



INTER OFFICE MEMO

TO: EXECUTIVE STAFF

AT:

DATE 11/2/94

FROM: Tom Causer *TAC*

AT: Business Research

SUBJECT: TOPICS IN HEALTH CARE FINANCING--INTEGRATED DELIVERY SYSTEMS

The attached publication may be helpful from an educational stand point as we go forward with our thinking on Managed Care Strategy. A synopsis of the material is also attached for your reference highlighting the key discussion points.

TDC/II

Attachments

DISTRIBUTION:

W. Flaherty
T. Albright
B. Bagni
M. Cascone
B. Davidson
D. Dingfield
T. Favino
J. Grantham
R. Lufrano
C. Richards

cc: E. Brodsky
C. Demery

INTEGRATED DELIVERY SYSTEMS

The spring 1994 issue of "Topics in Health Care Financing" contains ten papers that provide a basic foundation for understanding the development of integrated health care delivery systems (IDS). The articles contained in this book are stand alone; however, the articles were selected by the editorial staff of Aspen Publications to provide the reader a broad perspective on the many issues involved in the development of integrated delivery systems.

Chapter #1

Defines an integrated delivery system as any organization that provides physician and hospital services to patients. The organization may or may not include a payment mechanism. Five models are reviewed and each has specific advantages and disadvantages.

1. Single Organization
2. Parent Holding Company
3. Hospital Controlled Organization
4. Physician Controlled Organization
5. Medical Service Organization

Several business issues are identified in developing an IDS.

1. Control
2. Governance
3. Board Composition
4. Committees
5. Management
6. Production
7. Lump Sum Distributions
8. Salary and Incentive Bonuses
9. Asset Acquisition

The author ends the paper by stating that an IDS will not solve the major problems facing providers and society. An IDS is only a tool to operate more efficiently. The author identifies eight critical issues that should be addressed as soon as parties agree to develop an IDS.

1. Develop a strategic plan for the IDS to replace the existing strategic plans of the parties. In a nonprofit setting, the plan should address community needs and set forth specific action items for how the IDS will meet those needs.
2. Develop a facilities plan that examines the community (or marketplace) and decides where the IDS should locate various types of facilities (hospitals,

- recovery units, clinics, etc.). The hospital and physicians should be coordinating their resources to maximize the efficiencies of the facilities plan.
3. Develop short-term and long-term finance plans that address the overall financial needs of the health care delivery system. This planning should include preparation or development of an accounting system that tracks cost centers for physicians, a centralized billing and collection system for all types of payers, a system for admitting new patients, payroll and accounts payable system, purchasing system, inventory and asset record system, audit system, and a system to monitor capital and operating budgets.
 4. Develop an overall "services plan" that examines the consolidation or the expansion of services in different parts of the community.
 5. Begin research regarding the acquisition (and continuing development) of an information system that addresses the needs of the overall system. Such a system should be prepared to track patient outcomes, handle all billing and collection matters for all providers, and coordinate patient care (and patient records) for all providers.
 6. Develop a marketing strategy that present the new IDS product to the marketplace and prepares to approach payers with this new product.
 7. Determine overall administrative staff needs for the IDS, including human resources, space needs and location, furniture and equipment, systems (which includes communications, data processing, appointment, record keeping, and care management), and development of internal administrative policies and procedures (wage, vacation, sick leave, holiday, grievance, communications, etc.).
 8. Develop compensation systems for management, physicians, and staff that address the realities of current and future payment systems (as well as the labor market). Don't just continue to pay physicians based solely on production. Create appropriate incentive in the compensation system.

Chapter #2

Discusses nonprofit medical care foundations to include reasons why physicians and hospitals would want to form foundations and the steps involved in forming them.

Reasons for establishing a foundation:

1. Growth
2. Physician Recruitment

3. Market Income
4. Sale of Assets
5. Taxes
6. Attract Donations
7. Less Administration
8. Stability
9. Research
10. Cooperation

The steps in forming a foundation area as follows:

1. Identify or form the integrated group.
2. Appraise the value of the group.
3. Prepare a business plan.
4. Agree on a board and committee structure.
5. Determine who are members and the rights of membership.
6. Appraise physician compensation.
7. Prepare articles and bylaws.
8. Prepare professional service agreements.
9. Prepare asset purchase agreement
10. Perform due diligence.
11. Define financing options.
12. Form the corporation.
13. Apply for tax exempt status.
14. Apply for a provider number.
15. Notify the payers.
16. Closing.

Chapter #3

This chapter defines a management services organization (MSO) and discusses the goals and objectives of hospitals and physicians in creating them.

Advantages

1. Physician recruitment
2. Joint practice acquisition
3. A first step to an integrated delivery system
4. Access to managed care plans
5. Increase practice efficiency

Disadvantages

1. Legal Concerns
 - a. Medicare and Medicaid fraud and abuse
 - b. Tax exemption
 - c. Antitrust
 - d. Corporate practice of medicine
 - e. Self referral
2. Financial risk
3. Temporary solution

This chapter also explores various organization forms and emphasizes the necessity for a business plan.

Chapter #4

Discusses financing needs and options. Also discusses tax exempt financing. The paper explores the advantages and disadvantages of using different options for financing.

Chapter #5

Explores antitrust implications of forming a fully integrated delivery system. The author suggests a strategy to minimize antitrust risk:

1. Have legal counsel "eyeball" the transaction.
2. Do not attempt to corner the market.
3. Draft documents with care.
4. Supervise pre-merger activities to avoid any perception of collusion.
5. Use a consultant to undertake a study of types of efficiencies to be realized.
6. Line up broad based payer and community support.

Three key questions to ask are:

1. What is the degree of integration?
2. What is the market power of the venture?
3. Does the arrangement significantly foreclose development of competing groups?

Chapter #6

Explore the requirements for an integrated delivery system to receive tax exempt status.

The paper discusses multiple tests used by IRS to grant tax exempt status. The last part of the paper describes a process for obtaining tax exempt status.

Chapter #7

This chapter discusses Medicare reimbursement and fraud and abuse considerations. It also explores related party principles and considerations.

Chapter #8

This chapter addresses legal issues that uniquely affect the formation or operation of an integrated delivery system. Special insight and guidance is provided on:

1. Licensing
2. Credentialing
3. Peer review
4. Employee benefit plans
5. Prohibiting against physician self-referral
6. Rules or disclosure of ownership and control

Additional issues that should be investigated are:

1. Labor issues
2. Environmental issues
3. Securities issues
4. Insurance issues
5. Certificate of need

Chapter #9

This is a case study of Mercy Medical Foundation of Sacramento and its affiliation with Medical Clinic of Sacramento, Inc.

The primary driver was a cost structure that made the organization non-competitive. Physician compensation was reduced by 20% and new financing secured. Reduced physician compensation made it impossible to recruit primary care physicians. Organizational and governance issues are discussed along with operational issues that emerged.

Chapter #10

This is a case study of a nonprofit medical foundation and an independent practice association. It explores the different cultures, statutory and governance issues and the development of bylaws and managed care agreements.

Although this collection of articles does not give specific answers to what will work in the Florida environment, they do set the stage for understanding the many legal and financial issues associated with the development of integrated delivery systems. Specifically, Chapters 5, 6, 7 and 8 heightens ones awareness of antitrust, tax, and legal issues facing providers in forming joint ventures and alliances.