

10 Things to Consider When Joining a Healthcare System, Numbers 1-5

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Have you been approached by a healthcare system interested in acquiring your medical practice? Many healthcare systems are on the hunt for physician practices, and there are pros and cons to aligning your practice with a larger organization. Some practices will jump at the opportunity to become affiliated with a organization, which reduces the burden on physician-owners related to the administrative and financial aspects of running a practice. Those burdens can be transferred to a corporate entity better equipped to deal with those issues so your practice can focus more on patient care.

Aligning your practice with a hospital also gives you better access to resources and more capital. By joining a larger group, you may be exposed to better practice management systems, cutting-edge technology, and more funds. Of course, sometimes, your practice may not have a choice. For instance, if most of your referring physicians are now aligned with the same healthcare system, it may be beneficial to also join.

No matter your reason, there are several financial and accountability factors you need to take into account. *MOT* has compiled 10 things you should consider when determining whether practice acquisition is the right path for you. Here are numbers 1-5, in no particular order.

1. What is your practice worth?

The valuation of your medical practice is probably the number one factor you need to consider according to Nicholas J.

Janiga, manager of the Denver office of HealthCare Appraisers, Inc., headquartered in Delray Beach, Fla.

“Typically in these types of deals the hospital is acquiring certain fixed assets of the practice and do not want to acquire any potential liabilities,” says Janiga.

Of course, depending on the specifics of the practice, sometimes a hospital may be paying for the intangible values as well, along with the fixed assets. For instance, it may want to strengthen its cardiology group, and find your practice desirable.

2. How much compensation will you receive?

In any deal like this, physicians are striving for an increase in compensation. Janiga notes that you need to understand the various aspects of the compensation plan, including: the duration, base salary, incentive pay, and whether there is a compensation cap on your salary.

“There may be a cap where the hospital is not willing to pay a physician above x amount of dollars,” he says. “In addition to compensation, you need to determine whether there is a component that rewards your ability to manage costs.”

3. Do understand their referral system?

Similarly, understanding what the referral base and practice patterns would look like if you’re employed by the hospital is also important. It’s likely that you are going to lose referral privileges to other local hospitals.

“Make sure you have a thorough understanding of those components and how that could impact your practice and your compensation going forward,” says Janiga.

You may also have to get used to working with a whole new group. For example, if you’re a cardiology group, your practice may start to work with a whole new group of primary care physicians.

4. What is expected of your practice?

Accountability is something that both entities will be interested in terms of measurement. The healthcare system will look closely at mortality rates, factors in regards to quality and readmission rates, delays in treatment, and patient satisfaction surveys.

“Physicians will be measured by a multiplicity of standard reports across the board,” says Richard Romero, director of the Nashville, Ten. office of the CBIZ Valuation Group. “You may not be used to that as a stand-alone practice.”

Romero says that the health system will also want to know how

well your practice is producing and taking care of patients. “If the physician becomes part of a hospital system, he or she may not have the final say as to how clinical practices are filtered throughout the system,” he adds. “In other words, the physician becomes a cog in a bigger machine instead of his or her own machine.”

6. Do you have an escape clause?

Termination clauses are also important to understand. Can either your practice or the healthcare system terminate the relationship with cause or without cause?

Part of the employment agreement will certainly include a non-compete agreement, so you want to understand those terms to the extent that if the relationship doesn’t work out, it may force you out of the market for a period of time depending on the years and the radius.

Janiga has been seeing more practices and healthcare systems enter into a professional service arrangement (PSA) where the physicians and staff become employees of the hospital, but the hospital leases equipment, space and the rest of the workforce from the physician practice itself.

“Physicians have the ability to test out to see whether they like the arrangement before totally unwinding their practice and becoming employees,” he says. “That’s a good back-up plan if physicians are skeptical of the arrangement.”

Next week, we’ll focus on the human resources side of joining a hospital system. We’ll address the personnel issues and factors you need to consider before making this critical decision.

About the Author »



Daniel Casciato

Staff writer

Daniel Casciato is an independent writer and social media consultant who has over 18 years of journalism experience. He has been writing for *Medical Office Today* (MOT) since August 2010.

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