

Considerations for Service Line Co-management

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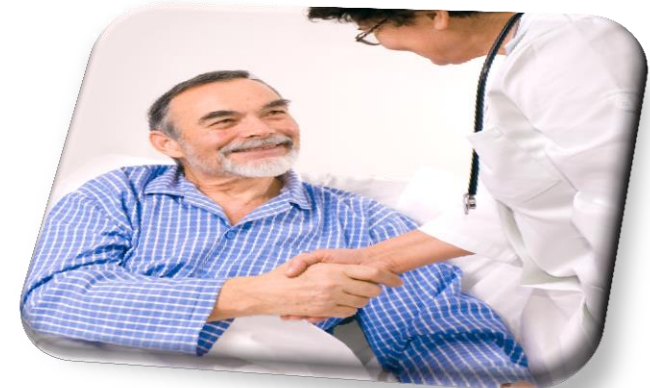
Co-management Arrangements

What are they?

- Mechanism by which a hospital and physicians jointly manage a service
- Typically focused on one clinical service line (e.g., orthopedics, cardiovascular)
- A method to engage physicians to achieve the following:
 - ▶ Greater operational/cost efficiencies
 - ▶ Improved patient care outcomes
- Scalable structures...simple to extensive scopes



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Co-management Aligns Interest Without Full Integration

Physician Value

- Control over quality and efficiencies
- Formal means to get action
- Compensation for managerial services
- Improved operations can lead to improved physician productivity
- Improved outcomes can lead to greater personal satisfaction and greater market share
- Identification with a quality program
- Low capital requirements for participation and low investment risk

Co-management Aligns Interest Without Full Integration

Hospital Value

- Improve clinical outcomes
- Greater communications and interaction with physicians
- Optimize service delivery
- Currently no regulatory uncertainty (i.e., Office of Inspector General [“OIG”], Internal Revenue Service [“IRS”], Medicare)
- Relatively few barriers to creation (i.e., no Certificate of Need requirements, no new construction)
- Is a step towards building needed infrastructure in preparation for value-based purchasing, accountable care organizations (‘ACO’), bundled payments, and other healthcare reform measures

What is Co-management?

It is...

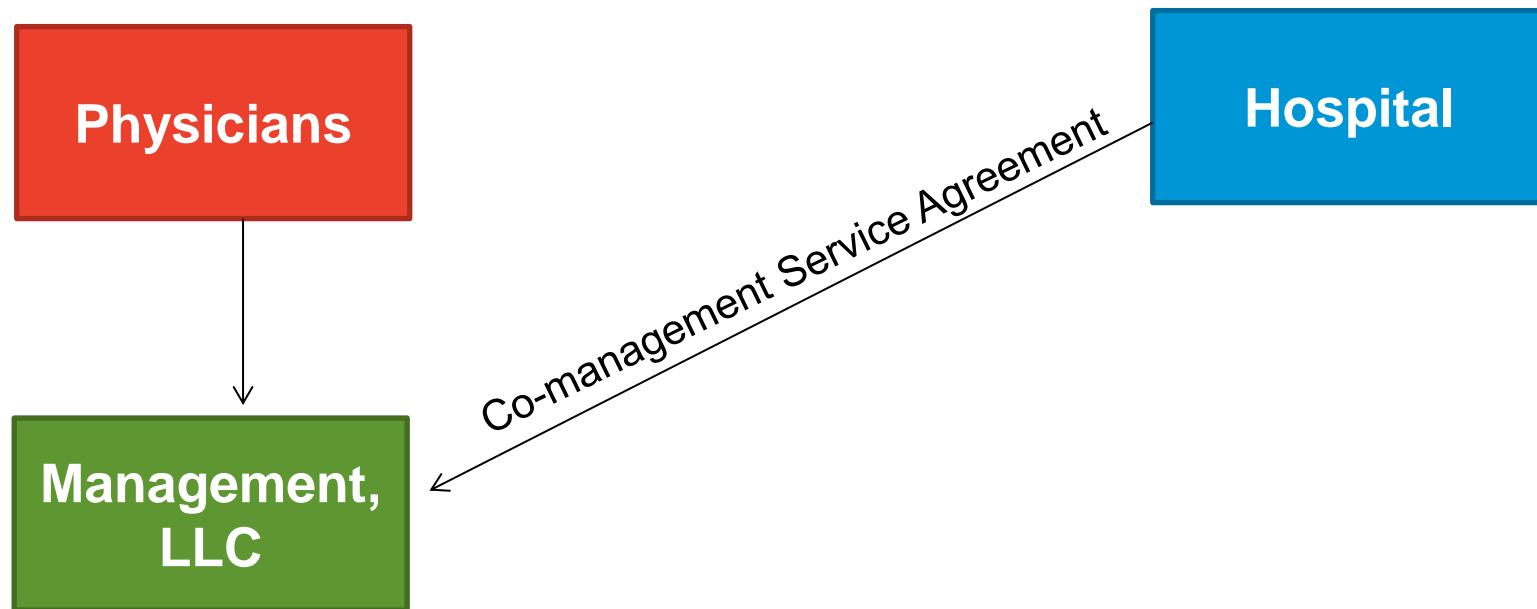
- Designed to align incentives
- A model for the hospital and physicians to jointly manage and operate a defined scope of activity (service line)
- A performance driven entity
- A legal entity
- An active participation model
- A model that is not new, but proven

