Oncology Issues

ISSN: 1046-3356 (Print) 2573-1777 (Online) Journal homepage: https://www.tandfonline.com/loi/uacc20

Issues in the Practice Transaction

Dean H. Gesme Jr. & Mike Mohnsen

To cite this article: Dean H. Gesme Jr. & Mike Mohnsen (1996) Issues in the Practice Transaction, Oncology Issues, 11:2, 19-21, DOI: 10.1080/10463356.1996.11904601

To link to this article: https://doi.org/10.1080/10463356.1996.11904601

Published online: 18 Oct 2017.

A CASE IN POINT

Issues in the Practice Transaction

by Dean H. Gesme, Jr., M.D., and Mike Mohnsen, M.H.A.

All medical oncology groups share an uncertain future. One strategy for minimizing this uncertainty is an affiliation with a management services organization (MSO). Oncology Associates of Cedar Rapids, Iowa, a five-person medical oncology practice, completed such an affiliation with Physician Reliance Network (PRN) on April 1, 1995. PRN furnishes the support operations for the practice, including personnel, office space, equipment, and financial services. This affiliation entailed months of strategic planning and financial analysis before a sound business decision could be made. Indeed, preparation for the affiliation began fifteen months before the transaction became effective.

The motivation for such an affiliation included financial, strategic, operational, and emotional factors. We believed—and still do—that the affiliation would offer the oncology practice opportunities and benefits. Conversely, the MSO would benefit greatly from our services.

THE PREPARATION PHASE

Before physicians in a group investigate the possibility of affiliation, they must be willing to provide patient care using a different model. In an MSO physicians manage the practice based on a joint governance model, giving up some of their autonomy.

All members of the physician group must be kept informed of the related financial implications of affiliation. When a practice affiliates with an MSO, depending on the terms of the agreement, the MSO may purchase a portion of the revenue generated from services previously provided by the practice but now provided by the MSO. Physicians may be compensated for evaluation and management services based either on a fee-for-service basis or a capitated rate, depending on the location of the practice and the extent of managed care. Physicians may have the option of signing year-to-year agreements that can include clauses for an annual re-evaluation of capitation rates based on practice utilization or comparison with the national oncology rate.

Younger physicians may enter such discussions with different objectives than physicians with more years of practice experience. For example, a physician who plans to retire within the next five years may not be as concerned about a ten-year agreement as a younger physician who is skeptical of such a long-term commitment.

In addition to medical staff, the local business community should be made aware that practice changes may occur. The practice's bank, for example, will be anxious about the possible transfer of the practice's deposits to the MSO's corporate accounts. Bank officials may worry that their relationship with the practice will be affected. They will want to know whether decisions will continue to be made locally or from the MSO's headquarters.

Before choosing any MSO, physicians must examine the MSO's philosophy and mission to determine how they fit with the practice's own philosophy and goals. Some MSOs are specific to the field of oncology, while others may provide services to a variety of primary care or specialty physicians. Thus, their philosophies and missions may differ considerably.

The philosophy at Oncology Associates was to be in a position to compete when managed care, capitation, and disease management dominate the Cedar Rapids market. We sought an affiliation with an MSO that would have access to actuarial data and volume discounts on pharmaceuticals and thus would position our practice competitively.

Although many physicians and office administrators are gaining skill in managed care contracting, most MSOs are likely to have available greater managed care expertise. In addition, most group practices do not possess the marketing expertise needed to create high quality educational and publicity pieces. The MSO can create generic templates for such forms, substituting names and other relative information for all affiliates, and is able to print these materials at greatly reduced cost due to the high volume of materials printed at one time.

An element that is often critically underestimated is the time and energy commitment required in seeking proposals. To facilitate the process most effectively, one physician and one manager should be appointed as the primary contacts for proposal discussions. In addition to the preparation and interview time, physicians must engage in the lengthy presentation and post-proposal analysis process in addition to their day-to-day responsibilities. Extended work days are the result. When meetings that usually address scheduling or quality issues are spent discussing the MSO affiliation, a practice reverts to a reactive rather than a proactive mode.

