



Healthcare, Inc.

Steve Lindstrom: OLLI Fall Course 2023

Class 3

Primary Care & Specialty Care

DO vs. MD

	Doctor of Osteopathy	Medical Doctor
TRAINING	HOLISTIC 4 YEARS	ALLOPATHIC 4 YEARS
COURSEWORK	CLASSROOM, CLINICAL ROTATIONS, LABORATORY WORK PLUS: OMM*	CLASSROOM, CLINICAL ROTATIONS, LABORATORY WORK
SCOPE OF PRACTICE	DIAGNOSE AND TREAT DISEASE, PRESCRIPTIONS, SURGERY	DIAGNOSE AND TREAT DISEASE, PRESCRIPTIONS, SURGERY
SPECIALIZATION	OMM + ALL SPECIALTIES	ALL SPECIALTIES

*OMM HANDS-ON APPROACH TO DIAGNOSIS AND TREATMENT THAT FOCUSES ON THE MUSCULOSKELETAL SYSTEM AND ITS IMPACT ON OVERALL HEALTH.

NP vs. ANP vs. PA

Characteristic	NURSE PRACTITIONER	ADVANCED NURSE PRACTITIONER	PHYSICIANS ASSISTANT
SCOPE OF PRACTICE Varies by State	Diagnose, Treat, Prescribe, Order Tests	Diagnose, Treat, Prescribe, Order Tests	Diagnose, Treat, Prescribe, Order Tests
Specialization	GP	<ul style="list-style-type: none"> • FNP • PNP • AGNP • PMHNP • NNP • WHNP 	<ul style="list-style-type: none"> • Out Pt • In Pt • ER/Urgent Care • Surgery
Degree required	MSN or DNP	Board Certifications	Masters
Supervision Varies by State	Collaborative MD 26 states - No restrictions 15 – Reduced practice authority 11 – restricted, TN	Collaborative MD	Supervisory MD

Physician Demographics

Source: American Medical Association (AMA), Physician Master File 2021

- Active physicians

	People/Physician	Average Panel Size (2018 Study AMA)	
• Internal medicine	120,342	2,714	1,800 – 2,000
• Family medicine/ GP	118,641	2,753	1,800 – 2,400
• Pediatrics	60,305	1,720	1,800 – 2,000
• Specialists	639,981		
- Female - 37.1% - All active
- Female - 48 top specialties
 - 65.0% in pediatrics
 - 5.9% in orthopedic surgery.
- 46.7% of active physicians - aged 55 or older
 - Shortages looming
 - 92.4% in pulmonary disease
 - 9.0% in sports medicine.
- Total Active Physicians 938,000 MDs 620,520 66.1% DOs 32.9%

Physician Board Certification

American Board of
Medical Certification

24 ABMS Member Boards

Assess and certify physicians and specialists

After training and throughout their careers:

Determine the knowledge, skills, and clinical judgment

Evaluation to verify sufficient mastery of necessary knowledge and skills

Physicians practicing in the specialty - create the standards and assessments

Follow set standards of professional conduct

Revoke certificates when breaches.

Physician Board Certification

American Board of
Medical Certification

Certify in 40 Specialties and 80 sub-specialties

- 87% of physicians are board certified
- Maintenance of Certification every 8-10 years

History

- Voluntary - best doctors not certified
- Consumer movement to quality
- Doctors marketing as Board Certified
- Hospitals required to practice on staff
- Managed Care Plans used to build quality networks

Overall Changes in Physician Practices

EMPLOYMENT TRENDS

Source: PAI-Avalere Report on Employment Trends
and Practice Acquisitions –in 2019-2021: Key
Research Findings

Three-year study period – end 2021

108,700 physicians left independent practice

- Employees of hospitals or other corporate entities
- 83,000 (76%) growth after COVID-19.