It is not...

- Risk free
- A passive investment
- Ownership of the hospital physical assets or license of the hospital
- A gainsharing arrangement
- Means to income without performance

Co-management Arrangements

Simple: Hospital contracts with a physician organization, under which the physicians are granted input and managerial authority to design and enforce clinical and operational standards by DRG. Generally, the physicians provide only their time and no other personnel or items. Limited capital investment required.



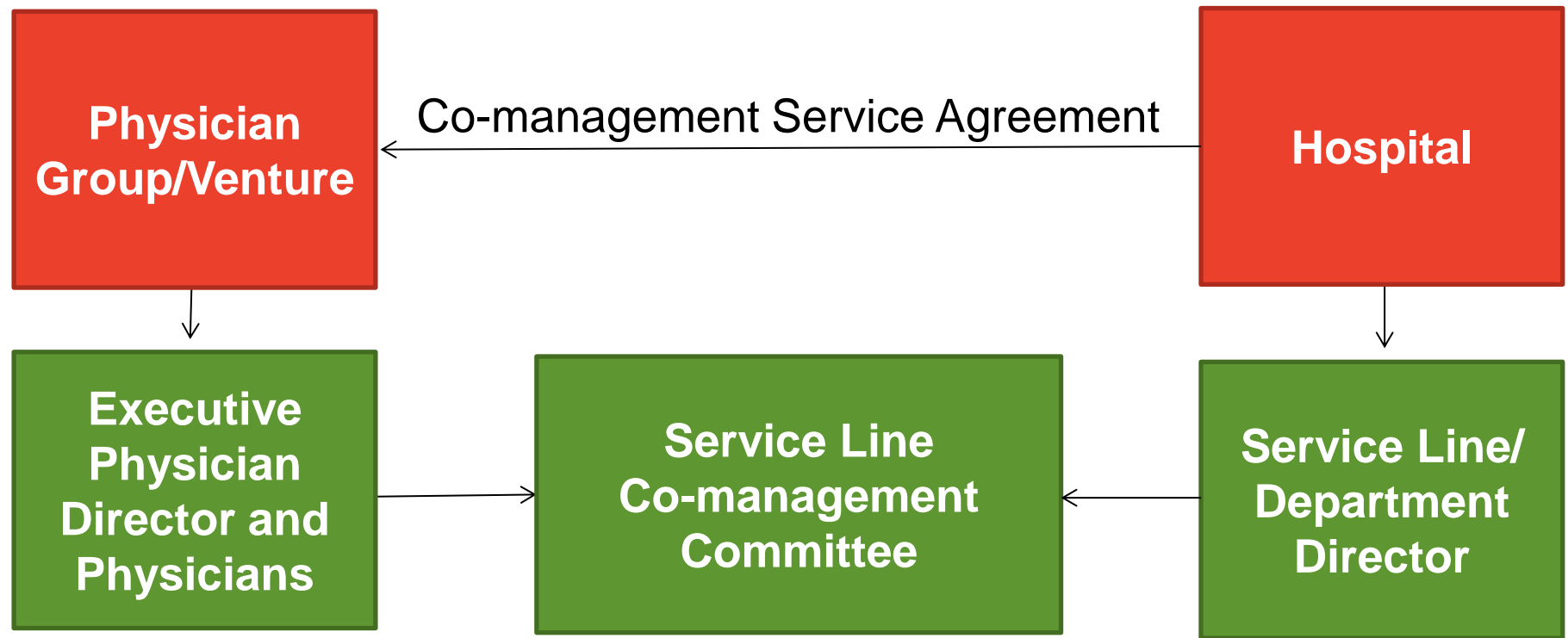
Co-management Arrangements

Benefits

- Permits direct compensation to physicians to manage a service line
- Potential to increase physician productivity, through improved operational and clinical outcomes