EVALUATING OPTIONS AND CLINICAL PRIORITIES

The evaluation phase of the proposal must include both the medical and administrative perspectives. An evaluation that does not consider both sides will be flawed from the start.

Dean H. Gesme, Jr., M.D., is managing partner of Iowa Cancer Care in Cedar Rapids, Ia. Mike Mohnsen, M.H.A., is chief operating officer with Oncology Associates/Iowa Cancer Care and research director-Iowa of PRN in Cedar Rapids. Both authors provide administrative and medical direction to the cancer program at Mercy Medical Center, also in Cedar Rapids.

Clinical priorities must be at the top of the physicians' evaluation checklist, and they include physician interest in developing critical pathways, emphasis on research, and staffing. Priorities collide when an MSO's attempts to cut costs interfere with quality care. For example, conflict will arise if an MSO plans to staff nurse extenders in situations where the physicians prefer registered nurses. Contacting other physician groups affiliated with the MSO and researching how they dealt with similar issues is a good way to judge whether an MSO's priorities align with your practice.

Once the evaluation of clinical priorities has been completed, the potential for the MSO to maintain or increase market share must be evaluated. Most affiliations with an MSO will offer the physician opportunities in networking and integration that would not be possible without such an affiliation. Physicians should explore whether the MSO will allow the practice to expand either geographically, through regional, national, or statewide contracts, or by adding another branch of oncology services such as radiation oncology.

FINANCIAL CONCERNS

An accurate assessment of the MSO's financial position and objectives are critical in determining whether to solicit a proposal from an MSO. As managed care contracts increasingly contain risk components, the ability of the MSO to assume risk in conjunction with the physician group and to access future capital funding become critical factors in the evaluation process.

MSOs should be able to provide economies of scale and new expertise to office operations. The ability of a large MSO to stay on top of coding and billing issues is certainly advantageous for any medical oncology practice. The MSO's group purchasing practices should yield volume discounts for the purchase of supplies such as chemotherapy drugs. A strategic plan concerning management information services, including the merging of the medical record and the financial systems, should be an integral part of the MSO's vision.

Due diligence is one important and typically misunderstood step in the evaluation process. Due diligence is the process in which one further investigates and quantifies that which one believes to be true based on verbal discussions and information documented in writing. In addition to the MSO performing due diligence to verify the status of the practice, the medical group must also complete a due diligence process that might include visiting the corporate headquarters, calling physician groups already affiliated with the MSO, and if applicable, talking with physicians who may have been affiliated at one time but have since withdrawn from the MSO.

An often underestimated cost in the proposal analysis is the charges generated by consultants, accountants, and attorneys. These costs usually range from $20,000 to $50,000. A reasonable approach is to set a budget and stick to it.

Physicians should play the role of both guarded skeptic and unbridled enthusiast as they analyze their options. Just as a car buyer must be willing to walk away from an eye-catching automobile if the terms and conditions are unacceptable, so too must physicians always be prepared to walk away from any MSO offer up until the moment of transaction finalization.

ADMINISTRATIVE CONCERNS

The administrative perspective of the proposal evaluation must begin with the focus on the cancer patient and not on the administrative structure of the practice. Patients must be prepared for the changes that will affect them. If any change in billing systems is necessary, the change must be made in a manner that will not cause additional strain in the cancer patient's life. Informing patients in advance of these and other changes and reviewing new billing forms with them will help reduce patient uncertainty about the affiliation.

Office staff are a critical element in the success of any patient care endeavor. All staff should be updated on a regular basis about the rationale for seeking proposals and the status of any affiliation agreement. The office staff may be concerned about whether such an affiliation will result in loss of their jobs.

A thorough benefits comparison including wages, health, dental, and disability insurance, vacation, and sick time accrual, along with retirement programs, must be carefully measured. Due to affiliated service organization rules and leased employee rules promulgated by the Internal Revenue Service, employees may no longer have access to benefits previously offered. The most common MSO model requires office staff to become employees of the MSO and adhere to the MSO's benefit structure. If the affiliation is taking place in the middle of an insurance program's fiscal year, previously met deductibles will be an important consideration for the practice's employees. The practice must make sure that any new health and dental insurance program allows pre-existing conditions. An office staff member who is a breast cancer survivor should not be deemed ineligible for future breast cancer treatment reimbursement due to a pre-existing clause.

