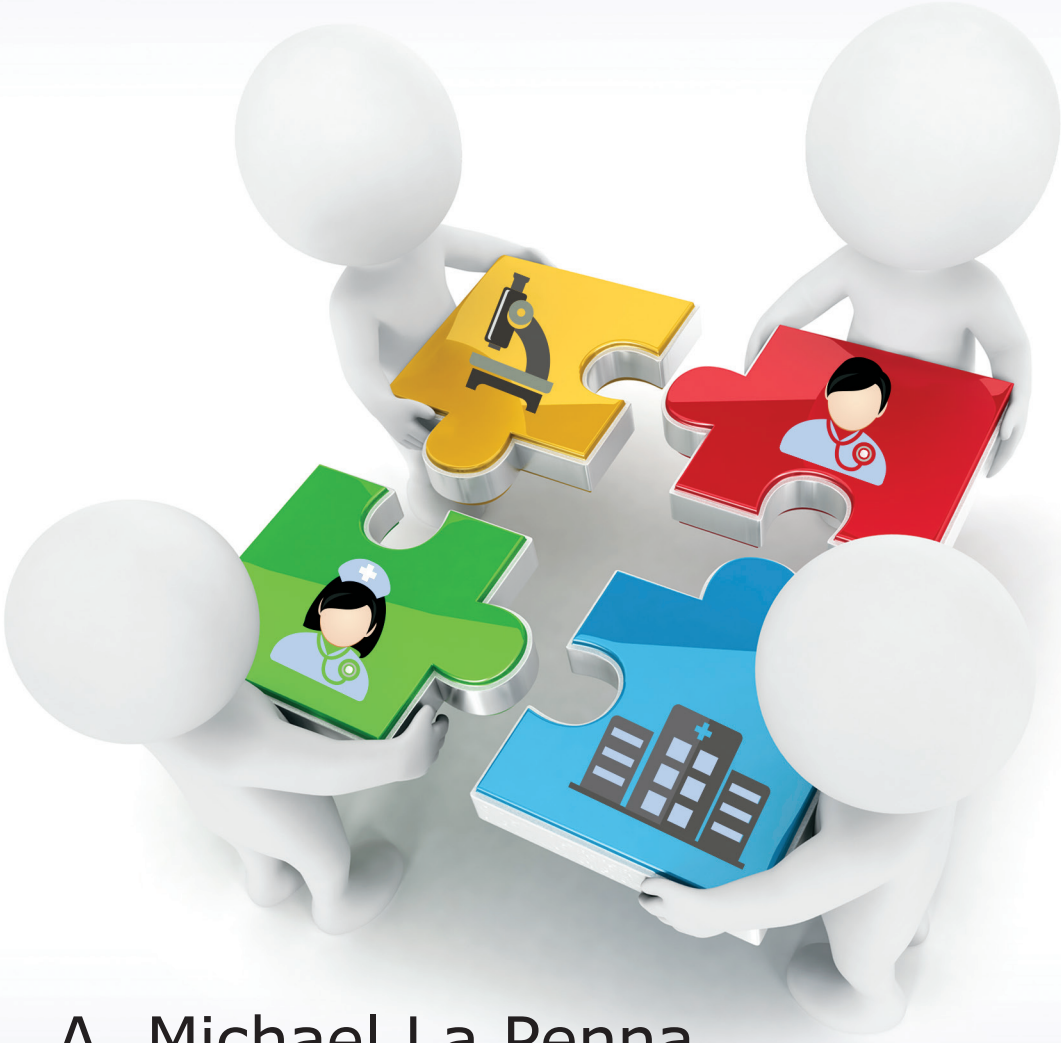
Medical Staff Integration

Transactions and Transformation



A. Michael La Penna

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Transactions and Transformation

Larry Boress, President and CEO, Midwest Business Group on Health

"Mike La Penna brings an important perspective to a key shift in the structure of health care. Providers, payers, employers, and patients are greatly impacted by this shift from relative independence to integration, which has critical implications to the cost and quality of health care as we know it today."

Robert Harrison, MHA, PhD., President, Lake Michigan College; Former President of the Michigan Hospital Association and hospital board member

"There is no more complex administrative environment than health care and no time when it has been more confusing and challenging. Mr. La Penna has outlined several of the models and structures that go well beyond the traditional medical staff relationships. His book is recommended reading for the practitioner, the administrator, and the board level stakeholders as they contemplate how to work together in the new health care environment."

George O. Waring III, MD, FACS, FRCOphth, Professor of Ophthalmology, Emeritus, Emory University; private clinical practice, Atlanta, GA

"After 25 years of my seeking Michael La Penna's counsel and direction in half a dozen different medical practice venues and models, I have learned to appreciate his incisiveness, his conciseness, his analytical skills, his wisdom, and his dry humor. A survey of the 21 chapter titles gives a good clue to the superb information in this contemporary and masterful book."

