What Can be Paid in a Co-Management Agreement? Should You Enter Into a Co-Management Relationship?

Valuation Discussion & Other Issues

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VMG HEALTH
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Business Valuation • Professional Services Valuations • Asset Appraisals • Real Estate • Transaction Advisory • Consulting
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Introduction

Jen Johnson, CFA, Partner

- VMG Health is a healthcare valuation and consulting firm
- Leads Professional Service Agreements Division
- Previously with KPMG's litigation department
- Former Finance professor from the University of North Texas
- Published and presented multiple times related to physician compensation and fair market value
  - Healthcare Financial Management
  - Compliance Today
  - American Health Lawyers Weekly
  - American Bar Association

Introduction

Presentation Overview

- P4P
- Co-Management Agreements
- Valuation Guidelines

P4P

In the News

- UnitedHealth Group – largest US health insurer by sales
  - Currently paying 21 different specialties based on quality
  - Expect to save twice as much than the quality payments due to healthier patients
- WellPoint – largest US health insurer by membership
  - Will increase primary care physician pay by 10%
  - Additional cost savings bonus of 20% to 30% of savings achieved
  - Total P4P increase could be as much as 50%
- Tennessee Surgical Quality Collaborative
  - 10 hospitals experienced significant improved surgical outcomes
- Ohio's Medicaid Program – P4P component will be included when it rebids contracts for 2013

*Co-Management can be a successful option for physician alignment

P4P

Results of Quality Incentives

- In late 2003, CMS and Premier Inc. launched the Hospital Quality Incentive Demonstration (HQID) for over 250 hospitals over past 6 years.
  - Includes financial incentives for the top 20% of hospitals.
  - Majority of hospitals improved their quality of care across the board with respect to reliable use of scientifically based practices
- In 2008, the Robert Wood Johnson Foundation and California HealthCare Foundation reported results of a national program that tested seven projects including hospitals and physicians. Notable findings:
  - Financial incentives motivate change
  - Alignment with physicians is a critical activity for quality outcomes
- February 2012 – Committee on Ways and Means
  - UnitedHealth Group discusses results of its Premium Designation Program (PD)
  - Results show over 50% decrease in some complication rates and 14% in savings for PD physicians

P4P

Quality Payments Overview

- Hospitals critical success factors – shifting towards quality of clinical performance
- Massive surge in reporting initiatives
- Congress authorized value-based purchasing (VBP) program to replace the RHQDAPU program
  - Performance Incentives would be based on improving historical performance or attaining superior outcomes compared with national benchmarks
  - Proposed ACOs include similar guidelines
- Numerous third party payors provide quality payments to hospitals and physicians
- C-Level executives' compensation may be subject to a hospital's quality outcomes

P4P

Quality Incentives

- Measures of quality typically include:
  - Efficiency
  - Outcomes
  - Patient experience
  - Adherence to evidence based processes
- Goals:
  - Create competition based on quality and efficiency
  - Drive improvement
  - Recognize highest quality and most efficient providers
  - Recognize improvement
  - Improve transparency
  - Shared savings program, final stage of an incremental VBP implementation

Co-Management

Overview

- Hospital and physicians enter into an agreement where physicians are jointly responsible with hospital for managing a defined service line
- Various structures exist in the market
  - Joint Ventures
  - Contractual arrangements
- Payments contained in the agreement
  - Will vary based on services outlined
  - Should be linked to actual services and/or outcomes

Co-Management

Fixed Fee

Fixed Fee + Variable Fee = Co-Management Fee Structure

- Time dedicated to meetings designed to improve the overall quality of care for a specific service line.
- Based on cost to engage a physician to provide similar services.
  - Clinical and administrative survey data considered
  - Hourly rate x meeting attendance hours
- May also include
  - Medical Directorship
  - Non-physician services
    - Billing
    - Management/administration
  - Call coverage

Co-Management

Fixed Fee Considerations

- Physician service related Payments are justified by need for clinical expertise
  - Define duties
  - Time and effort expended
- Non-physician services
  - Hospital could benefit from experience of current administrative and/or billing staff
  - Prevent training, extra costs for integration
  - Challenge: maintain consistent policies/benefits
- The duties must not overlap with hospital staff