58,200 Physicians - Hospital Employees

50,500 Physicians - Corporate

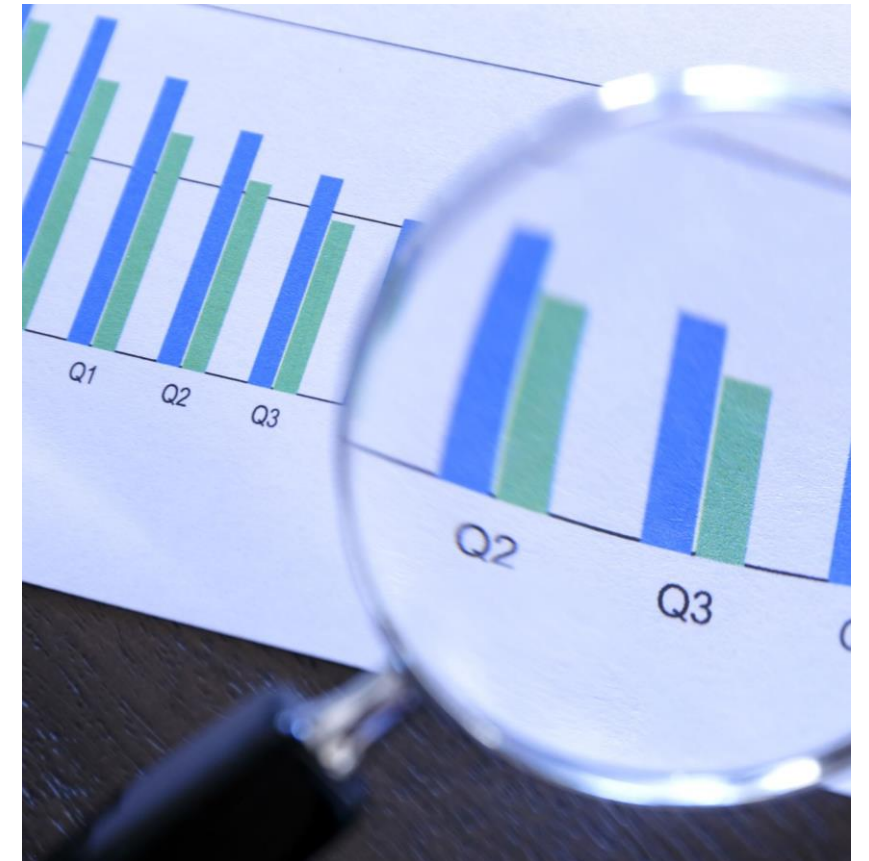
Overall Changes in Physician Practices

EMPLOYMENT TRENDS

Source: PAI-Avalere Report on Employment Trends and Practice Acquisitions –in 2019-2021: Key Research Findings

End of 2021

- 74% of physicians
 - 51% Hospitals
 - 22%
 - Health systems
 - Corporate entities - private equity firms or health insurers



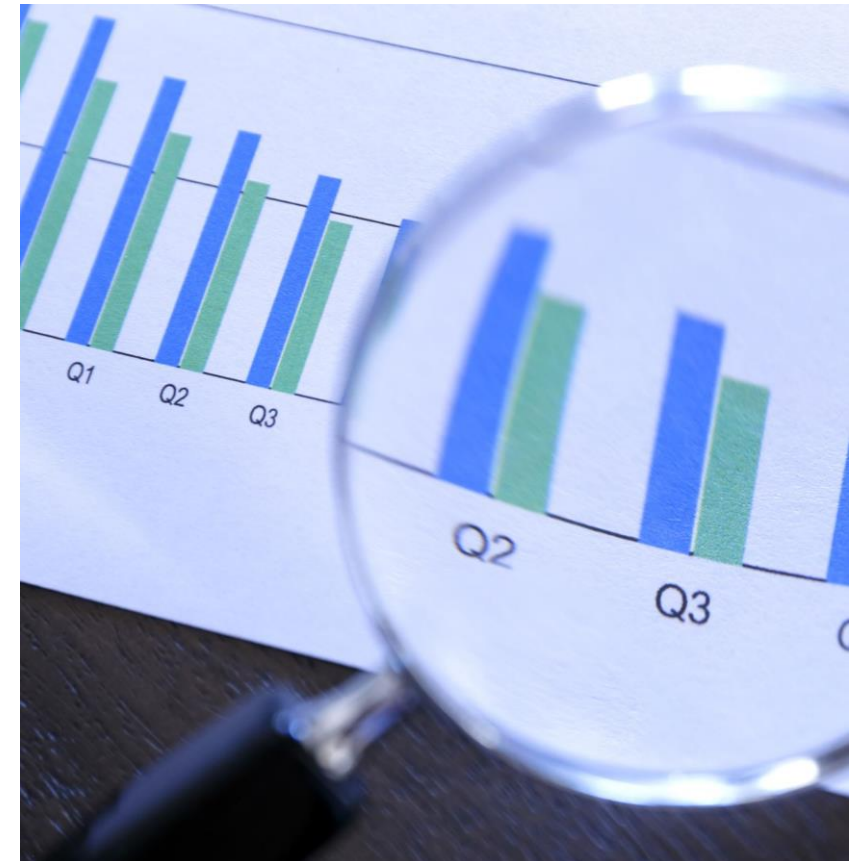
Overall Changes in Physician Practices

EMPLOYMENT TRENDS

Source: PAI-Avalere Report on Employment Trends and Practice Acquisitions –in 2019-2021: Key Research Findings

Hospitals and other corporate entities

- acquired 36,200 practices +36%
 - Hospitals 4,800 +8%
 - Corporate entities 31,300 + 84%.



Top Employers of Physicians

United Healthcare	70K
Ascension	49K
HCA Healthcare	47K
CVS	40K
VA	27K
Kaiser	24K
DoD	10K
Mayo	7.3 K
Cleveland Clinic	5.6K
MedStar Health	5.5K
Ochsner Health	4.7K
Geisinger <small>Kaiser acquiring</small>	1.7K
Amazon	400 +

Overall Changes in Physician Practices

- Practice size
 - 2020
 - 33% fewer than 5
 - 20% 5-10
 - total 53% vs 61% - 2012
 - 50+ - 17% vs 12% - 2012
 - Smaller practices - not replacing older doctors
 - Younger physicians -joining large, and hospital-owned practices



Overall Changes in Physician Practices

EMPLOYMENT TRENDS

Source: PAI-Avalere Report on Employment Trends and Practice Acquisitions –in 2019-2021: Key Research Findings

