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# Thriving vs. Surviving Physicians and Changing Healthcare

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# Caveat



Healthcare is both a local and regional commodity.

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# Forces Threatening Small Practices

- Insurers that dominant markets dictate rates
- Decreasing Medicare reimbursement
  - Reductions in Medicare payments to specialists to fund small increases for primary care physicians.
  - Reimbursement differential in favor of hospitals
  - CMS trend of reducing physician ancillary income
- Expensive electronic health records and IT systems
- IDC-10 conversion
- High malpractice insurance premiums
- New payment mechanisms and quality payments favor large groups
- By 2018 – 2019, at least 25% of Medicare revenue must come from Alternative Payment Models
- Healthcare Reform:
  - Pay for performance
  - Bundle payment – single payment for services by multiple providers
  - ACO – integration of multiple providers to provide services at global rates

# ACOs Designed to Re-engineer Healthcare Delivery

The U.S. health care system's ability to deliver value to customers is constrained by its fragmented structure and traditional fee-for-service payment system that fosters the individualistic practice of medicine and leads to over-utilization. ACOs are designed to remedy this. Their major thrust is to foster collaborative care and to replace the FFS system over time.

*Summarized from CMS website.*

# Affordable Care Act

## Accountable Care Organization

As defined by the ACA, ACOs are provider-based organizations (medical groups, hospitals that employ physicians, integrated delivery systems, physician-hospital organizations, and independent practice associations) that take responsibility for the health care needs of a defined population. Requirements for ACO's under the ACA include:

- Responsibility for overall costs and quality care for a population;
- Formal legal structure for receiving and distributing payments for shares savings;
- Processes to promote evidence-based medicine and patient engagement, report on quality/cost measures, and coordinate care; and
- Capacity to provide health care for at least 5,000 Medicare beneficiaries.

# Health Care Reform

## Accountable Care Organizations

- A shared savings program to promote: coordination and accountability for patient care among providers, joint investment in infrastructure, high quality of care, and efficient delivery.
- ACOs that reduce costs of patient care and achieve quality performance relative to targets may be eligible to receive payments for a share of the Medicare program's savings (MSSP).

# Health Care Reform

## ACO Structure

- An ACO can be a fully integrated, multiple provider entity, where all healthcare providers operate under the same legal structure; or
- An ACO can be organized as a joint venture and affiliations among healthcare providers, involving a series of contractual arrangements; e.g. partnerships, joint ventures, affiliations, CIN, IPA.

# Health Care Reform

## Payment Bundling

- "Bundled payment" a single payment for services rendered by multiple providers that would traditionally have been reimbursed separately by Medicare.
- Group of providers such as: hospital, physicians, skilled nursing facility, rehab, home health agency receive one bundled payment for an "episode of care."