Co-Management

Variable Fee

Fixed Fee + Variable Fee = Co-Management Fee Structure

- Quality outcomes drive payments
- Improvement and superior outcomes may warrant incentive payment
- Valuation of fee typically requires understanding of
  - Historical outcomes
  - Benchmarking data
- A note about IRS Revenue Procedure 97-13

Co-Management

Variable Fee Considerations

Understand what constitutes superior quality and improvement

- Identify key quality metrics and understand historical performance
- Obtain industry-recognized benchmark data for the quality metrics, (average or median and top or 90th percentile)
- Understand who is responsible for developing and implementing the strategy
- Determine the appropriate market rates for improving and achieving superior quality care.
- Create payment tiers for incentives based on various outcomes

Valuation Guidelines

Valuation Starting Point

Agreement Terms must be understood and are often unclear at valuation stage, define:

- What services will be provided
- How parties will be compensated
- Valuation should match the agreement

No published standards for physician compensation valuations

- Appraisal firm should understand
  - Healthcare regulations
  - Valuation principles
- Regulatory Guidance
  - Fair Market Value
  - Data considerations
- Tuomey case significance

Valuation Guidelines

Fair Market Value Definition

- Based on the anti kickback statute, and other healthcare regulations and guidelines, any transaction between hospitals and physicians must be at Fair Market Value.
- IRS definition - "the amount at which property would change hands between a willing seller and a willing buyer when the former is not under any compulsion to buy and the latter is not under any compulsion to sell and when both have reasonable knowledge of the relevant facts."
- Provides a conclusion which should not reflect consideration for value or volume of referrals.
  - Offer equal P4P opportunities to all providers
  - Do not tie P4P compensation to expected referrals
- Rely upon generally accepted valuation theory – consider multiple valuation methodologies and approaches: cost, market and income approach

Valuation Guidelines

Data Considerations & Challenges

- Co-management likely a combination of several valuations since several services are provided
- Multiple, objective surveys suggested
- Data should not reflect referral relationships
  - Medical Director data
  - On-Call data
  - Competing Hospitals – Extra Caution
- "Typical" Management fee make not be comparable

Valuation Guidelines

Valuation Take-Aways

- Understand agreement Terms
  - What are the services?
  - How is the compensation stated in the agreement (valuation should match)
- Consider all facts and circumstances
  - Survey data
  - Credentials
- Performance payments may not be tied to service volumes, charges, or revenue
- Commercially Reasonable
  - Facility needs – overlap of services
  - Operational assessment
  - Understand total hours

Valuation Guidelines

Quality Incentives – Regulatory Guidance

OIG & CMS guidelines provide a solid foundation regarding structuring quality care arrangements:

- Quality measures should be clearly and separately identified.
- Quality measures should utilize an objective methodology verifiable by credible medical evidence.
- Quality measures should be reasonably related to the hospital's practice and consider patient population.
- Do not consider the value or volume of referrals. Consider an incentive program offered to all applicable providers.
- Incentive payments should consider the hospital's historical baseline data and target levels developed by national benchmarks.
- Thresholds should exist where no payment will accrue and should be updated annually based on new baseline data.
- Hospitals should monitor the incentive program to protect against the increase in patient fees and the reduction in patient care.
- Incentive payments should be set at FMV.

Valuation Guidelines

Quality Incentives – Guidelines

- Common co-management service lines: orthopedic surgery, cardiology, ASC ->HOPD
  - Patient satisfaction
  - Infection Rates
  - Readmission
  - Mortality
- Common Quality Measure Sources for Orthopedic Surgery
  - Centers for Disease Control - National Healthcare Safety Network (NHSN)
  - Centers for Medicare & Medicaid (CMS) - Surgical Care Inpatient Project (SCIP) Measures
- Predicting what will be incentivized and identifying support for quality payments
  - Look to current PQRI measures
  - Track what credible organizations are measuring
  - Identify metrics third party payors are relying upon
  - CMS metrics

Questions & Discussion

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