Reducing Employed Physician Network Losses

Presenters

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- Physician Leadership Development

Company **Overview**

HSG builds high-performing physician networks so health systems can address complex changes with confidence.

Headquarters: Louisville, KY

Formed: 1999

Focus: Health Systems and Physician Network Strategy and Execution

Physician Strategy

Driving a common strategic focus with engaged physicians.

Physician Leadership

Identifying and engaging strong physician leaders is integral to the network's development and success.

Performance Improvement

Improving the performance of employed physician networks.

Network Integrity

Leveraging Physician Network Integrity Analytics™ to create and monitor strategies for patient acquisition and retention.

Physician Compensation

Aligning physician compensation with health system and employed network goals.

Reducing Employed Physician Network Losses

Agenda Items for Today's Discussion	
1	HSG Observations on Employed Physician Network Subsidies
2	Putting Your Network's Subsidies in Context and Defining Realistic Targets
3	Review HSG Framework for Evaluating Employed Physician Network Subsidies and Defining Areas of Opportunity
4	Review Organizational Capabilities Needed to Create Change

HSGs Observations on Employed Physician Network Losses in the COVID-era

Employed Physician Network Losses

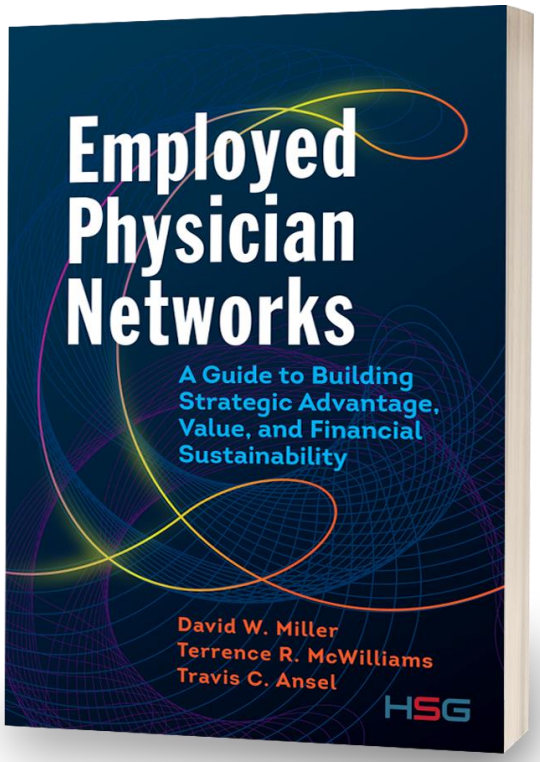
Definition: "Losses" / "Subsidies" / "Investment"; net financial performance of operations of employed physician practices on direct expenses plus allocated health system overhead

- Historical pressure point for health systems
- Financial impact of COVID-19 on elective/routine care in March-May 2020 will invariably put additional pressure on health systems to manage subsidy more aggressively
- Expect a "post-reopening" focus on expenses once revenue starts flowing again and boards/executive teams begin looking to manage margin
- Even networks "within benchmark" will feel pressure and should have a plan for managing subsidies more aggressively

Quotes from HSG COVID-19 Strategic Implication Survey:

- *"I think all organizations will continue to evaluate the success or failure of their physician practices, but will likely view them with more diligence."*
- *"Emphasis on managing lower producing providers to have more efficient operations or perhaps manage out. Need to push sustainability now more than ever."*