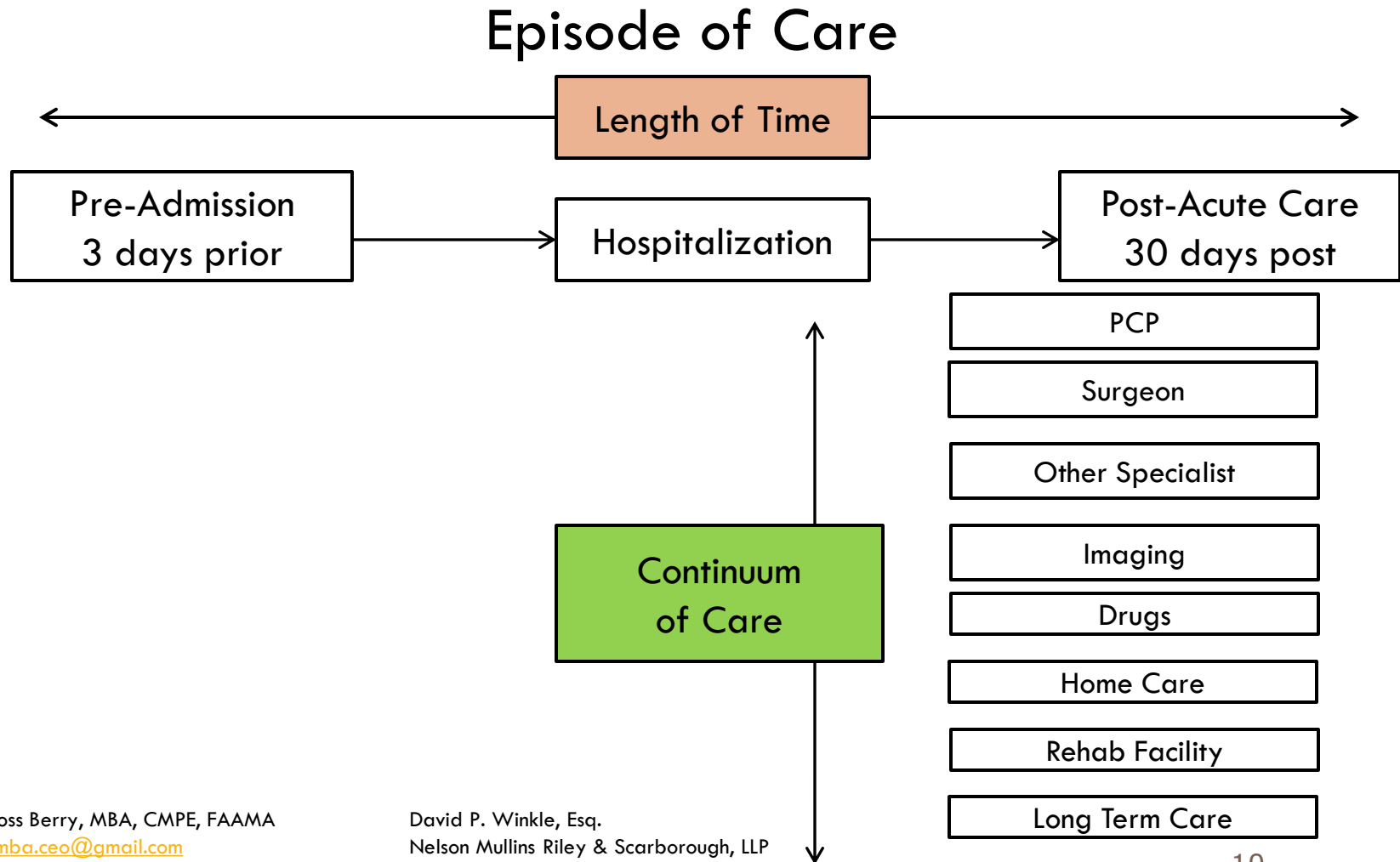


# Health Care Reform

## Episode of Care

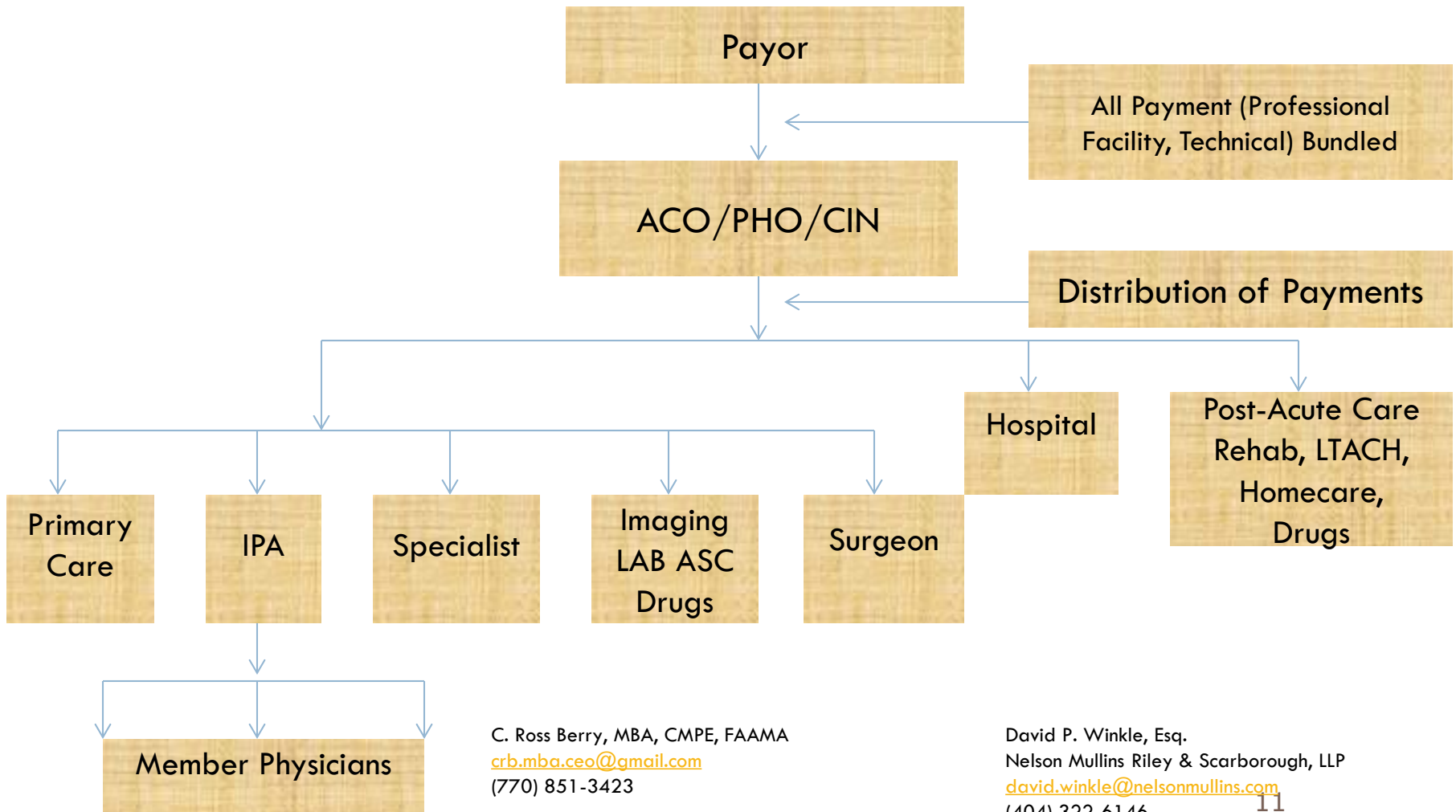
- Proposed definition of an "episode of care" includes the three days prior to a hospital admission for a specified condition, the length of stay in the hospital, and the thirty days following discharge.
- An entity, such as ACO, will receive one payment and allocate among care continuum.

