

Physician Organizations Bootcamp Webinar and Roundtable
Discussion Series: The Anatomy of Physician Integration,
Part VII: War Stories—Point/Counterpoint from Attorneys



This bootcamp webinar and roundtable discussion series is sponsored by the Physician Organizations (Physicians) Practice Group, and is co-sponsored by the Antitrust; Business Law and Governance (BLG); Fraud and Abuse (Fraud); Health Information and Technology (HIT); Hospitals and Health Systems (HHS); In-House Counsel (In-House); Labor and Employment (Labor); Payors, Plans, and Managed Care (PPMC); and Tax and Finance (Tax) Practice Groups; and the Accountable Care Organization (ACO) Task Force.

Thursday, July 25, 2013 • 12:00-1:15 pm Eastern

Presenters

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The Physician Organizations Physician Integration Bootcamp Series

- Part I: Models for Hospital/Physician Integration
- Part II: Governance and Compensation Issues
- Part III: Fraud and Abuse Issues
- Part IV: Antitrust Issues
- Part V: Documenting the Transaction
- Part VI: Integration in the Medical Staff
- Part VII: War Stories: Point/Counterpoint on Hospital/Physician Integration

Topics for Today's Discussion

- Key Issues from Hospital and Physician Perspectives
- Financial and Budget Issues
- Term, Termination, and Unwinding Issues

Case Study

- Four physician cardiology practices with two locations
- Approached by two health systems and a multi-specialty group practice
- Group wants to evaluate its options:
 - Sell practice and become employed by hospital
 - Lease through a PSA model with a hospital system
 - Join a multi-specialty group practice
 - Remain an independent group practice

General Perspectives on:

■ Sale of Practice

- Hospital Perspective
- Practice Perspective
- Multi-Specialty Group Perspective

■ Sale or Lease of Assets

- Hospital Perspective
- Practice Perspective
- Multi-Specialty Group Perspective

Physician Compensation Issues

- What is the hospital's expectation regarding compensation?
- What compensation system is the physician group willing to accept?
- How does physician compensation get adjusted over time?
- Hospital, Practice, and Multi-Specialty Group Perspectives on Compensation

Operational Considerations



- Control over equipment
- Control over staff
- Information Technology Issues
- Financial (PSA) & Budget Components

Medical Entity ~ Partial Integration Employment vs. Professional Services Agreement (PSA)

Employment

- Physicians are directly employed by Hospital Affiliate
- Physicians will sign a 3/5 year employment contract
- Physicians will render services as Hospital/Affiliate EMPLOYEE
- Physicians will reassign their Medicare NPI Number to the Hospital Affiliate (CMS-855R)
- Hospital Affiliate will bill third party payor using their – EIN, NPI Number
- Physicians will continue to practice at their **PRESENT LOCATION**

PSA

- Physicians remain employed by Medical Entity
- Physicians will render services as LEASED EMPLOYEES to the Hospital/Affiliate pursuant to PSA
- Physicians will reassign their Medicare NPI Number to the Hospital Affiliate (CMS-855R)
- Hospital Affiliate will bill third party payor using their – EIN, NPI Number
- Physicians will continue to practice at their **PRESENT LOCATION**

Medical Entity Revenue/Compensation ~ Partial Integration Employment vs. Professional Services Agreement (PSA)

PSA

Employment

- Hospital Affiliate
 - Physicians would receive:
 - Base Salary (WRVU's)
 - Standard Hospital Affiliate Benefits

- Hospital Affiliate shall:
 - Pay the Medical Entity on the 1st day of each calendar month (1/12) of the Projected WRVU's for the professional services of the leased physicians
 - Multiplied by FMV Conversion Factor (CF)
 - Within 15 days after the end of the calendar quarter the actual WRVU's that the Medical Entity leased physicians earned, will be reconciled with the Affiliates estimated WRVU payment.
- Medical Entity
 - Pay's Physician Salary & Benefits Package.
- Co-Manage
 - Affiliate will pay Medical Entity a management fee. {Example: 4 hours a month at FMV hourly rate}

Medical Entity –Pass-thru Expenses ~Partial Integration

Employment vs. Professional Services Agreement (PSA)

Employment

- Medical Entity develops a yearly operating budget:
 - For pass-thru expenses
 - Rent, staff salaries, office supplies, payroll taxes, accounting fees
- Hospital Affiliate shall:
 - Pay on the 1st day of each calendar month (1/12) of the estimated annual budget.
 - Within 15 days after the end of the calendar quarter, the Actual Practice Pass-thru Expenses will be reconciled to the estimated monthly advances

PSA

- Medical Entity develops a yearly operating budget:
 - For pass-thru expenses
 - Rent, staff salaries, office supplies, payroll taxes, accounting fees
- Hospital Affiliate shall:
 - Pay on the 1st day of each calendar month (1/12) of the estimated annual budget.
 - Within 15 days after the end of the calendar quarter, the Actual Practice Pass-thru Expenses will be reconciled to the estimated monthly advances