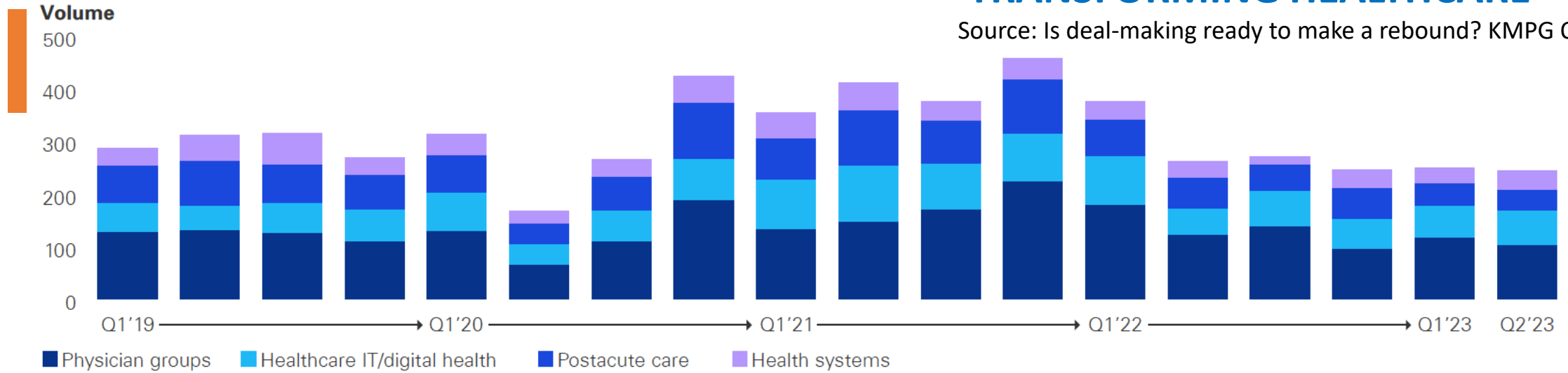
Drivers of change:

- Consolidation:
 - Health systems
 - Physician practices
- Shift of clinical services to non-hospital settings
- Move to value-based payments
- Payer and patient preferences
- Telehealth
- Healthcare at home.

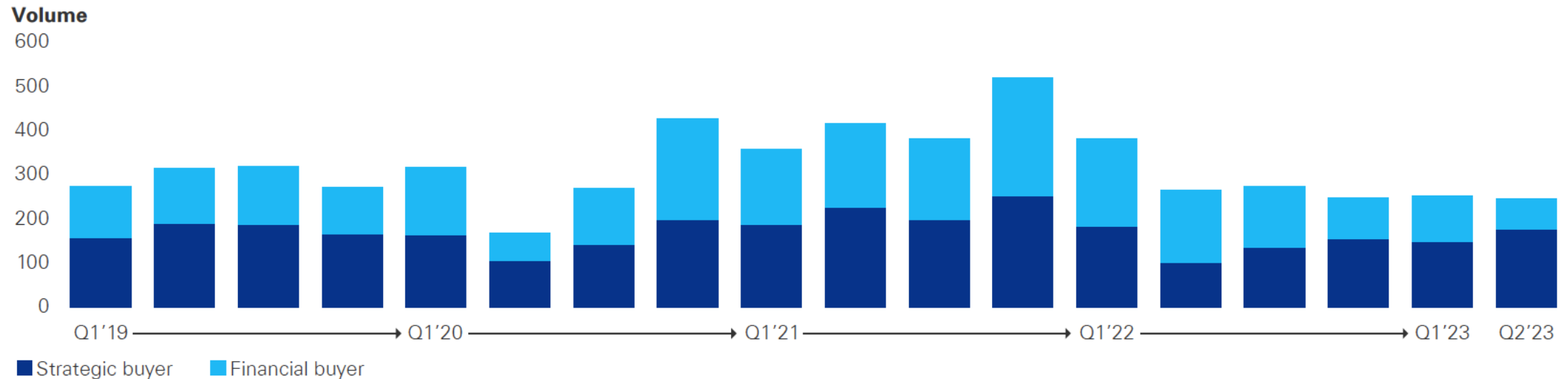
M & A SHAPED BY FORCES TRANSFORMING HEALTHCARE

Source: Is deal-making ready to make a rebound? KPMG Q2/23

Healthcare deal activity by sector



Healthcare deal activity by type



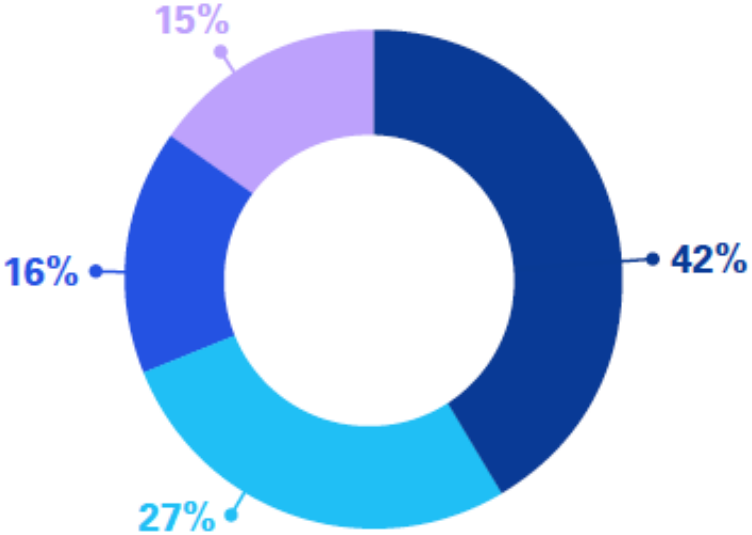
M & A SHAPED BY FORCES TRANSFORMING HEALTHCARE

Source: Is deal-making ready to make a rebound? KMPG Q2/23

Q2'23 deal mix

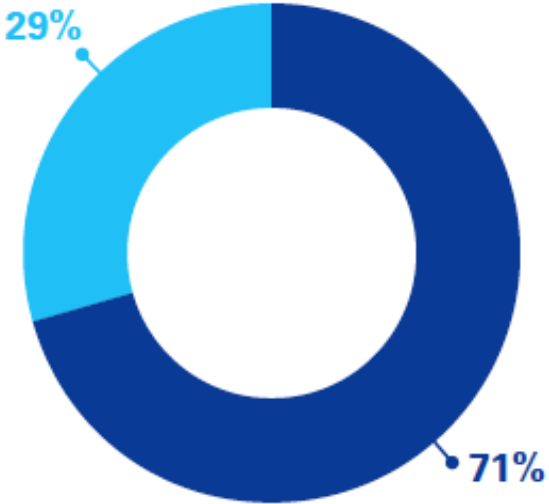
M&A deal volume

Sector mix



- Physician groups
- Healthcare IT/digital health
- Postacute care
- Health systems