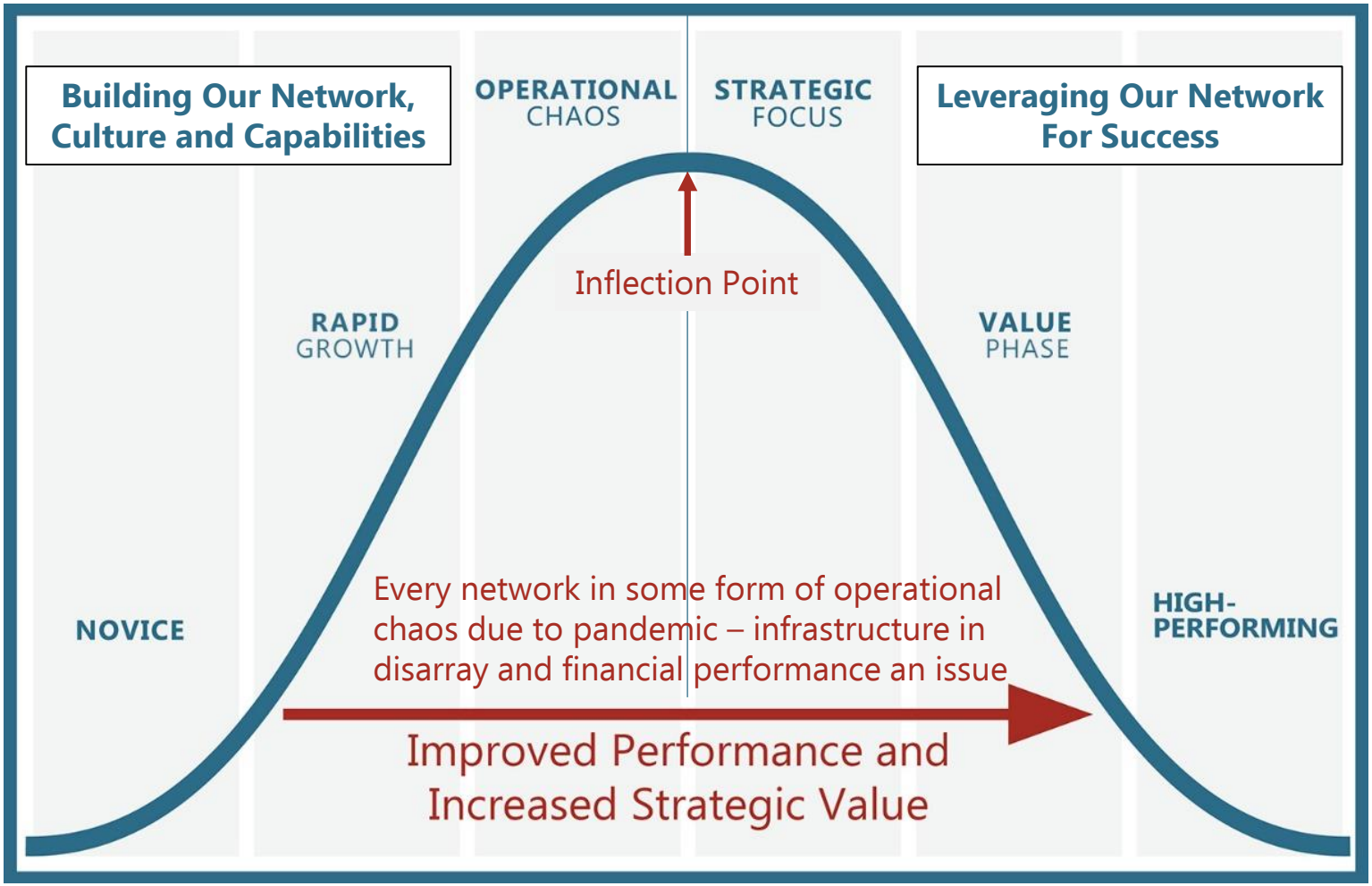
Systematic Employed Physician Network Improvement



HSG Physician Network Growth Phases™

Our Philosophy on Employed Network Growth: As an Employed Physician Network evolves towards maturity in terms of its growth and size, **the network must have a systematic plan** that is focused on evolving its management team's capabilities, infrastructure, governance, provider engagement and leadership to address the network's current and future needs as well as execute on the health system's strategic goals.

COVID Driving Networks Backwards?



Accelerating Progress by Phase

		CORE FOCUS BY PHASE			
Physician Alignment Strategy	Management Infrastructure	**Network Performance Improvement**	**Shared Vision / Culture**	Early Risk Contracting (ACO, Direct Contracting, Bundled Payments)	Leverage Network in Marketplace
Define Compensation Principles	Physician Leadership Development	**Revenue Cycle and Productivity Systems**	**Network Strategic Plan, Integrated with System Plan**	Optimize Physician Engagement in Performance Improvement	Full Risk Contracting
Interim Management	Acquisition and FMVs	**Physician Advisory Council Enhancement**	**Clinical Practice Transformation / Population Health**	Quality and Patient Experience Focus Across Continuum	Manage Populations
Executive Search	IT Strategy	**Enhance Management Infrastructure**	**Quality / MACRA / Patient Experience**	Brand Enhancement	Provider of Choice
		Referral Capture / Network Integrity	**Aligned Compensation Incentives**		

Putting Your Network's Subsidies in Context and Defining Realistic Targets

Putting Your Network's Subsidies in Context
Sample Health System Employed Network

Comparison of Financial Performance to Benchmarks

Example

Metric	Unadjusted Actual	Adjusted Actual	Projected Range assuming MGMA Median Performance
Gross charges	$300M	$225M	$160M - $180M
Net Revenue	$100M	$75M	$60M - $85M
Total Expenses	$120M	$120M	$80M - $115M
Net Income (Loss)	**$20M**	**$45M**	**$20M-$35M**

- Everyone can read a P&L, everyone can read a benchmark, but frequently these are not apples to apples
- Allocations frequently an issue for creating meaningful benchmarks
  - ***Revenue Example:*** Networks making allocations of downstream revenue back to practices to "true up" performance
  - ***Expense Example:*** Networks not allocating management overhead from health system; shared revenue cycle/billing office resources absorbed by hospital cost-center

Evaluating Financial Sustainability Opportunities

Sensitivity Analysis of per wRVU Collections and Expenses

Fiscal Year wRVUs = 1,000,000		Cost Per wRVU						
		$125	$123	$121	$119	$117	$115	$113
Revenue Per wRVU	$75	(50.0M)	(48.0)	(46.0)	(44.0)	(42.0)	(40.0)	(38.0)
	$77	(48.0)	(46.0)	(44.0)	(42.0)	(40.0)	(38.0)	(36.0)
	$79	(46.0)	(44.0)	(42.0)	(40.0)	(38.0)	(36.0)	(34.0)
	$81	(44.0)	(42.0)	(40.0)	(38.0)	(36.0)	(34.0)	(32.0)
	$83	(42.0)	(40.0)	(38.0)	(36.0)	(34.0)	(32.0)	(30.0)
	$85	(40.0)	(38.0)	(36.0)	(34.0)	(32.0)	(30.0)	(28.0)
	$87	(38.0)	(36.0)	(34.0)	(32.0)	(30.0)	(28.0)	(26.0)

Color	Description
	Most Recent Fiscal Year Organizations Current Performance
	Realistic Target Range – Based on National Benchmarks
	Stretch Target Range – Each variable requires significant change from current state
	Unrealistic Target Range – Collections Per wRVU and Cost Per wRVU both required to moved too drastically

MGMA Hospital Owned Multispecialty Practices	
Net FFS Revenue per wRVU	25th percentile: $72 50th percentile: $89 75th percentile: $117
Cost per wRVU	75th percentile: $170 50th percentile: $138 25th percentile: $117

- Important to Measure Revenue and Cost per _____(whatever metric we're incentivizing providers to achieve). wRVU most common.

