Transition of a Hospital-Owned Physician Practice into a Private Practice

Tamara L. Gump, CPA, FAAMA
Chief Operating Officer
Logan View, Inc.
Bellefontaine, OH

Transitions of employed physicians into private practices have become quite common due to the number of hospitals that employed physicians and later opted to end the employment relationships. Richard Cornell of MD First, Inc. stated, "Looking toward fiscal 2001 in October, many hospitals have down-sized, or in some cases eliminated affiliated physician-hospital organizations, realizing that physician and hospital goals do not always meet, and that owning and managing physician organizations has not produced the desired financial results" (28).

John Deane and Alan Cecala stated, "While no health system is willing to continue to lose $100,000 per physician per year on its primary care physician alignment strategy, losses of $40,000 or less per physician per year appear acceptable to sponsors, considering the benefits of physician alignment" (59).

Furthermore, Medical Group Management Association's Cost Survey: 2000 Report Based on 1999 Data, showed 84% of hospital-owned multi-specialty practices lost money, an average of $61,500 per physician. "Some systems gave up in despair and went through the difficult, costly task of putting their physicians back into private practice. A successful integrated system rests on sound business thinking and courage to do the right thing for patients, physicians and the system," wrote Thomas Girton and Glenn Johnson (66).

Paul Hiltz and Mancini said they considered the following options when transitioning employed physician groups into private practice: "Maintain status quo, major financial changes (compensation), phase out at the end of contract and immediate divestiture" (5).

The decision to transition a family practice physician's practice into private practice was made, after considering the right thing to do for patients, the physician and hospital, as well as the list

of options shown above. This paper will summarize the ways goals were met in the transition, lessons learned in the process, and keys to the success of the transition.

Background

The entities involved include a "sister" for-profit corporation (Corporation) of a 110-bed not-for-profit hospital (Hospital) and a solo family medical practice owned by the Corporation.

A physician needs assessment was performed by the Hospital and noted that in addition to various specialists, the community was in need of several family practice physicians. The Hospital decided to recruit family practice physicians to the area, employ them and set up their practices. The practices would be styled after the pediatric practice currently owned by the Corporation. Five family practice physicians were employed by the Hospital under the umbrella of the Corporation. Later the physicians were transitioned into private practice after they had been employed for various terms of three to five years, primarily due to the lack of profitability of the practices.

The Corporation employed one of the physicians in a solo-style practice. Some five years after her employment relationship commenced, the decision was made to transition the practice into one in which the physician owned the practice. Many factors pointed to the physician's likelihood of a successful private practice such as the respect she had earned from her patients on a clinical and personal basis, the unmet demand for physicians in the area the practice was located, the practice's long waiting list of patients and the efficient working relationship among staff members and the physician.

Goals of the transition included a smooth transition for the physician, office staff and patients and avoiding legal and employment-related issues. In addition, the Corporation wanted to sell the related equipment and supplies to the physician as there were no future uses identified for the items.

Key issues

Richard Cornell published a "top-10 list to use when considering private practice" which includes issues in the following categories: legal, cash flow, capital needs, physical facilities/space, billing, human resources, vendor responsibilities, telephones, insurance/other costs and call coverage (28). He says, "While the above list is by no means exhaustive, it outlines the major areas you must consider as you make the transition to private practice. Obviously, the more time you invest in the preparatory work, the better off you will be. You should plan to devote at least six months to the process, more if possible" (30).

Our time line for the "spin off" was structured around some key items such as the doctor's employment contract termination date, the length of time the doctor would need to set up her new practice and the time necessary to contract and credential with insurance companies.

Time consuming issues noted in setting up the new practice included choosing and implementing a new practice management software product. A variety of software options were considered, demonstrations were conducted and references were contacted. Ultimately the physician chose an Internet-based product due to its functionality as well as the affordability of the product. As a smaller capital outlay is typically needed for a product that is Internet-based, this avenue was sensible for a start-up or spin-off situation.

Planning ahead to assure necessary time was available for contracting and credentialing physicians with managed care/insurance companies was critical. Past experience showed that some companies would take as long as three to four months to process a physician's application. However, it was found that a physician that is already on a network and working within the same state is often not re-credentialed. Those managed care/insurance companies had to be contacted however so their records could be updated to reflect a new practice name and new federal tax identification number (TIN) for the physician.

The physician remained in the same rented office space and purchased most of the furniture, fixtures, equipment and supplies from the Corporation. To avoid legal issues the furniture, fixtures and equipment were appraised by an independent, experienced appraiser. His knowledge of the value of used medical equipment and furnishings was important and provided the fair market value of the items. A Bill of Sale document was prepared by legal counsel to properly document the sale.

The physician chose to retain all of the office staff and employ them in her new practice. The Hospital's Human Resource Department met with the employees to help in their transition. The office manager and physician worked on setting up benefits for the new practice.

Patient's charts were maintained by the physician in the new practice with the physician serving as the custodian of the original records. A release form was signed by each patient giving the physician permission to use their chart in the new practice. The physician signed an agreement stating she would maintain the charts for the Corporation in an acceptable manner with the agreement specifying particular responsibilities.

