



## INDEPENDENT PHYSICIAN PRACTICES AND COVID-19: WHAT'S A HEALTH SYSTEM TO DO?

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Questions surrounding the continued viability and sustainability of independent physician practices abound since the onslaught of the COVID-19 pandemic. Historic concerns related to increasing overhead progressively outdistancing minimal increases in revenue are being replaced by concerns of unrelenting overhead expense in the face of tremendously decreased revenues. The current and predicted continuing conditions project a bleak outlook. In times of need, owners and/or members of independent practices often turn to their local health systems for support. We anticipate that the circumstances associated with the COVID-19 pandemic will be no different. So what's a health system to do? The key word is to be "proactive."

### SITUATION

For their part, practices of all specialties are abruptly implementing telehealth options to meet patient needs. [Even though CMS and many commercial insurances relaxed telehealth restrictions and expanded telehealth reimbursements](#),<sup>1</sup> revenue associated with virtual visits will not adequately replace lost revenue from cancellation of elective procedures and office encounters. While practices are receiving income from previously submitted claims, that revenue stream will soon be diminishing. Some practices estimate a 50-90% decrease in future revenue due to the pandemic, which leads to real time debates about whether to try to keep operations going for as long as possible or to close the practice temporarily or to close the practice permanently. Given most physicians' idealistic and analytic nature, they are predisposed to consider all options before "giving up." Turning to health systems for "any" support becomes one of those options – and health systems need to be prepared with a response.

### HEALTH SYSTEM OPTIONS

#### 1 | Think Strategically

Even though the COVID-19 pandemic consumes significant administrative attention and bandwidth, being receptive to seizing strategic possibilities that might arise during this stressful time may reap long term advantages. One section of the suggested HSG COVID-19 Checklist<sup>2</sup> is dedicated to assessing the health system's willingness to acquire independent practices or employ individual physicians who are experiencing dire financial circumstances. Elements of this section include the following:

- Assessing the strategic importance of local practices/ providers to health system success
- Assessing their respective value to the community and with meeting community need
- Completing financial projections related to employing versus losing valuable providers
- Considering the following additional factors prior to offering practice acquisition/ employment options:
  - Cultural fit – a must
  - Historic clinical performance
  - Reputation in medical community
  - Reputation with patients/public
  - Brand loyalty, leakage
- Developing or revising templated term sheets and contracts to have in hand in case employment becomes an option
- Identifying resources to perform due diligence
- Defining resources necessary to onboard new acquisitions
  - Determine whether the employed provider network management infrastructure is adequate to manage additional practices or if additional resources are needed ... and at what flex point

Some of HSG’s clients are already experiencing requests for employment from local independent physicians. Anticipating the need and developing a plan is crucial. [A classic case study reflecting success in this scenario is Ochsner Health](#) and its actions in the aftermath of Hurricane Katrina. Ochsner was open to, and actively pursued, physician employment (and hospital acquisition) immediately after Hurricane Katrina hit New Orleans and emerged with a stronger, broader, more expansive employed physician network (and transformed from a single hospital to a four hospital system).<sup>3</sup> Acting proactively with a strategically developed plan predicts a more favorable employment outcome than responding reactively.

Practices identified as strategically important but not interested in acquisition/ employment could be candidates for the direct support options outlined below.

## 2 | Proactively Reach Out

Adopting a proactive approach and empathetically communicating with independent practices about how they are doing – and not about how they can support you with your COVID-19 efforts – will reap significant goodwill. Ensuring the principals in the practice are aware of the financial support options available through the [various federal financial stimulus arrangements](#)<sup>4</sup> to bridge the economic downturn caused by the pandemic – and educating about them if they are not aware – could be beneficial to the practices’ continued viability. Even if the programs are already known to them, or felt not to be applicable, the proactive, empathetic interactions could at least enhance alignment – and should be considered for all independent practices in the primary service area.

### 3 | Consider Direct Support

At a time when health systems are struggling with their own financial hardships, considering direct support of strategically essential, independent practices may be difficult to envision. However, CMS provided health systems additional latitude nonetheless. On March 30th, [CMS announced regulatory waivers of certain Stark provisions](#) that permit more direct financial support of independent physicians during the COVID-19 pandemic.<sup>5</sup>

To be eligible for the waivers, arrangements must be related to six delineated COVID-19 purposes, including “(a)ddressing medical practice or business interruption due to the COVID-19 outbreak ... in order to maintain the availability of medical care and related services for patients and the community.”<sup>5</sup> Some of the 18 waived circumstances to consider in this context include the following:

- Rental charges paid by a physician to an entity that are below fair market value for the physician’s lease of office space or equipment from the entity – i.e., reducing or forgiving lease payments during the pandemic.
- Remuneration from an entity to a physician resulting from a loan to the physician with an interest rate below fair market value or on terms that are unavailable from a lender that is not a recipient of the physician’s referrals or business generated by the physician – i.e., low interest or interest-free loans to allow the practice to survive the pandemic.

Depending on the strategic value of practices, the ability of the organization to weather increased debt, the circumstances of current arrangements, and the willingness of the involved parties to work together in this fashion, the Stark waivers may be another option to consider.

## CONCLUSION

Health systems possess several tools to aid independent physician practices during the COVID-19 pandemic, if they choose to do so. Health systems should preemptively review these options and determine tactics for achieving long term strategies for their market.

HSG stands ready to help develop and execute these plans. We can offer assistance with various elements, such as assessing independent physician practices’ leakage/loyalty through our suite of network integrity analytic capabilities; conducting [practice acquisition due diligence and valuation](#); developing or transitioning [compensation models](#), including fair market value and commercial reasonableness opinions; performing third party credentialing functions; and augmenting management resources to undertake other critical activities. Please contact us for advice and/or assistance.

## CITED REFERENCES

1. Getting Paid for Virtual Patient Visit Interactions.
2. COVID-19 and Your Employed Physician Network (Checklist).
3. K. Gooch, 10 years after Hurricane Katrina: Q&A with Ochsner CEO Warner Thomas. Becker's Hospital Review, August 26th, 2015.
4. Independent Physician Practices: COVID-19 Stimulus Acts Unlikely to Be a Panacea.
5. Blanket Waivers of Section 1877(g) of the Social Security Act Due to Declaration of COVID-19 Outbreak in the United States as a National Emergency.



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