Evaluating Financial Sustainability Opportunities

Fiscal Year wRVUs = 1,000,000		Cost Per wRVU						
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- Evaluate revenue generation and expense management
- Evaluate how much movement is realistic and what achievable goals are
- Are the health system's expectations realistic?

Color	Description
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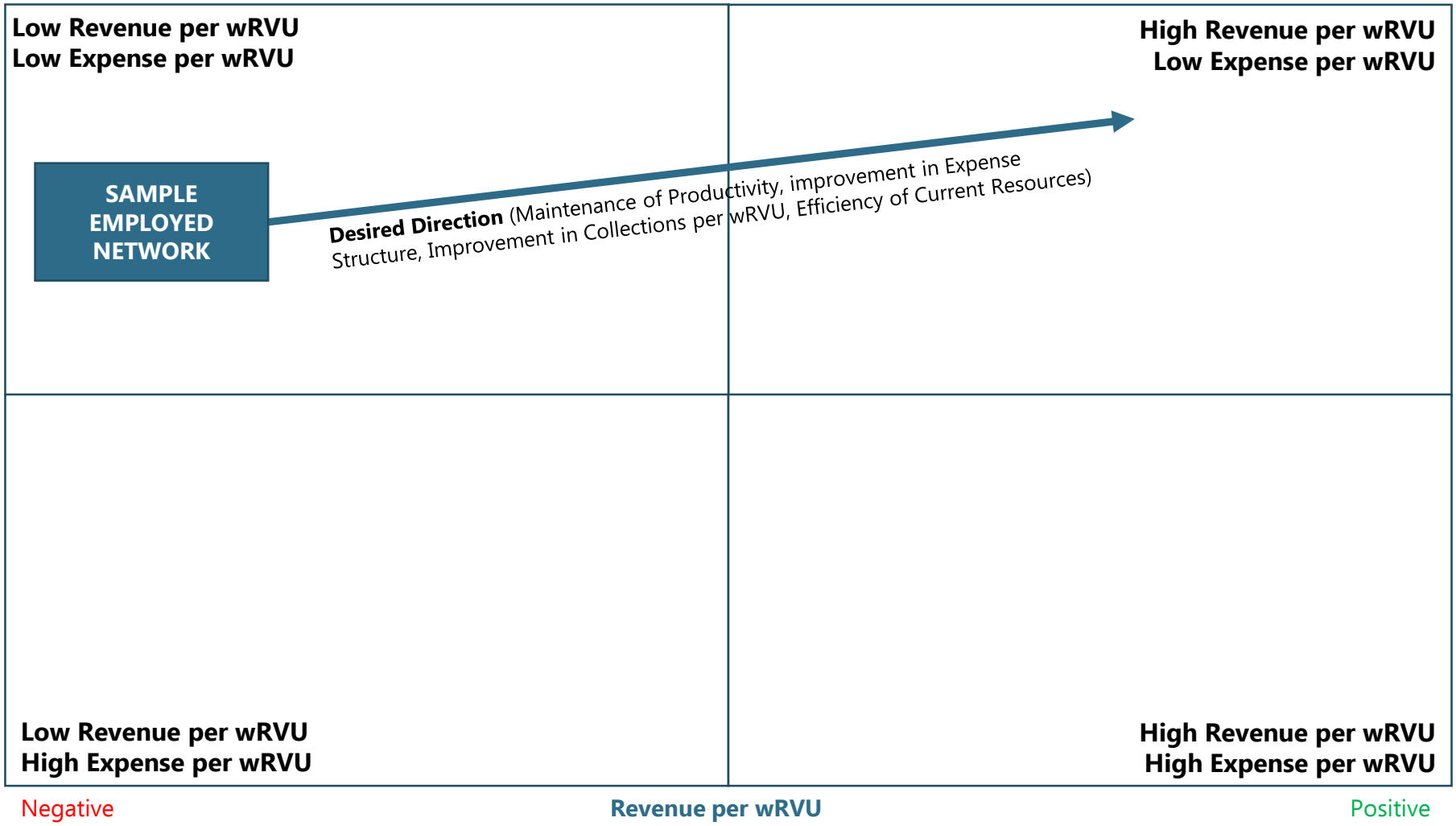
HSG Framework for Evaluating Employed Physician Network Subsidies and Defining Areas of Opportunity