**Sample Medical Practice
Operating Expenses -
Summary 1/1-12/31/13**

*DRAFT FOR DISCUSSION
PURPOSES ONLY*

	Jan-13	Feb-13	Mar-13	WE 3/31/13	Apr-13	May-13	Jun-13	WE 6/30/13	Jul-13	Aug-13	Sep-13	WE 9/30/13	Oct-13	Nov-13	Dec-13	WE 12/31/13	2013
Staff salaries and O/S labor	28,766	19,177	19,177	67,120	20,852	20,852	31,278	72,981	23,640	23,640	23,640	70,921	21,954	21,954	21,954	65,861	276,883
Staff fringes	12,147	8,491	8,308	28,945	8,120	8,150	9,815	26,085	8,301	8,286	8,145	24,731	11,096	13,990	12,200	37,285	117,046
Equipment costs	1,273	1,273	1,273	3,818	764	764	764	2,291	1,398	1,398	1,398	4,193	964	964	964	2,891	13,193
Malpractice insurance	1,988	1,988	1,988	5,965	1,854	1,854	1,854	5,563	3,708	3,708	3,708	11,125	1,531	1,531	1,531	4,593	27,246
Marketing expense	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	15,000
Medical supplies	10,900	10,900	10,900	32,699	9,419	9,419	9,419	28,256	8,140	8,140	8,140	24,420	12,352	12,352	12,352	37,057	122,432
Occupancy costs	7,140	7,140	7,140	21,420	4,921	4,921	4,921	14,762	5,155	5,155	5,155	15,465	5,079	5,079	5,079	15,237	66,884
Office expenses	5,335	5,335	5,335	16,004	3,746	3,746	3,746	11,237	6,460	6,460	6,460	19,381	6,908	6,908	6,908	20,723	67,345
Purchased services	6,079	6,079	6,079	18,238	5,040	5,040	5,040	15,119	5,577	5,577	5,577	16,730	5,675	5,675	5,675	17,024	67,111
Physician expenses	375	375	375	1,125	375	375	375	1,125	375	375	375	1,125	375	375	375	1,125	4,500
Total operating expenses	75,252	62,008	61,825	199,084	56,339	56,369	68,460	181,169	64,004	63,989	63,848	191,841	67,183	70,077	68,287	205,546	777,640

Sample Medical Practice
Salaries and fringe
benefits
1/1-12/31/13

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13					
Salaries			4/E 3/31/13			0, //E 6/30/13			0, /E 9/30/13			4/E 12/31/13	2013				
Office Staff																	
Employee #1 Off Mgr/ Med Asst.	6,635	4,423	4,423	15,481	4,423	4,423	6,635	15,481	5,045	5,045	5,045	15,135	4,515	4,515	4,515	13,545	59,642
Employee #2 Receptionist	4,296	2,864	2,864	10,023	2,874	2,874	4,311	10,058	2,989	2,989	2,989	8,966	2,884	2,884	2,884	8,651	37,698
Employee #3 Receptionist	4,681	3,121	3,121	10,922	2,974	2,974	4,461	10,410	3,219	3,219	3,219	9,657	3,041	3,041	3,041	9,124	40,113
Employee #4 File Clerk	-	-	-	-	-	-	-	-	479	479	479	1,436	795	795	795	2,385	3,821
	15,611	10,407	10,407	36,426	10,271	10,271	15,407	35,949	11,731	11,731	11,731	35,194	11,235	11,235	11,235	33,705	141,274
Clinical																	
Employee #5 Medical Assistant	-	-	-	-	1,874	1,874	2,811	6,558	1,990	1,990	1,990	5,969	1,877	1,877	1,877	5,630	18,157
Employee #6 Medical Assistant	5,250	3,500	3,500	12,250	3,483	3,483	5,224	12,190	3,633	3,633	3,633	10,900	3,668	3,668	3,668	11,005	46,345
Employee #7 Medical Assistant	6,979	4,653	4,653	16,284	4,673	4,673	7,009	16,354	5,296	5,296	5,296	15,888	4,710	4,710	4,710	14,131	62,657
	12,229	8,153	8,153	28,534	10,029	10,029	15,044	35,102	10,919	10,919	10,919	32,757	10,255	10,255	10,255	30,766	127,159
Total salaries	27,840	18,560	18,560	64,960	20,300	20,300	30,450	71,051	22,650	22,650	22,650	67,951	21,490	21,490	21,491	64,471	268,433
Outside Labor																	
Consultant #1 consultant	283	189	189	660	466	466	699	1,630	390	390	390	1,170	263	263	263	790	4,250
Consultant #2 consultant	643	429	429	1,500	86	86	129	300	600	600	600	1,800	200	200	200	600	4,200
Total Outside Contractors	926	617	617	2,160	551	551	827	1,930	990	990	990	2,970	463	463	463	1,390	8,450
Total Salaries and Outside Labor	28,766	19,177	19,177	67,120	20,852	20,852	31,278	72,981	23,640	23,640	23,640	70,921	21,954	21,954	21,954	65,861	276,883
Fringe Benefits																	
Payroll taxes - staff	3,558	2,372	2,372	8,301	2,234	2,234	3,351	7,820	2,310	2,310	2,310	6,931	2,941	2,941	2,941	8,824	31,876
Payroll taxes - providers	3,666	1,196	1,013	5,875	1,067	1,097	1,645	3,809	1,112	1,097	956	3,165	2,893	5,787	3,997	12,677	25,526
	7,224	3,568	3,385	14,176	3,301	3,331	4,996	11,629	3,422	3,407	3,266	10,096	5,834	8,728	6,938	21,501	57,402
Health Insurance																	
Employee #1	347	347	347	1,040	322	322	322	966	413	413	413	1,240	390	390	390	1,169	4,415
Employee #3	347	347	347	1,040	322	322	322	966	413	413	413	1,240	390	390	390	1,169	4,415
Employee #4	347	347	347	1,040	322	322	322	966	413	413	413	1,240	390	390	390	1,169	4,415
Employee #6	405	405	405	1,214	375	375	375	1,126	482	482	482	1,446	455	455	455	1,364	5,151
	1,445	1,445	1,445	4,335	1,341	1,341	1,341	4,023	1,722	1,722	1,722	5,166	1,624	1,624	1,624	4,872	18,396
Workers comp & Bsn liability	598	598	598	1,793	970	970	970	2,911	661	661	661	1,983	685	685	685	2,055	8,742
Pension	1,867	1,867	1,867	5,600	1,867	1,867	1,867	5,600	1,863	1,863	1,863	5,589	1,867	1,867	1,867	5,600	22,389
Laundry & uniforms	808	808	808	2,425	585	585	585	1,754	560	560	560	1,681	642	642	642	1,927	7,787
Dues and other	205	205	205	616	56	56	56	168	72	72	72	216	443	443	443	1,330	2,330
Total Fringe Benefits	12,147	8,491	8,308	28,945	8,120	8,150	9,815	26,085	8,301	8,286	8,145	24,731	11,096	13,990	12,200	37,285	117,046

