td>$12,273</td>
</tr>
<tr>
<td>26-50 (n=13)</td>
<td>$300,000</td>
<td>$100,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>51-75 (n=17)</td>
<td>$250,000</td>
<td>$75,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>76-150 (n=24)</td>
<td>$200,000</td>
<td>$50,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>≥151 (n=19)</td>
<td>$150,000</td>
<td>$35,000</td>
<td>$3,500</td>
</tr>
</tbody>
</table>


Alarming Trend or Misunderstood Performance Metric?

Capacity?  Productivity?  Physician Specialty?
Ancillary Services?  Management Fees?  Real Estate?
Payer Mix?  Billing Office?  Accounting?
Mission?  Strategy?  Compensation?
Overhead?  Culture?  Benefits?
Industry Response

• Repeat of the 1990’s?
  – “Practice losses increasingly untenable” – Health Care Advisory Board (1999)
  – “Employment choices physicians make today may not be able to be undone” – NEJM, 2011

Problem versus predicament…
  – Financial, operational, strategy and potentially legal matters to consider
  – Leadership is critical

Hospital / IDS Owned Employment Trends

Top 5 Service Lines

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary care</td>
<td>71%</td>
</tr>
<tr>
<td>Hospitalists</td>
<td>71%</td>
</tr>
<tr>
<td>General Surgery</td>
<td>51%</td>
</tr>
<tr>
<td>Cardiology</td>
<td>50%</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: HealthLeaders Intelligence Report, September 2011
U.S. Physician Practice Ownership

By the Numbers...

<table>
<thead>
<tr>
<th>Median Data</th>
<th>Hospital/IDS Owned</th>
<th>Not Hospital/IDS Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>190</td>
<td>168</td>
</tr>
<tr>
<td>Total physician FTEs</td>
<td>11.10</td>
<td>34.90</td>
</tr>
<tr>
<td>Total non-physician provider FTEs</td>
<td>5.28</td>
<td>8.95</td>
</tr>
<tr>
<td>Number of branch clinics</td>
<td>14</td>
<td>5</td>
</tr>
</tbody>
</table>

Practice model characteristics are different

Source: MGMA Cost Survey, 2011
By the Numbers…

Physician specialty does influence multispecialty data

Physician Compensation as a Percent of Collections

Source: MGMA Physician Compensation and Production Survey, 2011

Includes Urgent Care.
Per Physician Work RVU

<table>
<thead>
<tr>
<th></th>
<th>Median Data</th>
<th>Multispec</th>
<th>Fam Prac</th>
<th>OB/GYN</th>
<th>Gen Surg</th>
<th>Card</th>
<th>Ortho Surg</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hospital / IDS Owned</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Med Rev</td>
<td>$82.78</td>
<td>$80.49</td>
<td>$77.44</td>
<td>$57.90</td>
<td>$100.08</td>
<td></td>
<td>$72.19</td>
</tr>
<tr>
<td>Total Opg Cost</td>
<td>$65.21</td>
<td>$60.92</td>
<td>$60.76</td>
<td>$42.41</td>
<td>$43.53</td>
<td></td>
<td>$47.79</td>
</tr>
<tr>
<td>Total Phys Cost*</td>
<td>$52.44</td>
<td>$41.63</td>
<td>$47.23</td>
<td>$50.74</td>
<td>$62.44</td>
<td></td>
<td>$52.55</td>
</tr>
<tr>
<td><strong>Not Hospital / IDS Owned</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Med Rev</td>
<td>$120.30</td>
<td>$94.85</td>
<td>$88.02</td>
<td>$75.18</td>
<td>$102.15</td>
<td></td>
<td>$91.19</td>
</tr>
<tr>
<td>Total Opg Cost</td>
<td>$72.84</td>
<td>$56.06</td>
<td>$49.21</td>
<td>$32.97</td>
<td>$56.33</td>
<td></td>
<td>$41.88</td>
</tr>
<tr>
<td>Total Phys Cost*</td>
<td>$46.21</td>
<td>$30.54</td>
<td>$34.74</td>
<td>$54.48</td>
<td>$40.99</td>
<td></td>
<td>$44.07</td>
</tr>
</tbody>
</table>

*Note: Median physician benefits for Multispecialty Hospital / IDS Owned and Not Hospital / IDS Owned are reported as $6.22 and $6.21, respectively.


Physician Practice Financial Performance

Per FTE Physician, Multispecialty – Median Data

Medical Revenue: $866,444
Operating Costs: $(368,180)
Medical revenue gap increased 138% during 10-year period

Medical Revenue Gap, 2010:
- Fam Prac: $(185,684)
- OB/GYN: $(385,409)
- Cardiology: $(265,049)
- Gen Surg: $(205,771)
- Ortho Surg: $(507,526)

Operating Costs

Per FTE Physician, Multispecialty – Median Data

- Hospital/IDS Owned
- Not Hospital/IDS Owned

Overhead (O/H) and FTEs
- Hosp/IDS: 72.99% (O/H) 3.46 (FTEs)
- Not Hosp: 63.67% (O/H) 5.52 (FTEs)

Physician Costs

As a Percent of, Multispecialty – Median Data

- Hospital/IDS Owned
- Not Hospital/IDS Owned

Ancillary Services

Gross Charges per FTE Physician, Multispecialty – Median Data

Clinical Lab/Pathology
- Proc./MD = 4,769
- GC/Pat. = $81.10

Diagnostic Radiology/Imaging
- Proc./MD = 2,445
- GC/Pat. = $33.67
- Proc./MD = 282
- GC/Pat. = $19.04

