

Healthcare Strategy & Research Consultants

Co-Management

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HSRC

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Orthopaedic Surgeon
Residency at UCSF
In Practice in San Francisco Bay Area
for 15yrs
Sports Medicine

Background

- Managed Physician networks
- Currently involved in five Co-management/Service Line agreements in Northern California
- Managing or advising around 80 Orthopaedic Surgeons

Brendan Snyder, MSA

- Mr. Snyder , President of HSRC, has over 28 years of experience in the acute care hospital market. His experience includes senior management roles in acute care for-profit, non-profit and faith based health systems. Additionally, he has worked in a senior level role for a 150 physician ED group.
- Expertise includes business development, mergers and acquisitions, strategy, planning, analytics and physician planning/integration.

Co-management

- Co-management agreements -often referred to as “Service Line Agreements”- continue to be more common in around the country.
- A popular way for Private Practice Orthopaedists to integrate with Hospitals, without becoming their employees

What is driving Resurgence of Hospital Physician Integration?

- Declining revenue
- National Health Care policy
- Uncertainty of the future of Orthopaedic Practice
- Change in “Ethos”

Recent Increase in Hospital Employment

- “Healthcare policy and reimbursement trends favor provider alignment”

Primer on Hospital Employment
AAOS 2010

Integration models

- Accountable Care Organisations (ACO's)
- Co-Management Agreements
- Joint Ventures
- Management services agreement
- Paid leadership agreements
- Partnership on new technology and surgical systems

Hospitals Continue to Engage in More Formal Relationships With Physicians



Reasons to Love Co-management Agreements

- They are quality- and performance-driven
- They are acceptable legally, meeting all the restrictive covenants and regulations currently required.
- They build trust between physicians and hospital, as well as between physicians
- They allows physicians to participate with minimal upfront investment.

Co-management

- Typically have fixed, plus incentive based compensation model
- Typically contract term one to three years, renewed by mutual consent, compensation adjusted annually.

Initial steps

- Physician side
- Hospital side

Co-management Agreements

- What's involved on the Physician side?

Co-Management

- Need to have a group of Orthopaedic surgeons and a Hospital Group, willing to engage
- Consultants, Attorneys, FMV evaluators
- A negotiation process

Co-management

- Can't be one sided
- Both parties will see significant benefits if done correctly

Phases

- Phase 1
 - From the initial concept to the signing of the co-management contract
- Phase 2
 - First year of operation
- Phase 3
 - Beyond first year of Operation

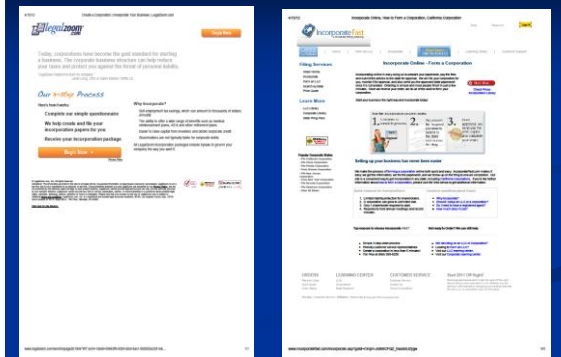
Phase I Physician Side

- Come together as a group.
- Decide on a steering committee/leadership structure
- Form an LLC

Phase I LLC formation

- All physicians equal members
- Typically 100% Physician owned
- Relatively inexpensive to form

LLC formation



Legal Representation



Phase I Management LLC

- Funded by capital contributions from members- typically \$2000 to \$4000 per member
- Operating agreement and corporate governance developed
- Subscription agreement and offering deadline

Phase I Management LLC

- Needs a managing member-typically the lead physician
- Needs administrator
- Insurance and ongoing legal costs: \$5000 to \$10,000 per year

Phase I Non-Compete

- Typically a sticky issue
- Unrealistic to expect no non-compete at all
- Not usually an issue once the exact terms are understood

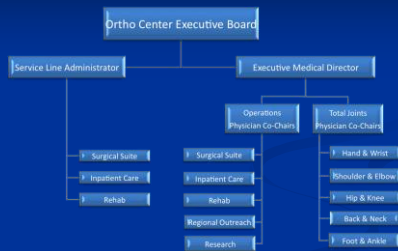
Phase I Contract signed when:

- Offering closed
- Non-Compete Approved
- Workplan Approved

Phase II Structure

- Management LLC
 - 3 Board members, one of whom is President
- Co-management Executive Board
 - 6 Board members
 - 3 surgeons
 - 3 hospital representatives

Structure



Phase II Meeting Schedule

- Typically monthly meetings
- Set up subcommittees
 - Total Joint
 - Spine
 - Other
- Establish Calendar

Co-Management Arrangements

- Why is the hospital interested?

National Market Trends

Orthopedic Trends

- Aging population will continue to drive demand for services.
- Population is living longer due to medical and technological advances which will drive demand for orthopedic services especially total joint and spine procedures

Background

Typical Hospital Structure “Silo” Approach to Operations



A lack of integration between departments

Coordinating the Entire Process



A New Approach to Develop Musculoskeletal Center of Excellence

Physician Components:

- Physicians must participate in and be held accountable for operating efficiencies
 - Doesn't incentivize for withholding care or lowering cost of care.
 - Isn't based on profitability or patient exclusion
- Physicians must have defined control to make appropriate changes in their hospital operations

Hospital Components:

- Physicians and employees are equal team members
- All departments integrated into the delivery of care
- Financial and clinical data shared transparently

Results of Co-Management

- Improved Quality
- Volume Growth
- Revenue Growth
- Reduction in Expenses
- Improved Patient Satisfaction
- Efficiency
- Happy employees

Thank You

- Questions ?