Strategic/financial mix



- Strategic
- Financial



Overall Changes in Physician Practices

M & A SHAPED BY
FORCES
TRANSFORMING
HEALTHCARE

Source: Is deal making ready to make a rebound? KMPG Q2/23

A few major deals but lower volume overall

CVS Health \$10.6 billion acquisition of Oak Street Health

- 600 primary care providers
- 166 clinics
- Technology platform for delivering value-based care

United Health Optum

- Amedisys \$3.3 billion
- Home health and hospice care

AmerisourceBergen and TPG Capital

- OneOncology
- Network of cancer care providers
- AmerisourceBergen supply chemotherapy and other drugs and practice management services

Overall Changes in Physician Practices

M & A SHAPED BY FORCES TRANSFORMING HEALTHCARE

Source: Is deal making ready to make a rebound? KMPG Q2/23

As patient care leaves hospital, opportunities available

Divergence - mature and non mature markets

Austin, Las Vegas, Memphis 75% of likely procedures have already moved from hospitals to ASC (Ambulatory Surgical Centers) and doctors offices

Mature markets - targets for acquisitions due to significant volumes already moving to alternative sites

Immature markets - Cleveland, Madison, New Orleans - less than 30% moved

Opportunity to ride the wave with large fee increases

Challenges with disrupting established relationships and practices.



Check-in



Primary Care

- What is Primary Care?
 - Pediatricians
 - Internal Medicine
 - General Practitioners
 - Nurse Practitioners
 - Family Physicians
- Characteristics:
 - Preventative
 - Continuity of Care
 - Coordination of Care
 - Accessibility and Affordability.



Primary Care Roles in the System

- First point of contact
- Diagnosis and Treatment
- Preventative Care
- Management of Chronic Conditions
- Health Education
- Referrals
- Coordinated Care
- Holistic Approach
- Advocacy.



Current Trends in Primary Care



Decline in Solo Practices

Operating solo practices became unprofitable

Increase in administrative burden

Younger physicians concerned about work life balance.



Growth in Group Practices

Sharing of resources, multiple physicians work as team, work life balance

Development of large multi-specialty groups.



Rise in Hospital Employed Physicians

Integration and coordination

Stability

Financial pressure and change in reimbursement models.

Current Trends in Primary Care



Emergence of retail clinics and urgent care centers

Closer to consumers with no wait
Extended hours
Affiliated with pharmacies and retail
All deliver limited-scope primary care