Overall Financial Improvement Opportunity

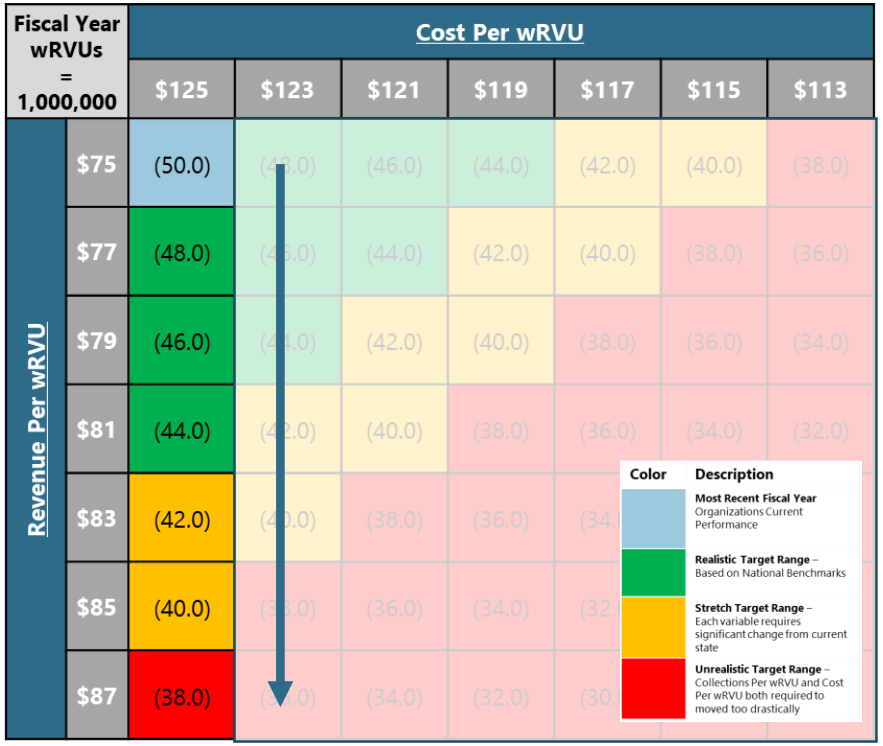


Subsidy Reduction Framework

Network Improvement Opportunities	Influencing Factors
Can we increase collections on existing volume?	• Commercial payer contract rates • Fee schedule • Payer mix and market demographics • Revenue cycle effectiveness • Coding and documentation
Can we decrease expenses on existing volume?	• Provider mix (Physicians vs Advanced Practitioners) • Staffing levels and utilization • Staffing compensation • Administrative overhead • Practice overhead • Practice consolidation
Can we generate more volumes with existing providers and staff?	• Patient retention • Provider schedules and scheduling templates • Patient access • Efficient practice operations • Care management • Service and procedure mix • Top-of-license provider utilization
Should we divest or add any providers or practices?	• Mismatch with current/future health system strategic needs • Opportunities to move practice to independence or aligned 3rd Party
Do we have the required organizational capabilities to make these adjustments?	• Aligned provider compensation • Shared vision and culture • Management infrastructure • Data reporting • Physician leadership and engagement

Increasing Collections on Current Volume

Network Improvement Opportunities	Influencing Factors
Can we increase collections on existing volume?	• Commercial payer contract rates • Fee schedule • Payer mix and market demographics • Revenue cycle effectiveness • Coding and documentation

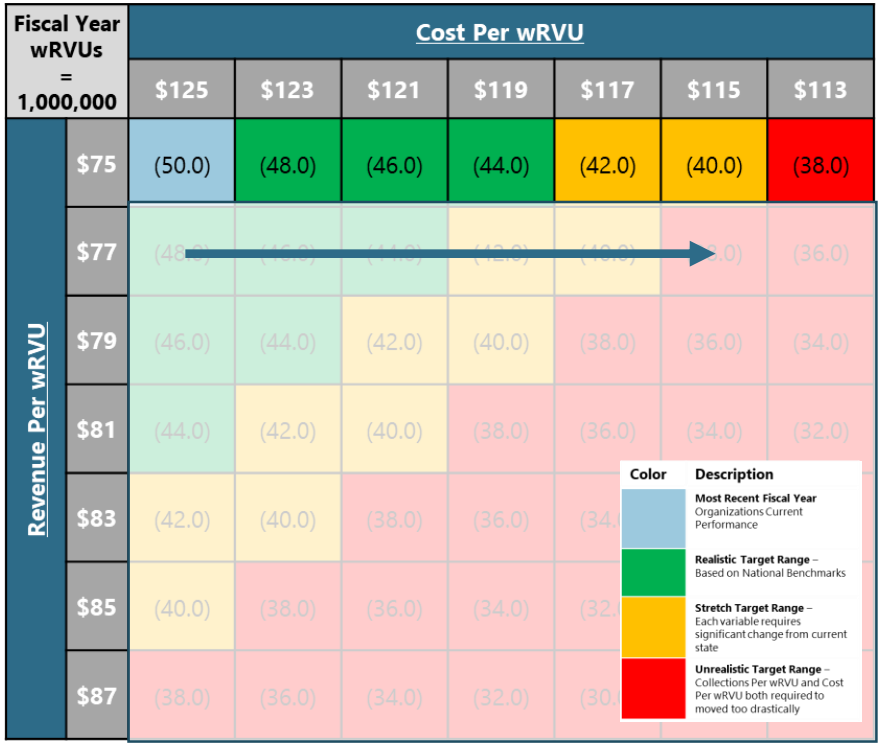


Key Areas of Focus Due to COVID

- **Revenue Cycle** risks being severely disrupted due to changes in workflows
- **Coding and Documentation** education and support will be critical
- **Payer Mix** should be aggressively monitored as we can expect it to devolve across most markets