# Potential Elements of a Bundled Payment



# Payment Flow

## Bundled Professional and Facility Fees

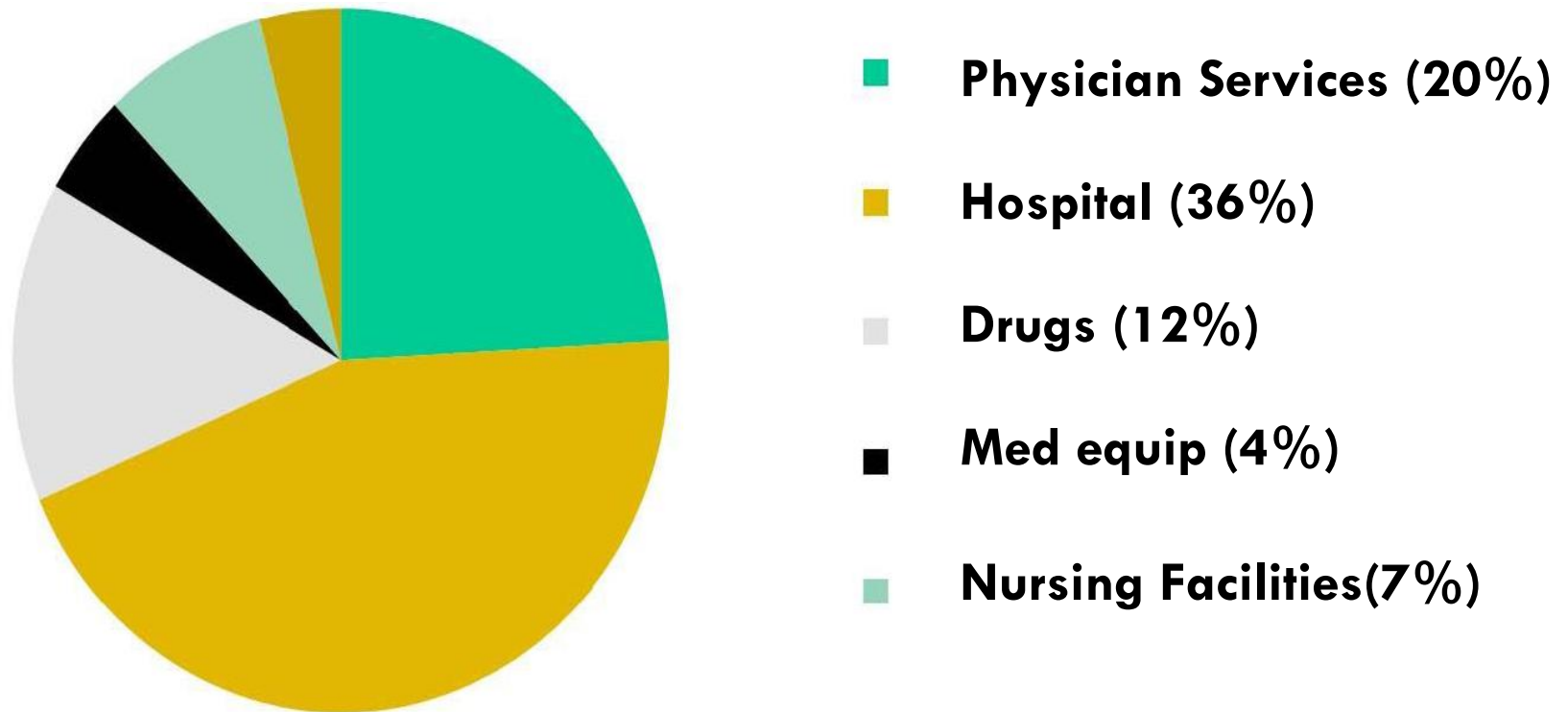


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# How Bundled Payment may be Divided

## Annual Personal Health Care Expenditures



## Where we are...

- Fee-for-Service
- Quality Not Rewarded
- Pay for Volume
- Fragmented Care
- Acute Hospital Focus
- Stand Alone Providers Thrive

## Where we are going.

- Value Payment
- Continuity of Care Required
- Systems of Care
- Providers at Risk for Payment
- IT Centric
- Aligned Providers Thrive



*"These new regulations will fundamentally  
change the way we get around them."*

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# What are Options?

- ❑ Ignore industry changes and do nothing
- ❑ Stay put and try to grow existing practice
- ❑ Build Multi-Specialty Practice
- ❑ Retire or Sell
- ❑ Become an employed doctor of a health system or other large provider or an insurer
- ❑ IPA – Join with other like-minded independent physicians and innovate solutions, measure results and make adjustments

# Risks for Small Physician Practice

- Current structure of small practice is best suited for fee for service payment
- Fragmented small practices will have difficulty providing the required continuity of care
- Current structure will make it difficult to achieve Medicare's vision of collaborative care and efficient exchange of data
- Loss of economic viability as revenues decline and expenses rise
- Limited access to capital to grow and acquire required technology
- Bundled and capitation payment models present more financial risk than a single small practice can safely carry



# Stay Put but Attempt to Grow the Practice

- Whatever the payer there will be a need for physicians to provide services.
- Smaller group of physicians that are not under immediate financial pressure can continue its present course, but attempt to grow by adding physicians or merging groups.
- Larger will always be better because of increased market leverage.
- If medical group is of substantial size and can deliver substantial number of physicians to payer, group will generally be in better position to negotiate rates and document its quality.
- Larger size will allow group to be more flexible as it adapts to whatever may come in the future.