Urgent Care Clinics- Physician required
10,200 \$48 Billion

X-rays, stiches, broken bones

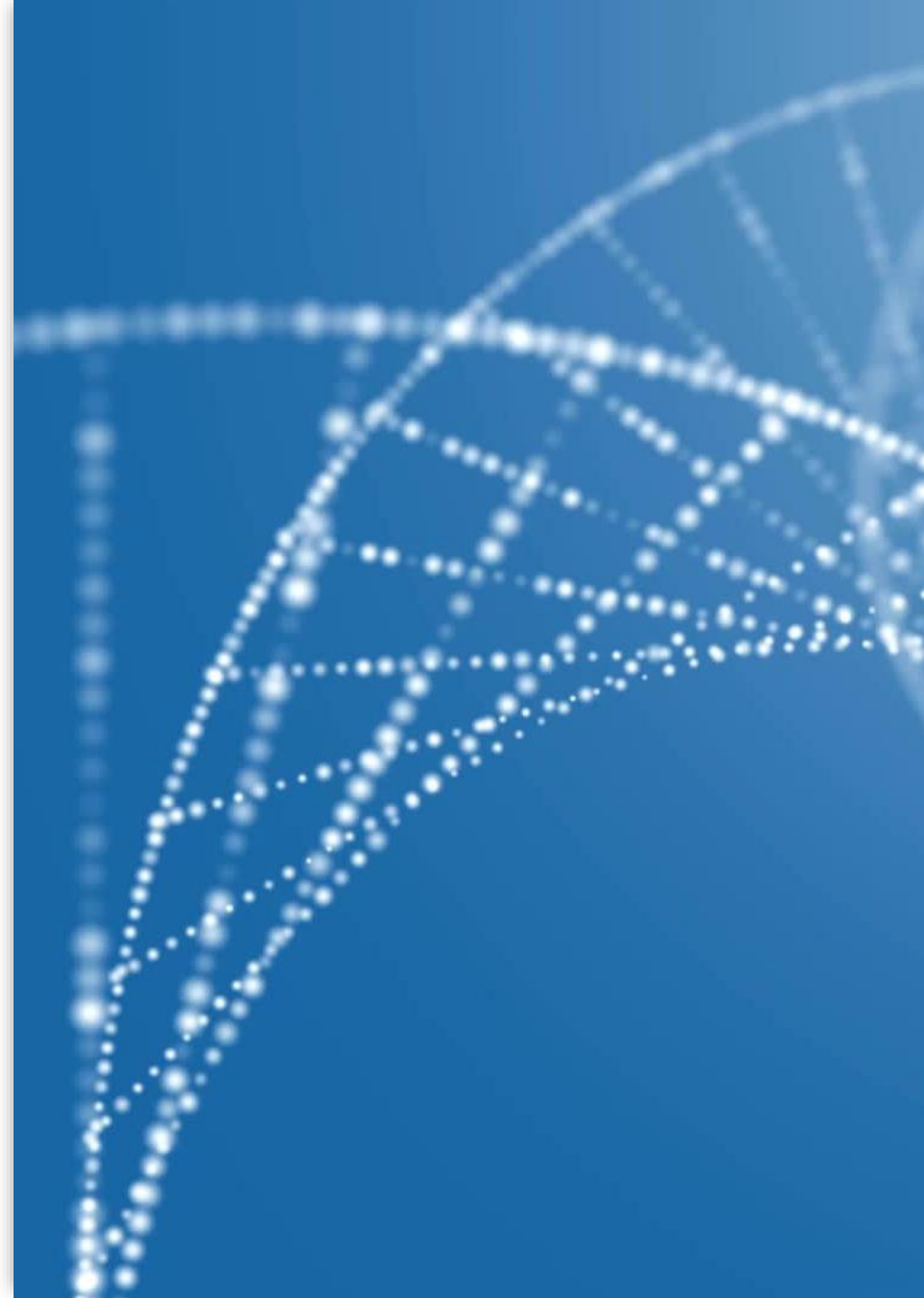


Retail Clinic – PA or NP required 1,820
44 states \$2.8billion

CVS	900	Minute Clinic
Kroger	220	Little Clinics

Current Trends in Primary Care

- Telemedicine and Virtual Care:
 - Accelerated by COVID
 - Required changes in infrastructure and practice patterns
 - Telehealth Practice:
 - 2020: 70%
 - 2018: 24%
 - Psychiatry highest 85%
 - Primary care 76%
 - Issues with updating reimbursement levels
 - Amazon is experimenting with 4 early-stage companies
 - Costco announces \$29 tele visit.



Current Trends in Primary Care

CONCIERGE CARE AND MEMBERSHIP-BASED MODELS



FLAT FEE FOR
SOME LEVEL OF
PRIMARY CARE
FOR A
YEAR/MONTH



EASY ACCESS
THROUGH TELE
VISIT/ PHONE/ OR
APPOINTMENT



RELATIONSHIP
WITH PHYSICIAN
FOR
COORDINATING
ALL CARE



ATTRACTING
SIGNIFICANT
VENTURE CAPITAL

Current Trends in Primary Care

CONCIERGE CARE AND MEMBERSHIP-BASED MODELS

- Attractive business model
 - Normal practice = 2,000 active charts
 - \$750K billings per doc
 - Net to doc \$250K (33%)
 - Concierge practices = 500 patients
 - @\$1,200/year For primary care services
 - \$600k billings per doc (50%, lower overhead, no billing or insurance, small office)
 - \$300k net to doc +20% for treating ¼ # of patients
 - 2023 survey by the Concierge Medicine Institute
 - Average Fee \$2,500
 - Range \$1,200 - \$10,000
 - MDVIP in Nashville \$2,000 / year most practices not taking patients

Current Trends in Primary Care

- Increased use of nurse practitioners and physician's assistants:
 - “Physician extenders”
 - NP – clinical doctorate to be required in 2025 (DNP)
 - Appropriate for many primary care visits
 - Allows Board Certified MD to practice at “Top of License”
 - In some states NPs can practice without the oversight of an MD, leading to new types of practices being set up.





Current Trends in Primary Care

VALUE-BASED CARE

- Value-based models:
 - Full risk for Medicare Advantage
 - Integration with retailers getting into primary care
 - Retailers accelerating growth
 - Creates the basis for competition among provider groups
 - May drive consolidation due to the complexity
 - Attracting private equity.

Current Trends in Primary Care

VALUE-BASED CARE



Requires sophisticated support systems – clinical and administrative



Drive out waste in system



Needs a complete team



Social determinants of health (SODH) support provided even though no CPT code



Culture



Clinical and payment models aligned

Current Trends in Primary Care

VALUE-BASED CARE

Value-Based Health Care Benefits

PATIENTS

Lower Costs
& better
outcomes

PROVIDERS

Higher Patient
Satisfaction
Rates &
Better Care
Efficiencies

PAYERS

Stronger Cost
Controls &
Reduced Risks

SUPPLIERS

Alignment of
Prices with
Patient
Outcomes

SOCIETY

Reduced
Healthcare
Spending &
Better Overall
Health

Getting Unstuck

Legacy System

Organized around separate units
Physicians, Dept, Specialists

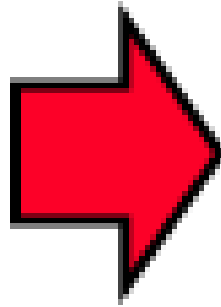
Measure Progress
Compliance and Charges

Fee for Service Payments
Based on Volume Delivered

Each Hospital or Service
Full Line of Services

Unlimited Geographic
Service Area

Siloed Legacy IT Systems



Value-Based System Agenda

Organize into Integrated Practice Units

Measure Outcomes and Cost
Every Patient

Bundled Payments for
Care Cycles

Integrate Care Delivery Systems

Expand Geographic Reach

Build Integrated Info Tech
System

Current Trends in Primary Care

VALUE-BASED CARE

Basic Models

Accountable Care Organizations (ACO)

- Networks of physicians and hospitals
- Eliminate redundant care
- Disease prevention
- Harmonize interventions
- Varying levels of risk
- Savings created by metric performance
- Provider group establishes ACO

Bundled Payments

- Collective form of care
- Combines payment for a group of providers in a lump sum
- Providers incentivized to coordinate care
- High level of risk if care is not sufficient
- Predetermined cost for service
- Savings created by reduced overall cost