Decreasing Expenses on Current Volume

Network Improvement Opportunities	Influencing Factors
Can we decrease expenses on existing volume?	• Provider mix (Physicians vs Advanced Practice Providers) • Staffing levels and utilization • Staffing compensation • Administrative overhead • Practice overhead • Practice consolidation

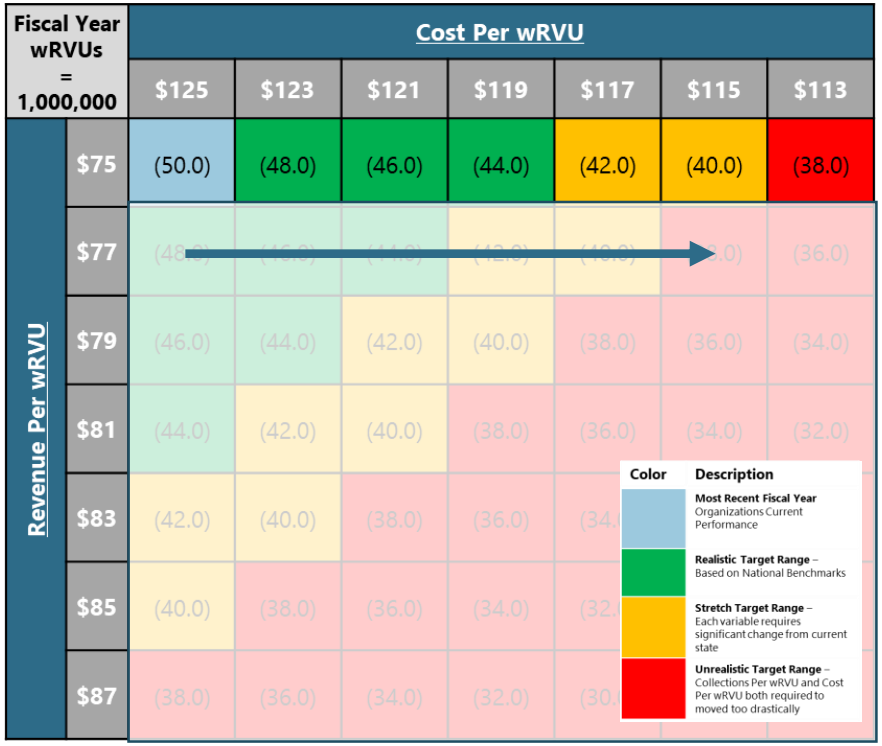


Key Areas of Focus Due to COVID

- **Staffing** needs to find a balance between financial sustainability and ensuring volumes are not limited by understaffing
- Networks that have not historically utilized **advanced practice providers** heavily will be at a disadvantage
- **Practice consolidation** efforts to support efficiencies of scale will be important, but potentially disruptive

Generating More Volume Within Existing Cost Structure

Network Improvement Opportunities	Influencing Factors
Can we generate more volumes with existing providers and staff?	• Patient retention • Provider schedules and scheduling templates • Patient access • Efficient practice operations • Care management • Service and procedure mix • Top-of-license provider utilization

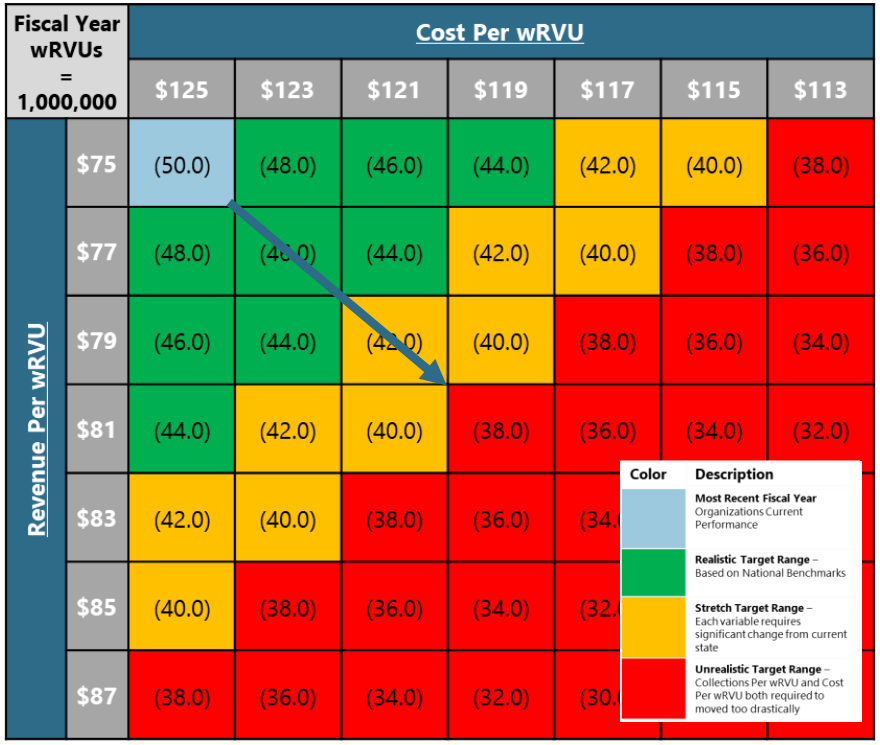


Key Areas of Focus Due to COVID

- **Practice Operations and Scheduling** represent opportunity for massive revisions in wake of Tele/Virtual Health
- Monitoring **Patient Retention** needs to evolve out of being only EMR-focused. A lot of tele/virtual health disruption will occur. Networks need to be actively monitoring patient utilization of care continuum.
- **Care management** processes and revenue capture need to be maximized.