**Sample Medical Practice
Purchased services
1/1-12/31/13**

	Jan-13	Feb-13	Mar-13	WE 3/31/13	Apr-13	May-13	Jun-13	WE 6/30/13	Jul-13	Aug-13	Sep-13	WE 9/30/13	Oct-13	Nov-13	Dec-13	WE 12/31/13	2013
Professional Fees																	
Accounting	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	15,000
Retirement	675	675	675	2,025									645	645	645	1,935	3,960
CME	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	15,000
Legal	833	833	833	2,500	833	833	833	2,500	833	833	833	2,500	833	833	833	2,500	10,000
	4,008	4,008	4,008	12,025	3,333	3,333	3,333	10,000	3,333	3,333	3,333	10,000	3,978	3,978	3,978	11,935	43,960
Outside Services																	
Payroll service	226	226	226	677	225	225	225	675	252	252	252	756	327	327	327	981	3,089
Consultant					125	125	125	375	42	42	42	125	100	100	100	300	800
	226	226	226	677	350	350	350	1,050	294	294	294	881	427	427	427	1,281	3,889
Transcription Services																	
Vendor #1	769	769	769	2,306	694	694	694	2,083	600	600	600	1,801	778	778	778	2,335	8,525
Vendor #2	1,077	1,077	1,077	3,230	662	662	662	1,986	1,349	1,349	1,349	4,048	491	491	491	1,473	10,737
	1,845	1,845	1,845	5,536	1,356	1,356	1,356	4,069	1,950	1,950	1,950	5,849	1,269	1,269	1,269	3,808	19,262
	6,079	6,079	6,079	18,238	5,040	5,040	5,040	15,119	5,577	5,577	5,577	16,730	5,675	5,675	5,675	17,024	67,111

Sample Medical Practice
Physician expenses
1/1-12/31/13

	Jan-13	Feb-13	Mar-13	WE 3/31/13	Apr-13	May-13	Jun-13	WE 6/30/13	Jul-13	Aug-13	Sep-13	WE 9/30/13	Oct-13	Nov-13	Dec-13	WE 12/31/13	2013
<u>Physician expenses</u>																	
Dues and licenses	100	100	100	300	100	100	100	300	100	100	100	300	100	100	100	300	1,200
Telephone	75	75	75	225	75	75	75	225	75	75	75	225	75	75	75	225	900
CME	150	150	150	450	150	150	150	450	150	150	150	450	150	150	150	450	1,800
Other	50	50	50	150	50	50	50	150	50	50	50	150	50	50	50	150	600
	375	375	375	1,125	375	375	375	1,125	375	375	375	1,125	375	375	375	1,125	4,500

Term



- Length of Term

- Relevant Issues
 - Hospital Perspective

 - Physician Perspective

 - Multi-Specialty Group Perspective

Termination



- How can the relationship be terminated?
- What are the relevant issues?
 - Hospital Perspective
 - Physician Perspective
 - Multi-Specialty Group Perspective

Unwinding



- How are these affiliations unwound?
- What are the key issues?
 - Hospital Perspective
 - Physician Perspective
 - Multi-Specialty Group Perspective

Restrictive Covenant



- What are typical post-termination restrictive covenants?
- Hospital Perspective
- Physician Perspective
- Multi-Specialty Group Perspective

Questions and Answers

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