Patient-Centered Medical Home

- Team of physicians
- Primary care leads coordination
- Whole patient experience
- Low downside risk
- High reward for performance
- Based on metrics
 - Patient access
 - Engagement
 - Appropriate use of services

Important Issues in Primary Care


2021 Report from Association of
Medical Colleges

- Shortage of primary care physicians coming out of medical school
 - 2034 -shortage
 - 18K to 48K PCP
 - 21K to 77K Specialists
 - Aging population = more doc
 - Aging population of doctors
 - Retiring
 - Not replaced at the same rate
 - Geographically different



Important Issues in Primary Care

2021 Report from Association of
Medical Colleges

- Residency positions insufficient
 - Balanced Budget Act of 1997
 - Freezing Medicare support of teaching hospitals at 1996 levels
 - GAO – 2021
 - 83MM citizens live in areas with a PCP shortage
 - 15,193 PCPs needed
 - Residents tend to practice in areas where they receive training (56%).
- 

Important Issues in Primary Care

2021 Report from Association of Medical Colleges

Unnecessary or low-value care
= no clear benefit

- Geographic practice pattern variation
- JAMA study in 2012 ranged from \$158B to \$226B cost.



Compensation for Physicians

Medscape Physician Average Compensation
Report 2023

Pediatrics

\$251K

Family Medicine

\$255K

Internal Medicine

\$273K

Psychiatry

\$309K

OB/GYN

\$337K

Gen Surgery

\$413K

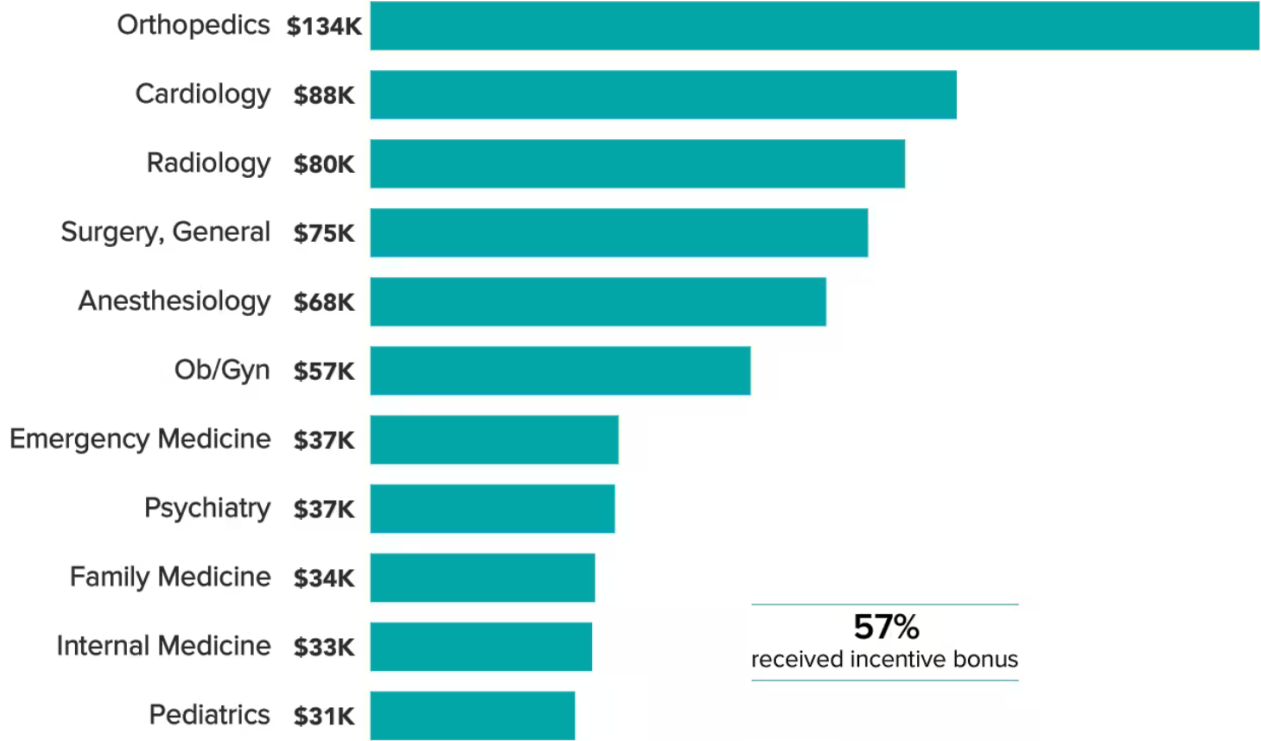
Orthopedics

\$573K

Plastic Surgery

\$619K

Average Incentive Bonuses, by Specialty



57%
received incentive bonus

Not all specialties are shown

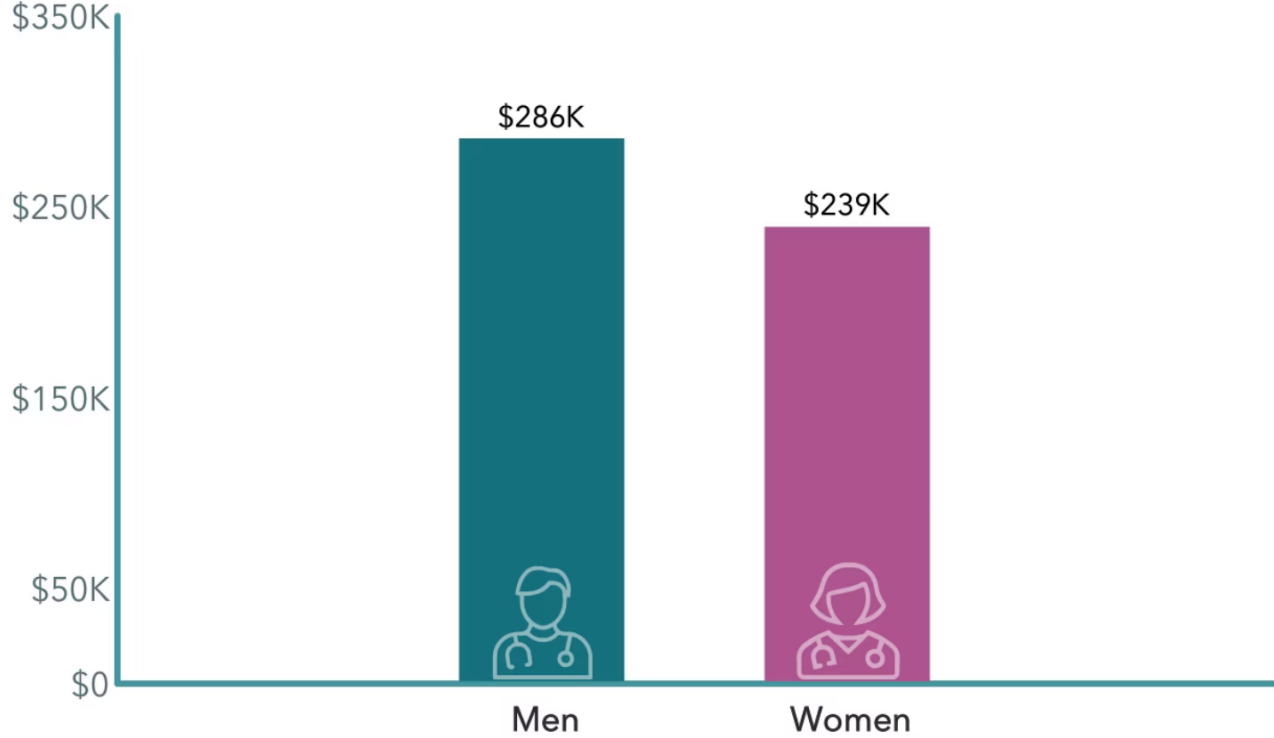
Compensation for Physicians


Medscape Physician Average Compensation Report 2023

Compensation for Physicians

Medscape Physician Average Compensation Report 2023

In Primary Care, Who Earns More: Men or Women? 



A white computer keyboard is visible in the top-left corner, partially overlapping a white surface. A black stethoscope is positioned diagonally across the white surface, with its chest piece on the left and its earpieces extending towards the bottom right.