Not Hospital/IDS Owned
- Proc./MD = 632
- GC/Pat. = $55.76

Hospital/IDS Owned
- Proc./MD = 4,325
- GC/Pat. = $332.31

Note: Proc./MD = Procedures per Physician and GC/Pat. = Gross Charges per Patient

Surgical and Medical

Gross Charges per FTE Physician, Multispecialty – Median Data

Surgery/Anesthesia Procedures
- Outside practice
- $146.14
- 183

- Inside practice
- $94.50
- 227

Medical Procedures
- Outside practice
- $53.91
- 350

- Inside practice
- $44.73
- 629

- Hospital/IDS Owned
- $67.94
- 4,325

- Not Hospital/IDS Owned
- $42.21
- 5,788

Procedures/Physician Gross Charges/Patient
Key Performance Metrics

<table>
<thead>
<tr>
<th>Multispecialty Median Data</th>
<th>Hospital/IDS Owned</th>
<th>Not Hospital/IDS Owned</th>
<th>All Owners – Better Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>120+ Days in A/R</td>
<td>24.91%</td>
<td>15.01%</td>
<td>10.23%</td>
</tr>
<tr>
<td>Days in A/R</td>
<td>49.53</td>
<td>34.79</td>
<td>30.56</td>
</tr>
<tr>
<td>Net Collection %</td>
<td>96.59%</td>
<td>98.32%</td>
<td>99.28%</td>
</tr>
<tr>
<td>Overhead %</td>
<td>72.99%</td>
<td>63.67%</td>
<td>61.97%</td>
</tr>
<tr>
<td>Payer Mix</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>42.70%</td>
<td>46.39%</td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>24.08%</td>
<td>25.30%</td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>9.16%</td>
<td>3.53%</td>
<td></td>
</tr>
<tr>
<td>Self-Pay</td>
<td>3.30%</td>
<td>2.80%</td>
<td></td>
</tr>
</tbody>
</table>

Financial performance and payer mix variances do exist


Better Performers

Activity Charges to Total Gross Charges Ratio, Multispecialty ≥ 50% Primary Care

Better Performers

Key Performance Indicators Gap Analysis

<table>
<thead>
<tr>
<th></th>
<th>Hospital/IDS Owned – Others (Variance)</th>
<th>Not Hospital/IDS Owned – Better Performers (Variance)</th>
<th>Not Hospital/IDS Owned – Others (Variance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Revenue</td>
<td>$113,049</td>
<td>($270,172)</td>
<td>($188,449)</td>
</tr>
<tr>
<td>Overhead %</td>
<td>-12.55%</td>
<td>(4.63)%</td>
<td>(1.19%)</td>
</tr>
<tr>
<td>Total RVUs</td>
<td>1,414</td>
<td>(3,950)</td>
<td>(1,594)</td>
</tr>
<tr>
<td>Work RVUs</td>
<td>693</td>
<td>(1,797)</td>
<td>(481)</td>
</tr>
</tbody>
</table>

Better performers close the gap but not in all areas


Prepared for AHLA Physicians and Physician Organizations Law Institute
February 9, 2012

Preliminary Focus Areas

1. Revenue, expense and physician compensation environment (both pre- and post-employment)
2. Performance variance explanations
3. Impact of post-employment performance on legal matters (e.g., FMV and Commercial Reas.)
4. Other unintended consequences

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February 9, 2012
Alarming Trend or Misunderstood Performance Metric?

Mitigating the Debate

- Identify root causes*
  - Uncontrollable – payer mix, JCAHO, etc.
  - Accounting – system overhead, ancillary services
  - Controllable – best practice targets, physician compensation impact
- Educate with a purpose of minimizing the impact on culture and finger pointing
- Establish integration process, trip wires
- Focus on realization of ROI – strategic value

* Stopping the Bleed, Health Care Advisory Board, 1999
Mitigating the Debate

Uncontrollable (System Induced)
- Payer Mix
- Strategic

Accounting (System Induced)
- Ancillary Services
- Overhead

Controllable
- Revenue, collections and A/R
- Physician Comp
- Overhead

Do not neglect the importance of having a pre-versus post-employment financial analysis

Focusing on the Controllable

Return on Investment [ “It All Matters” ]

Revenue
Expense

Integration Process
Compensation
On Boarding

Strategy, Vision, Culture and Leadership
Designing a Disciplined Integration Process

Physician Integration Process

Planning & Partnering
- Discuss values, culture and strategic goals
- Due diligence including financial analysis
- Terms of agreement
- FMV analysis

Pre-Alignment
120 to 360 days

Coordination & Integration
- Finalize agreement(s)
- Operational transition
- Work plans and checklists

Onboarding
90 to 180 days

Management & Growth
- Goals & Budget
- Continuous Improvement

Post-Alignment
Effective Date +

Educating the Board

- Our strategy, vision and culture
- Anatomy of employed physician losses
  - Uncontrollable, accounting, controllable*
- Our financial performance
- Our integration process
- Our trip wires

* Employed losses have varied contributing factors; whatever the nomenclature, organizations should work to define them and explain them accordingly
<table>
<thead>
<tr>
<th>Take Home – Questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>• #1 – Mitigating the debate</td>
</tr>
<tr>
<td>• #2 – Building the culture</td>
</tr>
<tr>
<td>• #3 – Designing the integration process</td>
</tr>
<tr>
<td>• #4 – Targeting performance excellence</td>
</tr>
<tr>
<td>• #5 – Maximizing the ROI</td>
</tr>
</tbody>
</table>

**What is not showing up in the numbers?**
- Differences in values and culture
- Lack of clarity and agreement on strategic goals