- Creates framework for service line and physician practice succession planning
- Limited capital investment requirements, limits physicians 'at-risk' investment
- Possibly provides access to capital for acquisition of technology, without duplicating resources

Co-management Arrangements

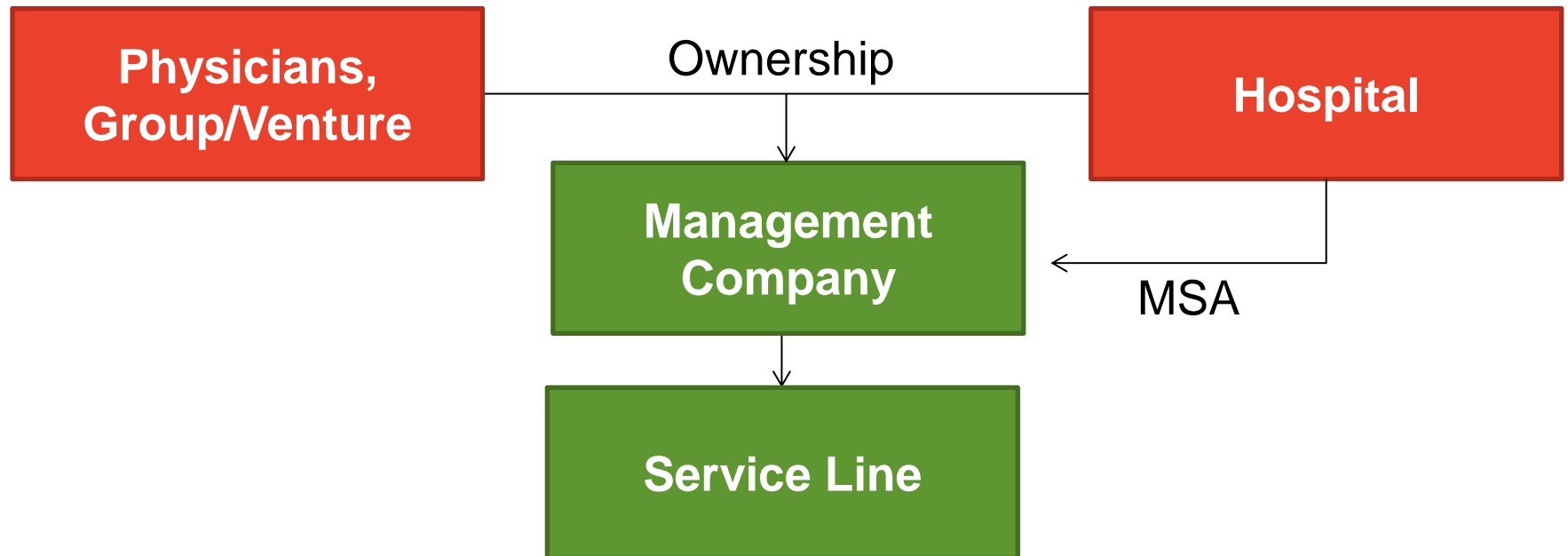
Simple Structure



Co-management Arrangements

Complex Structures

- Dual ownership of a management company by both a hospital and physicians. The management company is contracted to manage a service, and it may provide personnel, equipment, supplies, as well as be responsible for establishing and enforcing clinical and operational standards.