Divestiture Considerations

Network Improvement Opportunities	Influencing Factors
Should we divest providers or practices?	• Mismatch with current/future health system strategic needs • Opportunities to move practice to independence or aligned 3rd Party



Key Areas of Focus Due to COVID

- Health Systems need to ask hard questions regarding **Practice Divestiture**. Depending on severity of financial situation, practices need to be prioritized in terms of:
  - Cultural Fit
  - Financial performance
  - Productivity
  - Strategic Relevance
- **Transitioning Practices** to aligned 3rd-parties such as an FQHC could be appealing in the right market.

Divestiture Considerations

- Why consider divesting practices?
  - Employed Physician Networks often grew in a serendipitous fashion, rather than strategic fashion
  - Serendipitous = whoever approached for employment
  - Strategic = who do we need to employ to achieve our vision and strategic objectives, i.e., core to mission
- Serendipitous growth can result in the presence of individuals or specialties that are not ideally suited for the network
- Metrics exist to determine/review individual and practice performance and fit within the Network
- The long term health of the employed network might disproportionately be adversely impacted by providers and practices that do not exhibit a good fit with vision and desired culture

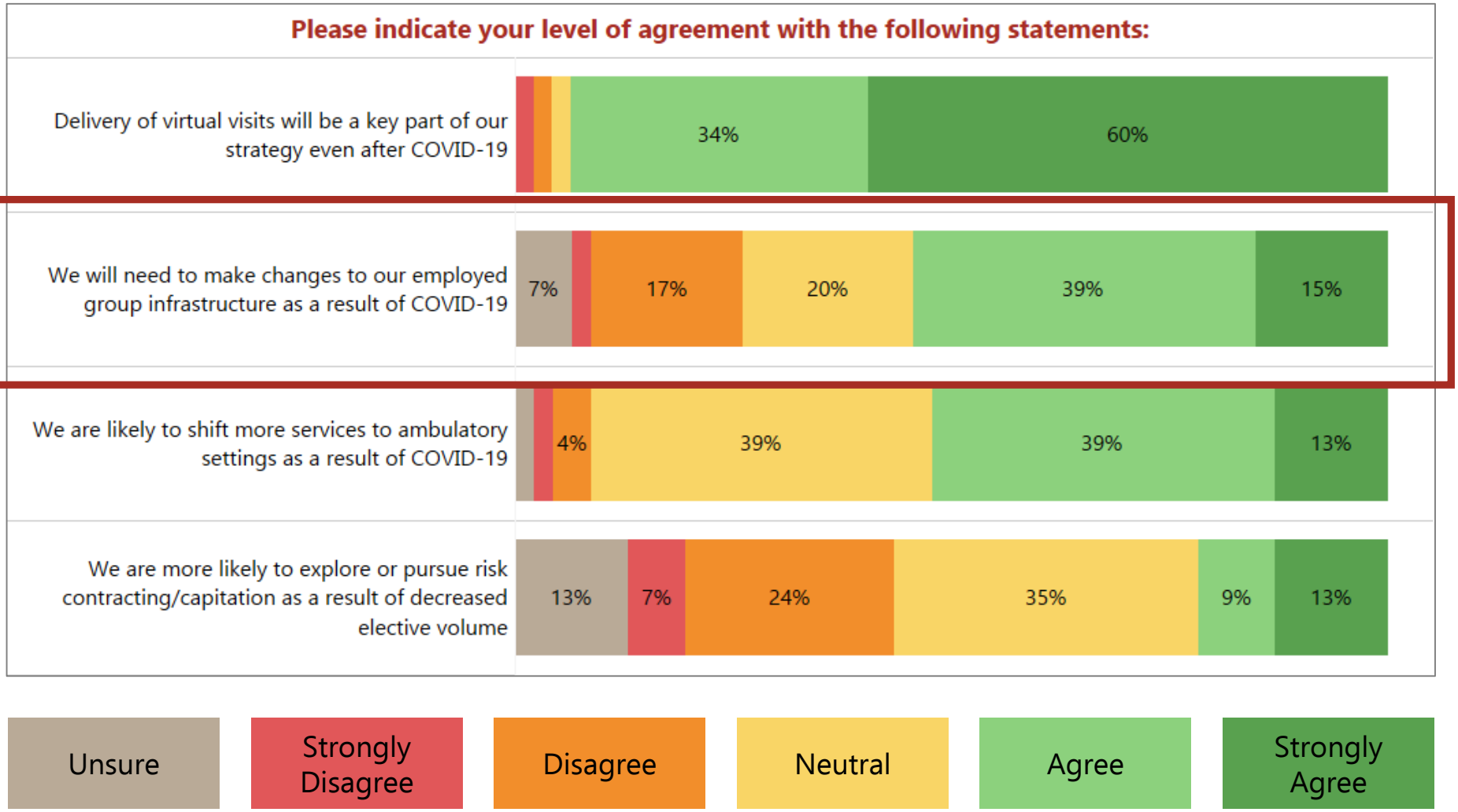
Organizational Capabilities

Network Improvement Opportunities	Influencing Factors
Do we have the required organizational capabilities to make these adjustments?	• Management infrastructure • Physician leadership and governance • Aligned provider compensation • Shared vision and culture • Data reporting and communication