Through mutual agreement, the outstanding patient accounts were held by the Corporation for future collection. In this particular situation the accounts receivable was in very good condition as compared to survey results published by Medical Group Management Association (58) as shown in the following tables:

MGMA Accounts Receivable Indicators

Total Accounts Receivable per FTE physician	$81,333
% of total A/R 0 to 30 days	41.57%
% of total A/R 31 to 60 days	16.86%
% of total A/R 61 to 90 days	8.00%
% of total A/R 91-120 days	5.38%
% of total A/R over 120 days	23.53%

Case Study Accounts Receivable Indicators

Total Accounts Receivable per FTE physician	$40,624
% of total A/R 0 to 30 days	46.40%
% of total A/R 31 to 60 days	28.70%
% of total A/R 61 to 90 days	10.20%
% of total A/R 91-120 days	6.00%
% of total A/R over 120 days	8.70%

It appeared that the Corporation would likely collect most of the outstanding balances based on past experience with the accounts. Fortunately this prediction was correct. An agreement signed by the physician committed her to providing documentation and additional information that may have been necessary to collect the accounts. This method was mutually beneficial because there was enough lead-time for the physician to have most credentialing issues resolved and payments

on her new accounts were received in a timely manner. In other "spin offs" the corporation sold the receivables to the physician at a discounted amount, which proved to be a great deal of work for the Corporation

A letter to the physician outlining issues of the separation was prepared by the corporation's attorney to clarify several items involved in the transition. Items included in the letter were the last day of employment, last pay date for the physician, date of termination of malpractice insurance, date of termination of health insurance, balance of continuing medical education allowance, termination/transfer options for disability insurance, retirement plan options, vacation balance, physician's purchase of assets of the practice, custodial duties associated with patient charts, certain employment contract covenants and a list of legal documents to be prepared prior to the date of separation.

Time line issues

Some of the key issues of setting a time line for the transition revolved around the time necessary to set up a new entity for the physician, credential with necessary insurance plans, obtain malpractice coverage and choose a new practice management software system.

Some of these items occurred simultaneously, while it was pertinent to identify which issues had to be addressed prior to others. One of the first issues to address was for the physician to decide on which type of new entity she would create so that she could apply for a TIN. This is important as the TIN is used in the credentialing process. Other issues considered were the lead-time needed to establish employee benefit programs such as medical insurance coverage.

The decision of which practice management system to purchase is very important and can be time consuming due to the many possible options. A great deal of time is also involved in setting up the new system with information such as patient demographics, fee schedules and insurance carriers.

Keys to success

Perhaps the two most important keys to the success of the transition were the physician's relationship with the Hospital and the length of time allotted for the transition. The physician and her staff were very easy to work with and extremely cooperative. Kelvin Hanger emphasized facilitation be the first step in unwinding hospital-owned practices and stresses the importance of communication and listening (14).

It was also important for the office manager and physician to have access to administrative personnel within the Hospital to assist with various areas of the transition and for advice to be given in a timely manner. Dedicating appropriate hospital resources to the transition in the areas of legal, accounting, administration, human resources, risk management, compliance and other areas was important as well. The physician also utilized a health care consultant and an attorney to assist with the transition. The ability for the physician to plan appropriately for a new practice management software system allowed for her to receive payments on the new receivables within a few weeks, which was important to the physician.

Paul Hiltz and Debbie Mancini presented a similar list of lessons learned:

"Communicate/communicate/communicate
Explain options
Move quickly
Apologize
Be fair
Dedicate appropriate resources
Be available
Let them know they are important"

Summary

As previously stated, the goals set for the transition of the family practice physician into private practice were: 1)provide a smooth transition for the physician, employees and patients, 2) avoid legal and employment-related issues and 3) sell the related medical equipment, furniture and supplies. These goals were met by considering items identified as "key issues", planning accordingly and carrying out the plan in an organized manner. Research showed that the transition to private practice could be a "soft landing" for the physician and with proper resources and planning this transition was successful as well.

Works Cited

Cornell, Richard. Top-10 List to Use When Considering Private Practice. MGM Journal. January/February 2001: 28-30.

Deane, John & Cecala, Alan. "Seeing the Light at the End of the Tunnel." MGMA Connexion. October 2001: 56-62.

Girton, Thomas & Johnson, Glenn. "Don't Throw the Doctors Out With the Red Ink." MGMA Connexion . September 2001: 66-68.

Hanger, Kelvin. "Unwinding Hospital Owned Physician Practices in a Changing Market." Ohio Hospital Association Conference, Columbus, OH, 18 April 2000.

Hiltz, Paul & Mancini, Debbie. "How to Transition Your Employed Physician Group into Private Practice." Ohio Hospital Association 2002 Annual Meeting, Columbus, OH, 3 June 2002.

Medical Group Management Association. Performance and Practices of Successful Medical Groups, Survey 1999. Englewood, CO: Author, 1999.