Physicians Are Involved in Each Aspect of Operations

Core Co-management Responsibilities

Financial and Operations

- Management oversight of staffing
- Negotiation of service arrangements
- Operating and capital budgets
- LOS management and patient throughput

Planning and Business Development

- Strategic plan development
- Technology planning
- Marketing strategies
- Clinical research plan

Quality of Care

- Implementation of care protocols by DRG
- Quality management and improvement policies
- Quality outcomes
- Patient experience

Physicians Are Involved In Each Aspect of Operations

Core Co-management Responsibilities (cont'd)

Co-management company governance structure includes various committees for managing all aspects of planning and care delivery (i.e., Quality Care Committee, Technology Committee, Operations Committee, Finance Committee, Research Committee)

Various Expanded Scope of Services

- Scope is a function of the goals of the arrangement
 - ▶ Personnel
 - Director
 - Marketing staff
 - Technical staff
 - ▶ Equipment and or space
 - Major and minor equipment
 - ▶ Inventory
 - ▶ Capital equipment
 - Supplies

Governance

- Service line directed through a joint operating committee
 - ▶ Physician groups appoint a lead medical director and participating physicians
 - ▶ Day-to-day management is through department/service line director
- Hospital maintains reserve powers:
 - ▶ Approval of budgets, marketing, and strategic plans
 - ▶ Approval of contracts and expenditures in excess of specified limits
 - ▶ Personnel issues
 - ▶ Actions that could jeopardize the hospitals license or tax status

Management Company Compensation Example

Base Management Fee

- Board Participation
- Finance and Operating Committee
- Other Committee Participation
- Medical Doctor
- Day-to-day Oversight/Special Projects
- Overhead and Expense Reimbursement

Incentive Compensation can be up to 25 Percent

- Operational Efficiency
- Quality of Service
- New Program Development
- Budgetary Objectives
- Satisfaction Measures

Base Management Fee

- Typically a monthly fixed amount calculated on:
 - ▶ Estimated hours of physician services and fair market value hourly rates
 - ▶ Projected expenses for other services offered
 - ▶ Estimate of physician group overhead expenses



Incentive Compensation

- Incentives based on achieving meaningful measurements
- Measurements considered permissible
 - ▶ Achievement of quality goals
 - ▶ Achievement of operational efficiency goals that are not the result of a reduction of care to patients
- Recommend using objective, independent consultant to develop baseline assessment and benchmarks to establish performance standards and incentive measures
- Incentive measures can be structured to pay partial payments increasing to higher payments as performance improves
- Total potential incentive pool typically ranges from ten to 25 percent of other fees paid
- Typically, the total base and incentive pay have been ranging between three to five percent of a service line revenues