Susan Mendelowitz, RN FACHE, President and COO, Bergen Regional Medical Center, Paramus, NJ

Paul C. Mendelowitz, MD, MPH, Former Chief Medical Officer, Holy Name Medical Center, Teaneck, NJ

"Mike La Penna is the consummate medical staff business consultant. His impressive depth of knowledge coupled with his common sense approach has led to successful resolution of a broad array of issues we have faced in managing the business organization, compensation, and management of our physicians and their practices. His words of wisdom and advice regarding physician integration are welcome in this turbulent time of reform and aggregation of health care entities."

Dr. Anthony J. Gagliardi, MD, Vice President & Chief Medical Officer, New York Presbyterian Lower Manhattan Hospital and Charter Trustee of SERVITAS IPA of Greater New York

"No health care environment is tougher than New York. When change occurs, it is rapid and dramatic. We look to experts who have a proven track record of managing change. Mike La Penna assisted us with the development of an IPA that numbered over 5,000 providers and a dozen institutions at a time when managed care first emerged. He fashioned the governance as well as the value proposition for all of the stakeholders. I welcome any book that captures his expertise and experience."

Ahmed Abdelsalam, MD, FACS, Managing Partner of Chicagoland Retinal Consultants, LLC.

"In this time of turmoil and turbulence in relations between hospitals and their medical staff members, and with all the different models emerging, it is a help to have a concise review of the options along with practical examples of structure, governance, and income distribution. This book is a primer on how hospitals and doctors can find common ground to move from independence to collaboration to some level of true integration."

William Cunningham, DO, MHA, Assistant Dean College of Osteopathic Medicine, Michigan State University

"In the process of working in clinical and administrative medical positions for decades, I have had the pleasure of doing a number of joint projects with Mr. La Penna and his team. I am enthused to see that the experience and insight of his years of consulting in the hospital-physician ecosystem have finally made it into print. Anyone who is working with physician transactions will find some solace in knowing that some of us have been there before! This book suggests a number of ways to improve the reader's chances of succeeding in the very complex world of the new medical staff."

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This book is dedicated to my two younger physician-brothers, Bob and Bill. Both are healers and clinicians, first and foremost, and each embodies the "old school" approach to medicine: "If you take care of the patient, everything else will take care of itself." Both are graduates of the Michigan State School of Human Medicine, and both followed a path to interventional cardiology by way of Henry Ford. Each will be remembered by their patients as caring and compassionate physicians who spent their lives in the clinic, on call, and in consultation with other doctors, and, most importantly, with their patients and their families.

No sense going through any kind of clinical or medical background on them except to remark that they are both rather naïve about the business side of the health care delivery system, and neither knows much about what this book is about, or cares. Bob is a master diagnostician when it comes to all things automotive, and Bill is the collector and curator of what is probably the most extensive collection of brewerania* in the United States. Both focus on being good fathers and great siblings. Neither of them cares whether he is "in" or "out" of whatever local "integrated" health care network is currently emerging (or diverging or destructing), but each is actively practicing as if the patient he is with is the only part of "population health" that matters.

* Brewerania is the term for advertising paraphernalia related to brewing, breweries, and beer.

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Author's note: Models and monographs and charts contained in this book can be downloaded at the companion web site MEDICALSTAFFINTEGRATION.com

Acknowledgments

I especially thank all of those who contributed to this book by sharing with me their knowledge and background of ambulatory care processes, medical systems delivery, and benefit design, and how all of these factors of delivery work together, and especially what happens when they do not. I am indebted to Jeff Beird, who originated many of the concepts and models related to valuation, on which some of the technical material in this book is based. In addition, most of the concepts in this book are borrowed and, in some cases, lifted directly from material developed by Dorothea Taylor, who has spent decades in the front lines of physician practice management. Her insight is derived from direct problem solving and from the on-site application of sound business practices and organization theory to the consumer and the provider engagement process. Any operational wisdom or practical observations that are offered in this book have been borrowed from work she proofed in the field. Where possible, I have credited Jeff and Dorothea, but the reader should note that the entire book is based on their insight and the many projects that we have managed over decades of consulting. I am also indebted to the many clients of our firm, hospitals, and doctors, who for three decades have allowed us to assist them in a variety of transactional and transitional challenges. We have learned much more from our clients than they ever learned from us.