# Advantages of Physician Integration

- Physicians coordinating patient care result in lower costs, and higher quality.
- Concentrate physician's patient volumes – improve quality.
- Better information sharing among providers and patients.
- Reduced contracting costs.
- Increase bargaining power with insurers.
- Scale economies.
- Eliminating duplication.
- Consolidate services; close some services.
- Fewer competitors; less pressure on price.

# Lead with Change

"The most effective way to manage change is to create it."

Peter Drucker

# Mission Statement of Midwest Independent Practice Association's

The mission of Midwest IPA is to accelerate the provision of the highest quality of care to our patients in a cost-effective and efficient manner while supporting the independent medical practices so that they may not only survive but THRIVE.

# What is an IPA?

- An **independent practice association** is an association of independent physicians' practices.
- IPA may be composed of different specialties, or solely of primary care or a single specialty.
- The Practices retain independent corporate status but participate in an overlay organization with other practices to enable them to act as one entity for coordination, sharing of knowledge and spreading cost.

# Reasons for IPA

- Leverage the collective power of all the IPA Practices
- Simplify access to multiple specialties for payers and patients
- Reduce practice costs by sharing
- Shared operating costs for management
- Allows members to set own standards of care and expectations, but within standards of IPA
- Create a "branded" health service

# How is IPA Organized

- IPAs are typically formed as an LLC, Corporation (taxable or tax conduit), or Limited Partnership.
- Some physicians will be owners and others may be sub-contractors.
- Generally will not generate a profit for the owners.
- The IPA structure should be composed of independent physician groups within a defined contiguous geographic area.
- The IPA should create innovative healthcare delivery models, organize physicians to implement these models, and represent a change catalyst within the medical community.
- Directly, provide, or arrange with third party to provide, management services to Practices.

# What does IPA do?

- Offers the services of its participating practices to third-party payers, employers, PHOs, CINs, ACOs on a negotiated per capita rate, flat fee, or fee-for-service basis.
- May contract with an HMO or other MCO for the ACO's Member Practices to treat their enrollees at discounted fees or on a capitation basis.
- May contract with employers, hospital systems, PHOs, CINs and Accountable Care Organization (ACO) to provide physician services of its Member Practices.



# What does IPA do?, Cont.

- Coordinate care and establish care standards to improve overall performance in case management, managing patient care and the cost of care.
- Collect and analyze performance of its members to ensure payer contract compliance, quality and value.
- Consolidate services to support practices.
- Provide shared savings for member practices.

# Examples of IPA Services to Practices

- Contracting – payers, hospitals, ACO, PHO, self-insured employers
- Marketing – Branding of IPA
- Patient Navigators and Case Management – moving patients among physicians
- Patient Referral Services within IPA and care authorization
- IT Services/EHR
- Credentialing, monitoring and data collection for payers
- Education of physicians and staff
- Purchasing
  - Supplies and Services (Clinical & Administration)
  - Healthcare Insurance
  - Liability Insurance
  - Legal and regulatory compliance
- Human Resources
  - Recruitment of Physicians
  - Recruitment of other employees
  - Assembling work force
- Call Coverage – sharing responsibilities
- Billing, collecting and distribution