Quality Incentive Measure Examples

Typical Heart and Vascular Co-management Measures

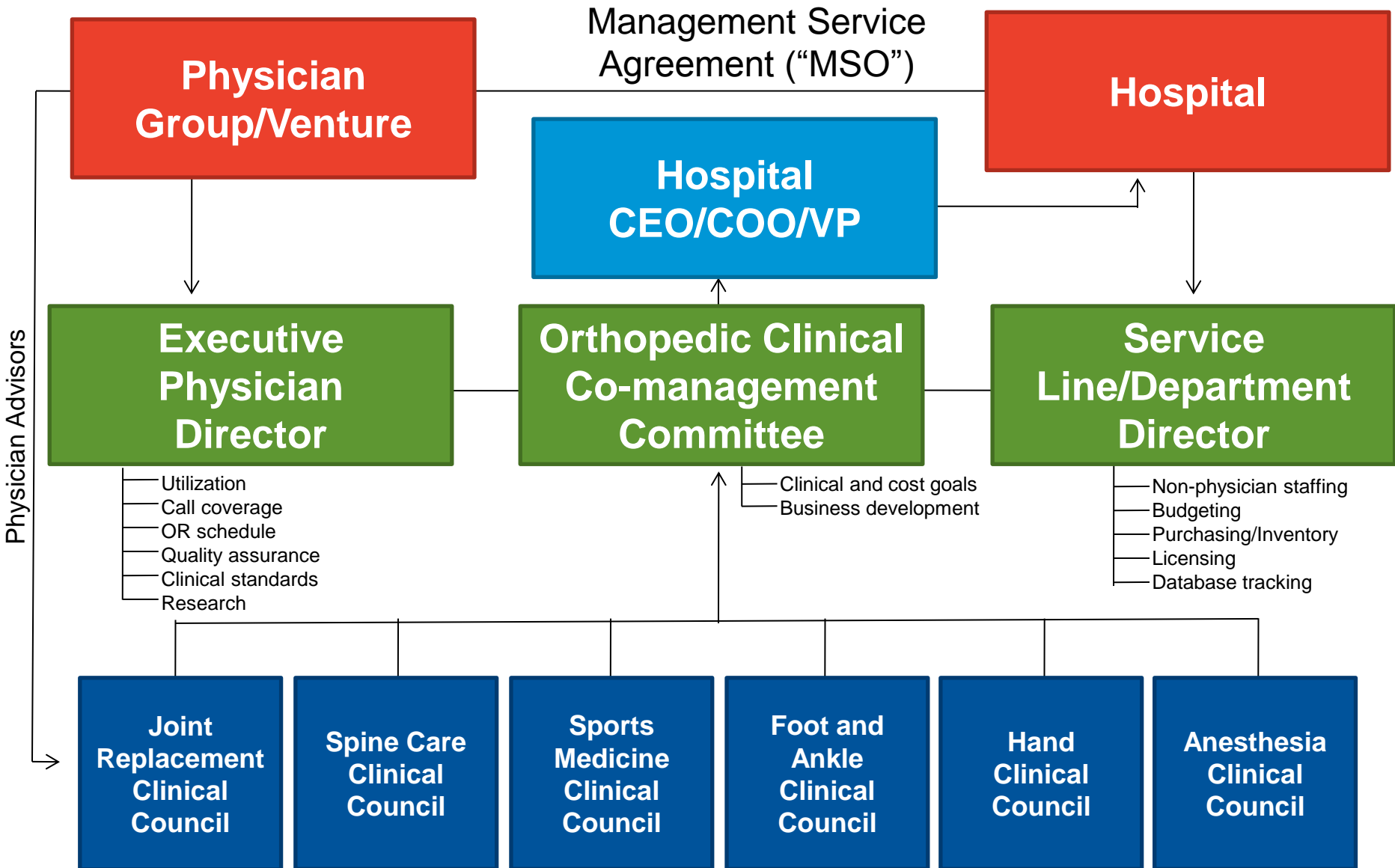
■ Quality

- ▶ Inpatient satisfaction
- ▶ Core measures
- ▶ American College of Cardiology (“ACC”) catheterization (“cath”) and cardiac surgery mortality
- ▶ ACC mean number of stents
- ▶ Vascular statin use
- ▶ Vascular medication administration for carotid surgery