The office staff should also feel part of the MSO team. One opportunity to pave the way for this team membership is for the physicians to use some of the proceeds from the transaction to purchase stock (if applicable) for full- and part-time employees. The amount of stock

might well be divided on seniority or the amount of inconvenience that might be experienced by employees based on benefit changes.

APPRAISALS, FINANCIAL MODELING, AND PHASE ONE OF THE AFFILIATION

Several appraisals of fixed assets and accounts receivable will be necessary. During due diligence a trail of documents including acquisition costs, existing leases, and signed agreements with third-party payers must be provided to the MSO. A medical group interested in expansion either geographically or with additional physicians must ascertain the MSO's ability to provide such expertise. In our case, PRN has assisted in the recruitment of two radiation oncologists who will join Oncology Associates in the next two months.

One phase of the administrative evaluation of the proposal entails financial modeling. For example, the group's revenue stream may be projected over the next five years with and without an affiliation. Several projections might be necessary based on assumptions of both revenues and expenses.

Value-added services such as the implementation of a pharmacy might also weigh heavily in the evaluation process. Because of the high doses of narcotics and toxicity of chemotherapy agents, patients may need to travel to several pharmacies to completely fill their prescriptions. The initiation of an outpatient pharmacy service run by the MSO on the premises of a medical oncology practice might be possible. The pharmacist could prepare the chemotherapy products for infusion therapy thereby allowing additional nursing time for patient contact during chemotherapy administration. A pharmacy is now operating within the Oncology Associates building. This would not be possible without an MSO affiliation such as PRN.

Regardless of the number and type of service enhancements and vision, the administrative side of the equation must also recognize the need for "spin control." Adding new services such as CT or MRI to a practice, for example, will impact the providers to whom practice physicians have referred patients. Physicians should articulate to these providers what services will be evaluated for implementation in the early phase of the affiliation.

A successful strategy during the initial phase of post-integration activities is to complete the affiliation in such a manner that patients and the medical/business community do not perceive a change in daily operations. For example, as the only medical oncology group in Cedar Rapids, the name recognition of an MSO could well provide more negative than positive reverberations within the community. As a result, Oncology Associates did not add the PRN name to signage, letterhead, and other documentation.

Governance decisions regarding professional practice, office operations, managed care contracts, and expansion opportunities must be well defined before the initiation of the affiliation. Legal documents, measured in pounds rather than pages, are necessary in any complex affiliation, but the distribution of revenue streams and overhead costs must also be well defined and understood by all parties.

Restrictions such as covenants not to compete will likely be required by both the MSO and the physician group. Depending on state law, the corporate practice of medicine statutes may further restrict what can take place in billing practices and the employment of clinical staff members.

MORE POST-TRANSACTION CONCERNS

How proceeds from the transaction with an MSO will be distributed must be detailed much in advance of the check arriving in the corporate bank account. The distribution of proceeds such as cash, stock, and promissory notes should be allocated on a perceived fair and equitable basis among the physicians. How to distribute proceeds may well be the most complex and controversial decision made during the entire affiliation. The impact of such an affiliation on retirement plans must also be carefully scrutinized. Depending on the specifics of the transaction, the physicians' profit sharing plan and/or other retirement vehicles may no longer be possible. A careful evaluation of the tax consequences in assigning proceeds as capital gains or ordinary income and payment of quarterly tax installments will be necessary. Before the transaction is complete, a review of the physician entities' legal structure will be in order to identify opportunities in state or federal laws allowing shielding of liability to some parties. If members of the group are not willing to spend time and energy pouring over the documents created in such an affiliation, be prepared once again for consulting, accounting, and attorney fees that will astound everyone.

Time will resolve most of the apprehensions of the medical community over the implications of affiliating with an MSO. The physicians who can demonstrate patience and confidence in dealing with their peers while maintaining or improving patient care will be amply rewarded in an MSO affiliation.

Oncology Associates of Cedar Rapids has greatly benefitted from the affiliation with PRN. Patients have experienced little change on the surface of operations. Patient care enhancement and managed care contracting expertise are two of the key advantages seen in the first few months of affiliation.