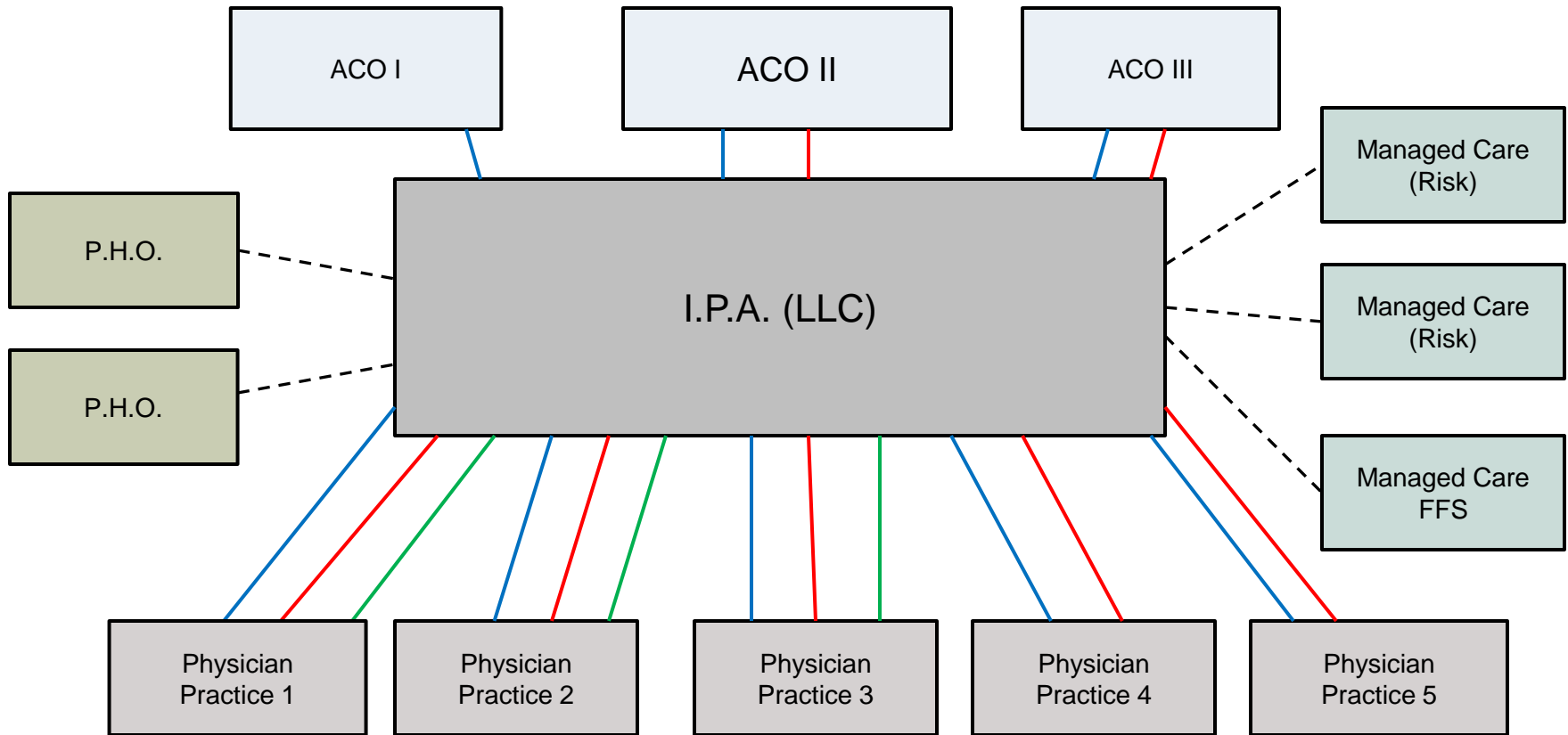
# Assisting Hospitals with Integration

- FTC has recently acted to stop Hospital acquisitions of physician practices that are "anti-competitive"
- "Ownership" of Continuum of Care required by some Bundled Payment Models would require large amounts of capital.
- IPA brings to the table:
  - Workforce in place – professional and administrative
  - Higher degree of effective and efficient collaboration among professionals
  - Improved clinical quality and patient safety
  - A Platform of aligned providers to participate in alternative payment models

# Assisting Hospitals

- The Platform includes:
  - Patient tracking system and patient registries
  - Care coordination – streamline interactivities and patient movement
  - Patient education and self-management
  - Program to evaluate outcomes and utilization and modify practice patterns
  - Performance reporting
  - Transparent sharing of cost, quality and patient data
  - Electronic transmission of information
  - Better patient access to latest techniques and treatment
  - Gained knowledge through broader volume of patients shared with Hospital

# Structure of Mature IPA



# Anti-Trust Limitations

Agreements among competitors setting prices or allocating markets is "per se illegal". To avoid illegality, the competing providers who want to collectively negotiate rates or coordinate services, must establish "integration" – i.e. economically, so as to share economic risk and clinically so as to produce significant efficiencies.