■ Efficiency

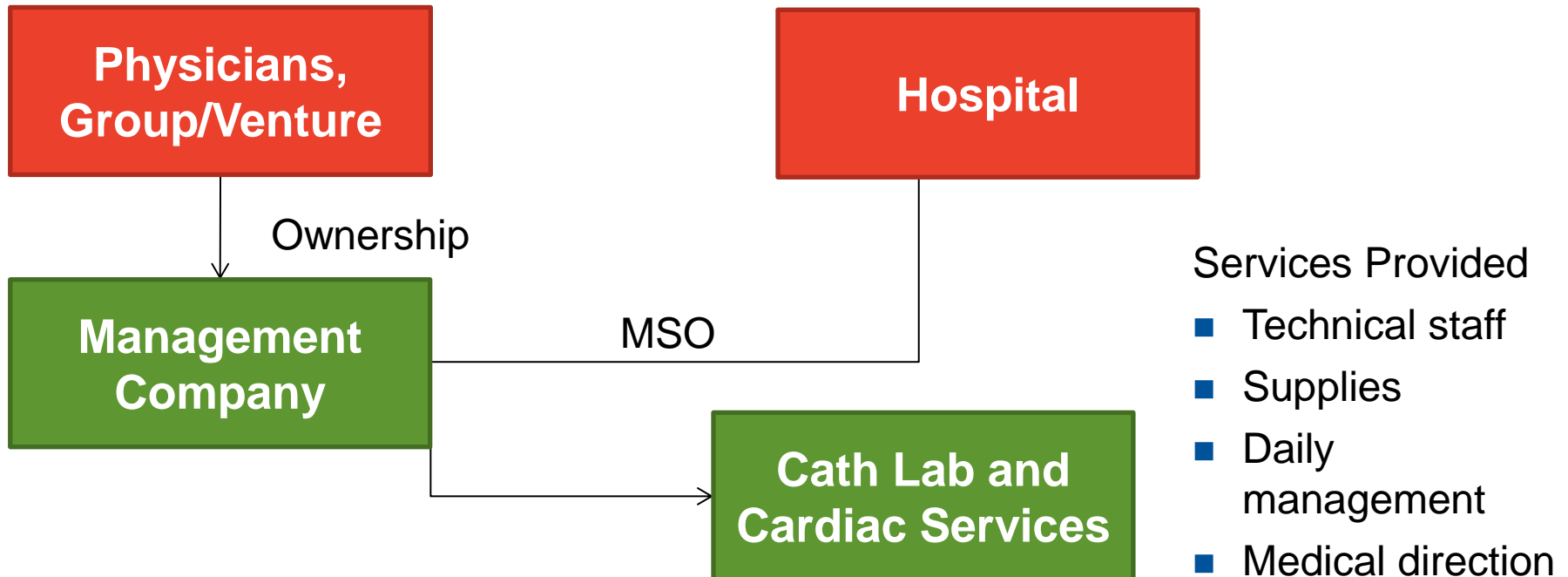
- ▶ Room turn around time – “wheels out to wheels in” (cath lab or operating room [“OR”])
- ▶ Case prep/start – “first case start time” (cath lab)
- ▶ Case prep – “patient in to incision” (OR)
- ▶ What is important to you?
How do we make the outcomes better?