A. Michael La Penna

Introduction—New Models Using Refashioned Parts

There are a few select authors and futurists who most of us reference when planning and prognosticating about health care and its future forms. If any definitive list existed, it would most certainly contain futurists and academicians like Jeff Goldsmith, Leland Kaiser, Uwe Reinhard, and Edward F.X. Hughes.* Each has addressed the topic of health care transition and the future of health care by focusing on his own special area of study and expertise. However, when one looks over their collected writings, blogs, and presentations, we find that they were among the first to recognize health care as a system of providers and institutions, payers and patients, who are interconnected and interrelated in an economic and functional form. They each have recognized that what we casually refer to as "integration" can be measured and studied, and that it has a unique value. I am not sure who advanced this idea first, but I suspect that these and other great minds always conceived of the health care delivery system differently than the practitioners and providers within it and the markets that have actually shaped it.

Hospitals and physicians exist in the same marketplace providing complementary services to the same consumer population under the same payment mechanisms. They do so in a combination of transactions that are defined along traditional lines, but which are generally referred to as *fee for service*. However, this concept has often blurred over the past decades, especially since the advent of payment structures that have been designed by intermediate payers like Medicare and the managed care organizations that organize payments from self-funded employers

* Health care futurist references can be further studied at their individual web source pages: Leland R. Kaiser, PhD, http://www.kaiser.net/lee-kaiser; Jeff Goldsmith, PhD, http://www.healthfutures.net/index.php; Edward F.X. Hughes, MD, MPH, http://www.kellogg.northwestern.edu/Faculty/Directory/Hughes_Edward.aspx#biography; Uwe E. Reinhard, PhD, http://wws.princeton.edu/people/display_person.xml?netid=reinhard&display=C.

and standard insured products. There are some generalities that can be made about how doctors and hospitals interrelate and overlap, but the most basic observation is that physicians join a voluntary medical staff at a hospital and direct their patients to that institution for a variety of inpatient and outpatient care. However, this generalization is never the only relationship that exists between doctors in any specific hospital. The more precise generalization is that doctors and hospitals have a variety of collaborative and competitive processes and arrangements that make up a collection of relationships that merge in a series of events that cause care to be provided directly to patients; but the payment comes indirectly from government programs and other private intermediaries.

Generally speaking, no generalizations can be easily made. The many alternate systems that are emerging are doing so in similar formats but at differing speeds and through different channels. There are basic trends that are pretty well accepted by anyone who is watching the structure of the health care system. One trend that is unmistakable is that more doctors are moving from private and independent practice to more formal business models that include the hospital as a direct partner of some kind. Often, these models include a transaction that is something like a purchase and a result that is something like employment for the doctors. The trend is straightforward, but while it is simple to describe, it reflects a series of complex transactions that occur in even a more complex regulatory environment. The health care system is headed toward practices and physicians being operated by health care systems that are, in turn, operating to serve consumer health mechanisms that are driven by new forms of information exchanges and payment structures. These operational delivery units are in transition at the same time that the payment structures that are being designed to fund them are in their own formative stages.

The entire health care system, providers and payers, is also being shaped by the unknown factor of additional demand from the many Americans who will soon be insured in some form under the Patient Protection and Affordable Care Act (PPACA).* By the end of 2014, physicians and hospitals will be serving an additional 40 million patients in a new form of payment system that references value in some form of a quality and price measurement matrix that has yet to be fully developed and defined.

Health care systems will have been formed from competing entities that have developed their relationships based upon undefined but anticipated health care payment structures and unproven and unpredictable reimbursement formulae. Consumers will be choosing their entry into this new marketplace with tools that are still under development. We know that the consumer is presently choosing his

* Enacted in 2010, the Patient Protection and Affordable Care Act has a timeline that is being implemented over a 4-year period that includes new forms of health care delivery (accountable care organizations) and new methodologies for health care payment (insurance exchanges). A complete timeline can be found on the government's consumer-oriented website http://www.healthcare.gov/law/timeline/full.html#2014.

or her care with some kind of information that is generally derived from a trusted health care advisor of some kind, or simply by chance, which can be influenced by advertising and geographic location. Soon, they will have new information channels, most of which will be operating on as yet unformed assumptions and on questionable data. Consumer choice will meet the health care system at a junction where the demand function is based on sparse information and where the supply process is still under construction.

Health care is a marketplace that has not yet benefited from the information technology boom, which is reshaping choice in general consumer services and wholesale pricing. As a consumer with a tablet or a cell phone, I can compare refrigerators and appliances on every level by which they can be measured and source reviews from credible consumer agencies and from other consumers like myself. I can also order a pizza online and watch a timeline for its development and delivery. However, I cannot make an appointment for health care services or get the results from yesterday's blood tests.* More importantly, I can gauge price from a number of different suppliers and choose services that can be compared side by side. Any consumer that has compared credit card deals or airfare pricing or cell phone plans will understand the problem with pricing transparency in health care. The problem, simply stated, is that there is none.

The lack of comparative quality and price data is partially true because of a variety of information debates that are confusing patient privacy with the patient's need for information access, but largely it is due to the fact that the health care industry is sadly underpowered when it comes to the capitalization of information technology and the packaging of information in any usable format for the patients or for the providers† that serve them.