# Clinical Integration

- FTC allows joint contracting where clinical integration exists.
- Defined as "network implementing an 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." *Statements of Antitrust Enforcement Policy in Health Care* (August 1996) at Statement 8, § B.1.

# Clinical Integration – Key Characteristics

- Selective, scalable membership
  - Physicians who are likely to further efficiencies
- Delivery of evidence-based care
  - Clinical Protocols and benchmarks
- Infrastructure for coordination and collaboration
  - Technology infrastructure
- Performance transparency system
  - Data monitoring and reporting
- Meaningful performance-based incentives
  - Performance-based pay structures
- Payer contracting vehicle
  - Joint pricing is necessary so all members can participate



# Status of IPA Industry

- Many original IPAs of the 1990s failed because negotiated capitation rates were insufficient to cover costs.
- Presently, the IPA Association of America (TIPAAA) has nearly 677 IPAs members, located in 39 states representing more than 303,000 Physicians.
  - "...most [IPAs] are now trying to grow in big ways."  
Albert Holloway, President/CEO

# Status of IPA Industry

- IPAs now have opportunity to participate in, or form ACOs to share savings and risk with payers and be paid for a patient population's health outcomes.
- IPA may be last viable option for physicians who want to retain some degree of independence in the new healthcare reality.

# Major Challenges Facing IPAs

- Leadership and Change Management
  - "Lead, follow or just get out of the way"
- Deciding Whether to Become an ACO
  - Opportunity for IPAs to gain or maintain competitive advantage in their local markets
- Can the IPA meet the ACO Requirements?
- Strategic Partnering
  - ACO will require a broad range of capabilities—more than most IPAs can marshal by themselves
  - Must create collaborative organization and managing conflicts
- Legal Structure
  - "formal structure to receive and distribute shared savings"...
  - "have a mechanism for shared governance, and leadership and management structure that includes clinical and administrative systems"
- Governance and Organization Management
  - The most likely scenario will be between the IPA and a hospital partner
  - Shepherding a population into better habits and more compliance is difficult

# Major Challenges Facing IPAs

- Implementing the Organizational Infrastructure
  - Implementation is a major capital and time consuming challenge
  - Create an infrastructure that is "clinically integrated"
  - Give the ACO a FTC-sanctioned competitive justification for joint contracting with payors
- Creating Culture Change
  - Creating a culture of collaboration
  - Getting independent physicians to work as a team
  - Getting IPA physicians to work in collaboration with hospitals and other partners
- Moving away form Fee-for-Service
- Partnering with Patients
  - Must develop value-based trusting relationships with patients
  - First order of business is to attract and retain members
  - Shepherding a population into better habits and more compliance is difficult

# IPA Examples

- Central Oregon IPA
  - 600 members
  - Provides members with discounted health and malpractice insurance and supplies
- Mid-Valley IPA
  - 500 members
  - Contracted with 10 payers
  - Workers compensation, commercial, Medicare
- Greater Rochester IPA
  - 800 members
  - Obtained official status from FTC as clinically integrated
- Shenandoah IPA
  - Contracts with insurers and self-insured companies
- Marin-Sonoma IPA
  - Approaching 500 members

# IPA Examples

- **Maine Specialty IPA**
  - Over 250 members
- **Taconic IPA**
  - 4000 Members
- **Sierra Nevada Medical Associates – IPA**
  - Represent over 45 specialists and sub-specialists
- **Physician Health Partners**
  - Composed of 4 separate IPAs
  - Accepts capitation contracts
  - Medium size of independent median practices is 3 physicians
- **Northwest Physician Network – IPA**
  - Approaching 500 members
  - Contracts with commercial and self-insured employers
  - Includes full risk with Medicaid HMO and Medicare Advantage

# Catalyst for Change

"If I had asked people what they wanted, they would have said faster horses."

- Henry Ford



"If we wait until we've satisfied all the uncertainties,  
it may be too late."

- Lee Iacocca





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