Key Areas of Focus Due to COVID

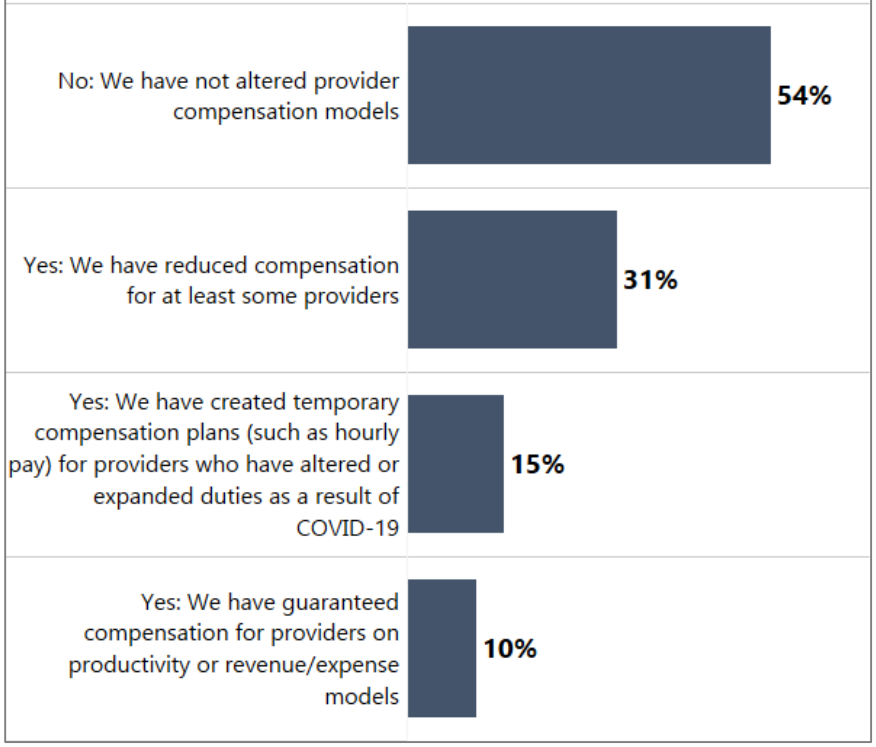
- **Management Infrastructure** needs to be reevaluated in wake of COVID impact and impact of virtual/telehealth.
- **Compensation Models** may need to change to provide alignment with incentives for health system. Providers voicing concern over sustainability of pure productivity models in pandemic environment.
- **Vision and Culture** of network need to be evaluated and potentially reset in wake of COVID-related disruptions.

HSG COVID-19 Strategic Implications Survey
Management Infrastructure



HSG COVID-19 Strategic Implications Survey
Provider Compensation

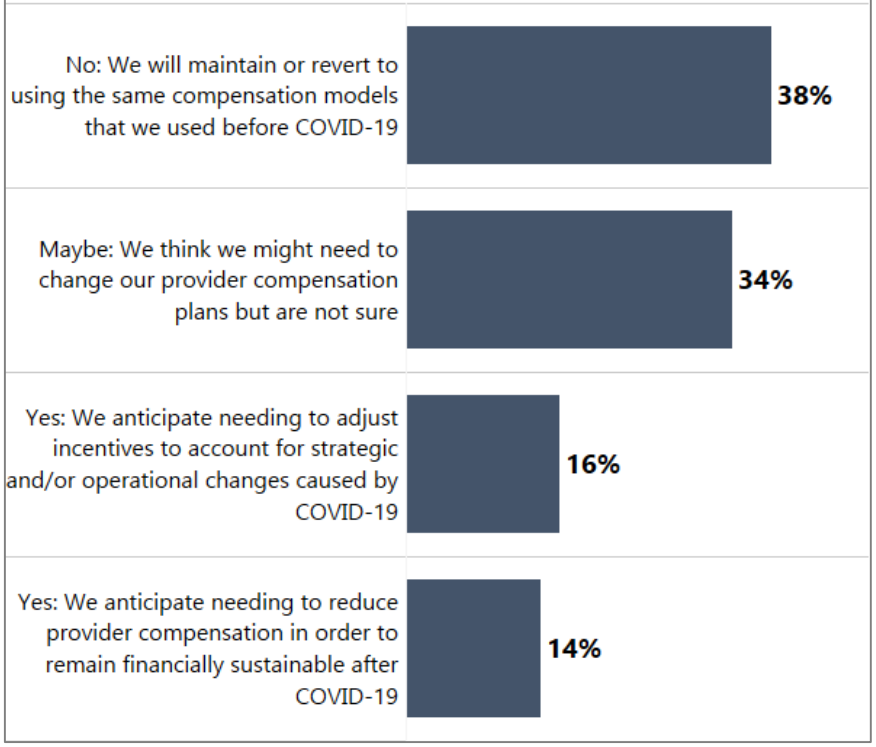
Have you made any temporary or short-term changes to provider compensation?



Additional comments:

- We asked all to take a voluntary pay decrease
- We are requiring our providers to utilize accrued PTO for time that is non-productive.
- We have done away with 403B employer match and core contribution

Do you anticipate needing to make permanent changes to provider compensation?