At the present moment, over 50% of the population is covered by some form of a managed care organization (MCO). There are almost 70 million Americans in HMOs and over 100 million enrolled in preferred provider organizations (PPOs). Another 35 million are in "point of service" plans and consumer high-deductible

* Some readers will be quick to point out that they can get some appointments online and that there are doctors who will respond by e-mail. These are fulfillment services that are not yet truly integrated. Domino's Pizza® has a more integrated appointment function than the largest of the health care systems operating in 2013–2014, and places that warehouse appliances offer more complete information on their products than the most advanced integrated health system.

† Throughout this book, the term *providers* is used to reflect any professional who dispenses medical care directly. Physicians would be a more common term, but that does not recognize that there are physician assistants and nurse practitioners who also have varying degrees of practice autonomy and who will comprise a significant portion of the space devoted to health care access in the future. These provider categories are under constant transformation in every state, and the only generalization that can be made is that their roles are being expanded on every level and their involvement will be generally accepted in many areas that were formerly the domain of the physician.

payment programs.* This trend is soon to be expanded dramatically by the growth that will occur as Medicare and other social programs continue to toy with managed care initiatives. The Affordable Care Act (ACA) implementation will also fuel the continued development of managed care. Generally, and arguably, this trend has produced cost savings for the payers of care, be they employers or public agencies. One can argue that the quality of care has not been in any way hampered by these payment mechanisms, and some would advance the notion that the care has actually improved. Physicians generalize that managed care makes their practice more difficult and the business of running a practice infinitely more challenging.† Simply put, the challenge for a physician practice to somehow thrive from a different, more complex, payment system is daunting. The typical physician practice simply does not have the critical mass of patients or the infrastructure to capitalize on the many changes that have been introduced in the health care system over the past couple of decades. This is only going to get worse, and the doctors know it.

This book is not about why this is all occurring, nor is it intended to cover the areas that question how the health care system should be changed. This book is all about what is happening and how physicians and hospitals should think about the changes that are trending now and which will be erupting at different stages all across the country. This is a book that attempts to address these changes in a nonjudgmental fashion and from a business case perspective. Hopefully, it will allow a reader to gain an understanding of some of the basics behind the various types of relationships that are forming and assist in the nuts and bolts of the transactions and the transitions that will result. As for transformation of the health care system, there is no one who really understands what will emerge after the changes underway are complete. Maybe, if the appropriate incentives are aligned in some way—consumer, society, institution, and physician—the result will be a more stable and effective health care system and one that matches access and technology and care and prevention to bring the promise of these factors to bear on areas of greatest need and at a price that we all can afford. Few of the futurists that I referenced in the opening paragraphs of this Introduction are confident that this will actually occur.

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* The Managed Care Fact Sheet from MCOL (http://www.mcol.com/current_enrollment), reporting statistics from 2010, 2011, and 2012 derived from Kaiser State Health Facts; Healthleaders, Inc., Special Data Request, May 2011; Kaiser/HRET Employer Health Benefit Survey—September 2011; U.S. Census Bureau, Income, Poverty and Health Insurance Coverage in the United States: 2010; AAPPO Press Release, April 25, 2011. Data source: Mercer National Survey of Employer Sponsored Health Plans.

† In numerous physician consultations over the past 30 years, we have been asked often by doctors how to make money in managed care. Our stock answer has been, "Buy HMO company stock." This is not really a flip comment since HMOs have done pretty well over that period of time, and most doctors will complain that the fee-for-service business model cannot thrive in a managed care-controlled environment.

About the Author

Mike La Penna has been a consultant to physician groups and hospitals for more than 25 years. He has served in a number of board positions on health care organizations and community service organizations. He has been an executive in both nonprofit and for-profit health care environments.

Mike is a graduate of the University of Chicago's Graduate School of Business, where he earned an MBA and a certificate in health care administration. He has a BA in economics from Western Michigan University, and he has held faculty positions in both undergraduate and graduate business programs.

Mike's expertise includes strategic planning, payer negotiation, real estate ventures, merger, acquisition, and divestiture strategies, product branding, independent provider association (IPA)/physician-hospital organization (PHO) development and management, equity and risk arrangements, technology applications, and faculty group practice plans. The La Penna Group, Inc. was founded in 1987 to provide business consulting services to physicians, hospitals, and health care delivery systems. It has also worked with industry and with governmental units to develop solutions for a variety of health care delivery situations. He has been an advisor to numerous national associations and authored numerous articles on health care trends, physician practice management, and network development. He has commented on health care for numerous publications and news outlets, including Crain's, the *Wall Street Journal*, the *New York Times*, and NPR. Mr. La Penna is an advisor to some of the world's largest health care delivery organizations and to numerous Fortune 100 firms.