THE AFFILIATION DECISION
What is Happening

- The health care marketplace is changing rapidly
- Forcing practicing doctors for the first time to consider their future options
- There is a baseline fear by physicians
  - Practice collections will decrease in the future
  - Practice is not in a very competitive situation
The culprit causing much of this concern: REIMBURSEMENT

- Managed care reimbursement continues to decline
- Continued turmoil over Medicare reimbursement
- Physicians working harder just to maintain a financial position
Result

These competing factors force some doctors to consider selling out to a third party or to begin looking at other possible affiliation opportunities.
Physician Options

- Do nothing
- Sell out
- Merge
- Affiliate
Marketplace Reaction

- Formation of physician/hospital relationships
- Doctors selling out to hospitals
- Doctors selling out to other third parties
- Doctors merging
- Formation of management service organizations (MSOs)
Results

- Good decisions
- Bad decisions
POINT: A doctor must be prepared to make an INFORMED decision.

Any decision should not be made based on fear about the future, what a doctor reads in the trade journals, or talks about with their doctors.
Road to an Informed Decision

- Step 1: Knowing Your Practice
- Step 2: Knowing Your Service Area
Knowing Your Practice

- Where current practice revenues are coming from
  - Determine the percentage of your practice collections that come from each different payor
  - Goal is to assess how stable the practice’s own revenue base is
  - Will the revenue stream remain unaffected into the future?
Could something happen that may cause revenues to decline?

- If there is a likelihood of a drop in future revenue, practice might address the issue by adopting some type of affiliation
Determine percentage breakdown of revenues by specific managed care payor

- Why?: Assessment of patient access
- Must keep an eye on the service area because changes can occur very rapidly
Examples of Changes

- Managed care penetration may increase rapidly
- Medicare patients may start moving into particular managed care programs
- Medicaid managed care
Step 2: Knowing Your Service Area

- Hardest part of the decision making process
- Analysis methods are closely intertwined with those in step one
Knowing Your Service Area

- Keep close eye on patient mix
- For specialists, keep eye on referral patterns
- Both could be used as indicator service area is shifting its payor mix
Next Step in Analysis

What could happen in your service area in the next 3-5 years that could make your practice collections go down?
Decline in Service Reimbursement

- Pressure on fee reduction
- Governmental regulation
- Patients shifting to any type of managed care system
- Practice might want to look for ways to improve operations, increase revenues, and possibly decrease its costs.
Competition

- From other practices
- From integrated delivery systems

Question: How vulnerable is your practice to competition right now?
“Denied Access”

- Getting deselected off a PPO Plan
- By getting excluded from an HMO population
  - Competition is often a factor here
- Objective: Analyze the service area to assess the potential for patient shifting to other types of insurance programs
Summarizing the Decision Process

- Analyze both practice and service area BEFORE a decision is made to affiliate
- Ultimate long term goal is patient access
- If patient access might be a problem, partnering up with a third party may make sense
- If collections on the decline, an affiliation may make sense
Point: “Doing nothing” should be the first consideration by a physician

- Don’t make a hasty decision
- Don’t waste a lot of money searching for an answer that does not exist
- However in some service areas, selling out to a third party or affiliating might make sense
After the Decision is Made---

**Options**

- Selling out to a third party
- Merging with another medical practice
- Forming an independent practice association (IPA)
- Contracting with a management service organization (MSO)
Conclusion