Additional comments:

- We were in the midst of making some adjustments to the primary care comp model before COVID-19
- Will consider capitation models with payers and physicians

Summary

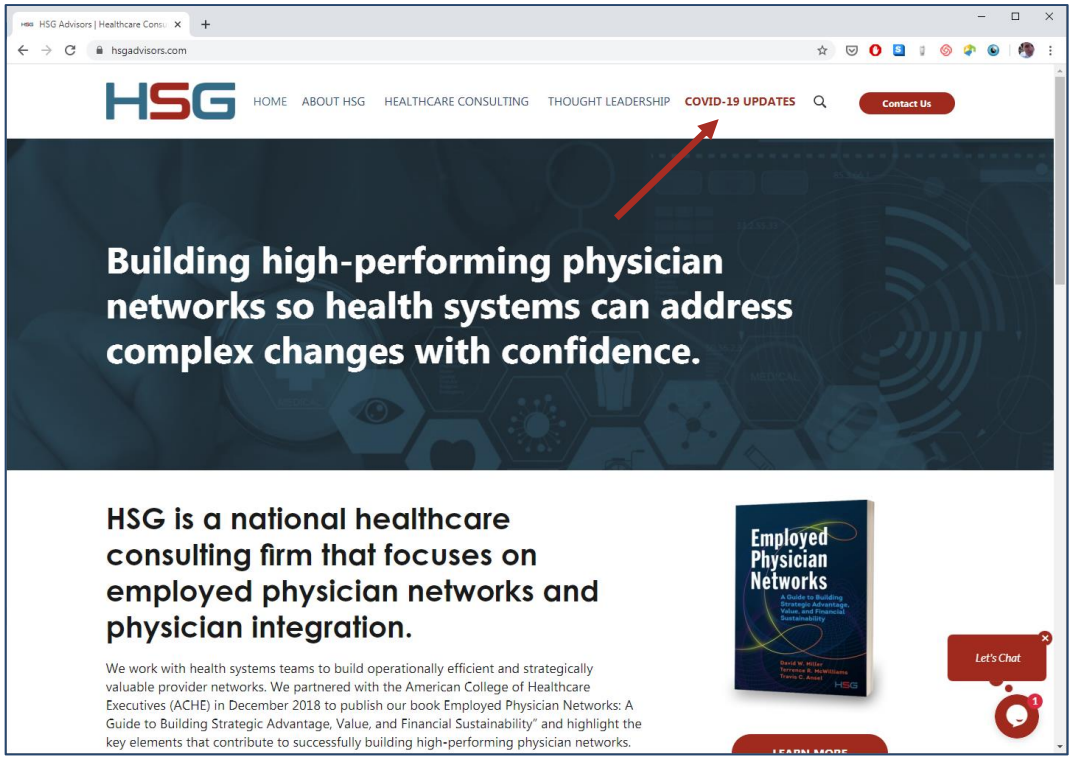
- HSG expects intense focus on employed physician network subsidies in next 6-12 months as financial impact of COVID-19 is realized.
- Employed networks can expect to have a difficult time moving past the conversation about finances (Operational Chaos) and focusing on bigger picture until change occurs.
- Setting (or not) appropriate expectations and targets is generally a barrier to effective conversations on subsidy reduction.
- Looking comprehensively at opportunities to grow revenue and manage expense will yield the best result.
- Some subsidy improvement considerations become more important in the current environment, but the fundamental management philosophy of high-performing physician networks have not changed.

HSG Upcoming Webinars

Comprehensive registration information for all upcoming webinars can be found here: https://hsgadvisors.com/webinars/hsg-upcoming-webinars-may-2020/

Title	Description	Date
Approaching Independent Practices – How to Prioritize, Acquire and Employ in the COVID-19 Era	We will discuss what criteria health systems should utilize to prioritize independent practices, and then provide an overview of the process HSG considers best practices for due diligence, acquisition and contracting with these providers.	**Thursday May 21st**
After the Surge: Employed Network Leadership Considerations for the Second Half of 2020	We will discuss critical considerations for employed physician network leaders in a Post-Surge environment, including – physician leadership structures, employed group management infrastructure and governance, physician/administration culture, and physician compensation models.	**Thursday May 28th**
Virtual Health: Long-term Strategies for Employed Physician Networks	Many of the historic barriers to virtual care have been obliterated. Strategically developing a new long term plan is required – one that recognizes the reduced patient and provider barriers, one that accounts for the predicted roll back of the CMS and commercial insurer latitude afforded during the pandemic, and one that provides a seamless transition from pandemic "crisis" into the "new normal.	**Thursday June 4th**
Advanced Practice Providers: Employment, Compensation, and Utilization Models	Employment, compensation, and utilization strategies and tactics are just as important for APPs as they are for physicians – but many health systems do not approach them in the same way. This webinar will explore effective APP employment vehicles, address comprehensive APP compensation models, and promote effective APP utilization.	**Thursday June 11th**

Supplementary Resources



- HSG COVID-19 Resource Library
- Available on our homepage - www.hsgadvisors.com

- See our recent publication in MGMA Connections
- https://www.mgma.com/resources/revenue-cycle/cutting-losses-in-hospital-employed-physician-netw

Questions?

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- Questions can be submitted through the chat function
- Questions will be addressed at end of presentation