Orthopedic Service Line Example

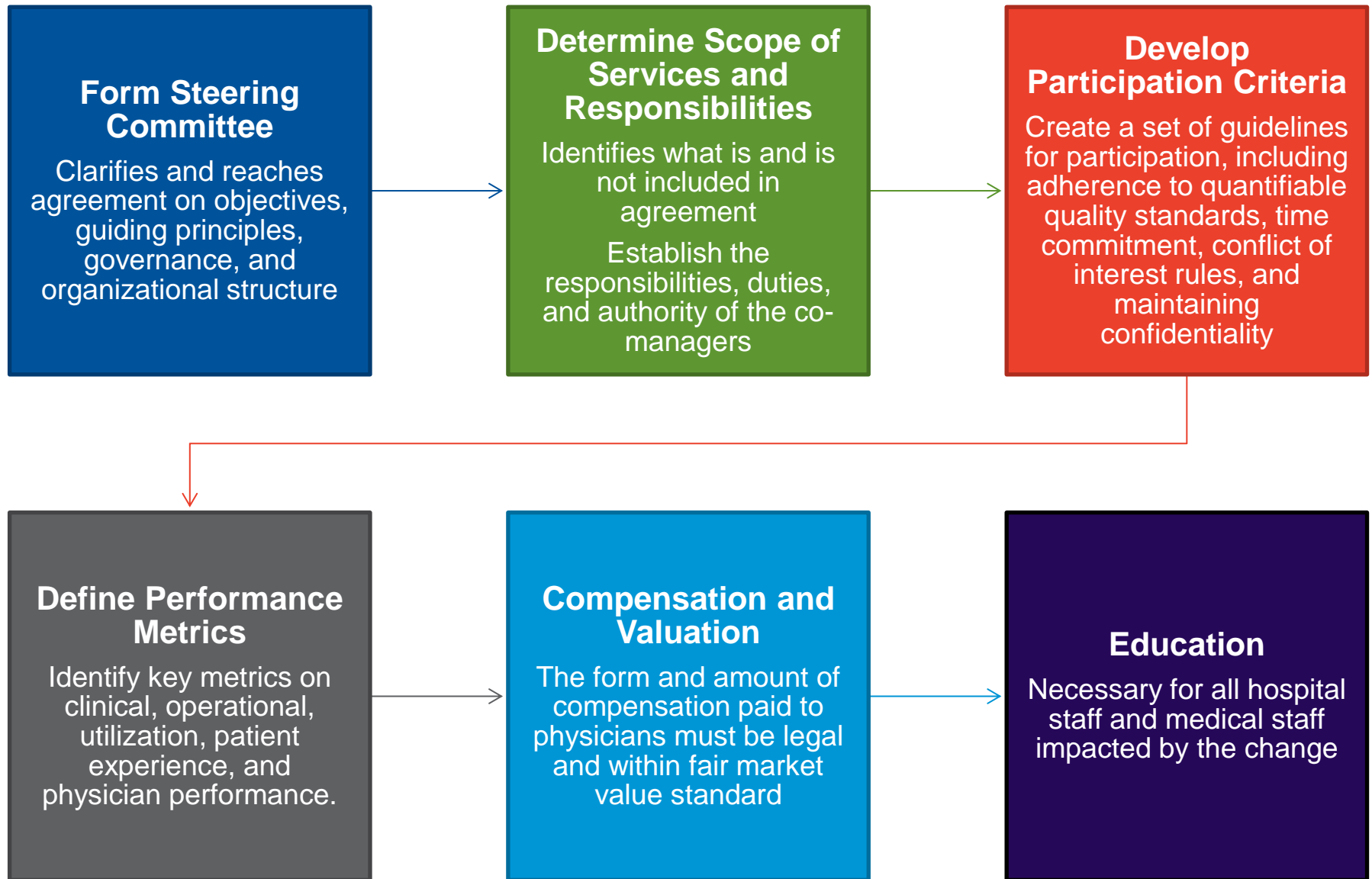


Cardiovascular Service Line Example

- Care must be taken to avoid an “under arrangement” which as of October 2009 the Centers for Medicare and Medicaid Services (“CMS”) has prohibited
- Additionally, CMS has prohibited per-click space and equipment lease arrangements



The Co-management Engagement Flow



Co-management Self Assessment

Purpose

- To rate the suitability of a service line department for development of a co-management arrangement

Co-management Self Assessment

Criteria	Service Line/Department			
	1	2	3	4
■ Service line/department operating efficiencies and clinical outcomes are highly dependent on physicians				
■ Service line/department could benefit from better coordination and agreement among the involved physician specialties				
■ There is a need or desire to improve standardization of care and operation procedures				
■ The patient care continuum needs improvement				
■ There is a need or desire to improve operating margins				
■ There is a need or desire to improve scores on measures of quality				
■ The service line/department has significant importance to the hospital's branding, community benefit, and revenues				
■ There is physician interest in co-management arrangement				

Co-management Self Assessment

	Service Line/Department			
Criteria	1	2	3	4
■ The hospital and physicians will be ready to enforce adherence to standards				
■ The services are candidates for bundled payment arrangements: <ul style="list-style-type: none">▶ Patient conditions include chronic and acute-care needs▶ There is an ability for providers to improve quality of care while reducing total expenditures▶ High variation in readmission rates▶ High volume and high post-acute care expenditures				
Total Score				

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