Model Primary Care Practice Business Model

- Assume *FIVE* internal medicine physicians
 - Average compensation = \$273,000
 - Compensation is 33% of net collections
 - Each physician responsible for \$827,000 net billings
 - Practice billings \$4,136,000
 - A small group practice is a relatively large small business
- A group of 50: \$41,360,000.

Compensation for Primary Care Physicians

RELATIVE VALUE UNIT (RVU) SYSTEM

- Each CPT code is assigned a specific RVU for the work the physician performs = wRVU
- Takes into account:
 - Complexity of service
 - Time to provide
 - The skill level to provide
- Set by each employer based upon:
 - Specialty
 - Experience
 - Productivity.



Compensation for Primary Care Physicians

RELATIVE VALUE UNIT (RVU) SYSTEM

- Medicare sets the payments to physicians on a formula that is intended to be budget-neutral:
 - Complicated incentive plans administered by Medicare
 - Additional payment to practice on each RVU based upon
 - Cost for administrative support
 - Malpractice Insurance cost.



Compensation for Primary Care Physicians

DIFFERENT TYPES OF COMPENSATION ARRANGEMENTS

- Salary or fixed compensation
 - Profit sharing
 - Other incentive-based plans
- Fee for Service (FFS)
 - Productivity based on RVU
 - Net Collections %
- Capitation
- Value-Based Payment Models)
 - Hybrid models
 - Direct Primary Care
 - Concierge Medicine

Physicians are generally paid between 30% and 40% of net revenues through whatever the model is

Specialty Care



**66% of all physicians
are specialists**



**Perform most health
encounters and
responsible for bulk of
Medicare and
commercial spending**



**Account for increasing
share of outpatient
visits as care moves
out of hospital setting**



Core activities

- Problem-focused experts for specific health conditions
- Consultations with other physicians
- Co-management for long-term conditions
- Principal care - total responsibility
- Primary care provides a medical home
- Procedures

Specialty Care

3 MAIN TYPES

Cognitive-based specialists:

Consults, principal care, primary care

- Endocrinologists
- Nephrologists

Procedure-based specialists:

Consults, primary care, co-management

- Gastroenterologists
- Cardiologists

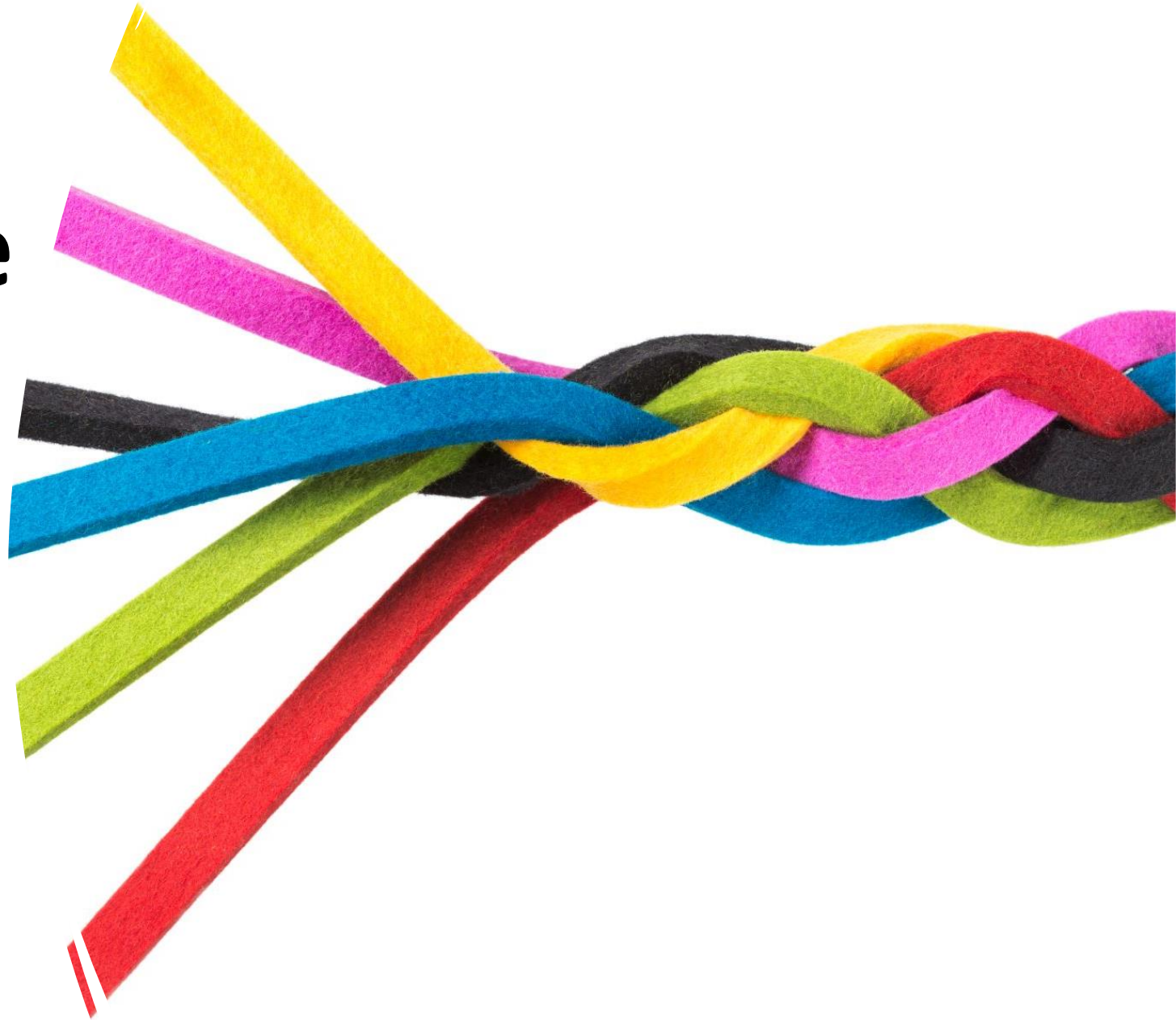
Surgical specialists:

Consults and procedures

- Orthopedists
- Neurosurgeons

Specialty Care Improvement Unbundling care

- Consultations
- Co-Management
- Principal care
- Procedures.



Specialty Care Improvement Unbundling care

- Advantages
 - Quick input vs. Ongoing care to provide easier access
 - Improve wait time
 - Improved outcomes
 - Strategies
 - Informal consults with other physicians
 - Telephone consults
 - EConsults via EMR – asynchronous
 - Remote 2nd opinions
 - Consultation clinics
 - Highly specialized facilities on select procedures
 - Narrow PCP referral network
 - PCPs with Medicare patients coordinate with 100 specialists per year.



Specialty Care TRENDS

Advancement in Specialty Treatments

- Gene therapies
- Immunotherapies
- Precision medicine

Telemedicine and Virtual Care

- Remote follow up
- Remote treatment for rural areas

Interdisciplinary Care

- Teams PA, NP, PharmD,
- Collaboration enhances patient care

Specialty Care

TRENDS

- Patient-Centered Care
 - Patient preferences
 - Shared decision making
 - Tailored treatments
- Data Analytics and AI
 - Enhance diagnostics
 - Patient monitoring remotely
- Value-Based Care
 - Controlling costs
 - Improving patient outcomes.



Specialty Care TRENDS

- Access to specialty care
 - Underserved populations in rural areas
 - Long wait times
 - Provider shortages - Dermatology
- Rising costs
 - Specialty medications and treatments
 - Biologics
 - Gene therapies
- Workforce shortages
 - Psychiatry
 - Surgical specialties.



Specialty Care CHALLENGES

- Health Equity
 - Outcomes
 - Quality of care
- Complex regulatory environment
 - Prior authorizations
 - Billing complexities - No Surprise Act
 - Compliance with quality reporting
- Burnout and stress.

Specialty Care Business Issues

MERGERS AND ACQUISITIONS

- Why is this attractive to specialty practice physician groups?
 - Need for capital
 - Long-term practice uncertainty
 - With high purchase price, older doctors want to exit
 - Increased regulatory burden
 - Competitive challenges for smaller groups.



Specialty Care Business Issues

MERGERS AND ACQUISITIONS - Post Acquisition

- Health Affairs study April 2022 experience following private equity acquisition
 - Higher operating margins
 - Lower costs per adjusted discharge
 - Increased inpatient utilization
- JAMA Network Open study
 - Study of urban academic health system acquiring a safety net hospital
 - 3-year study
 - Absolute reduction in crude and adjusted mortality rates
 - Success is dependent upon how integrations are executed.

Specialty Care Business Issues

MERGERS AND ACQUISITIONS

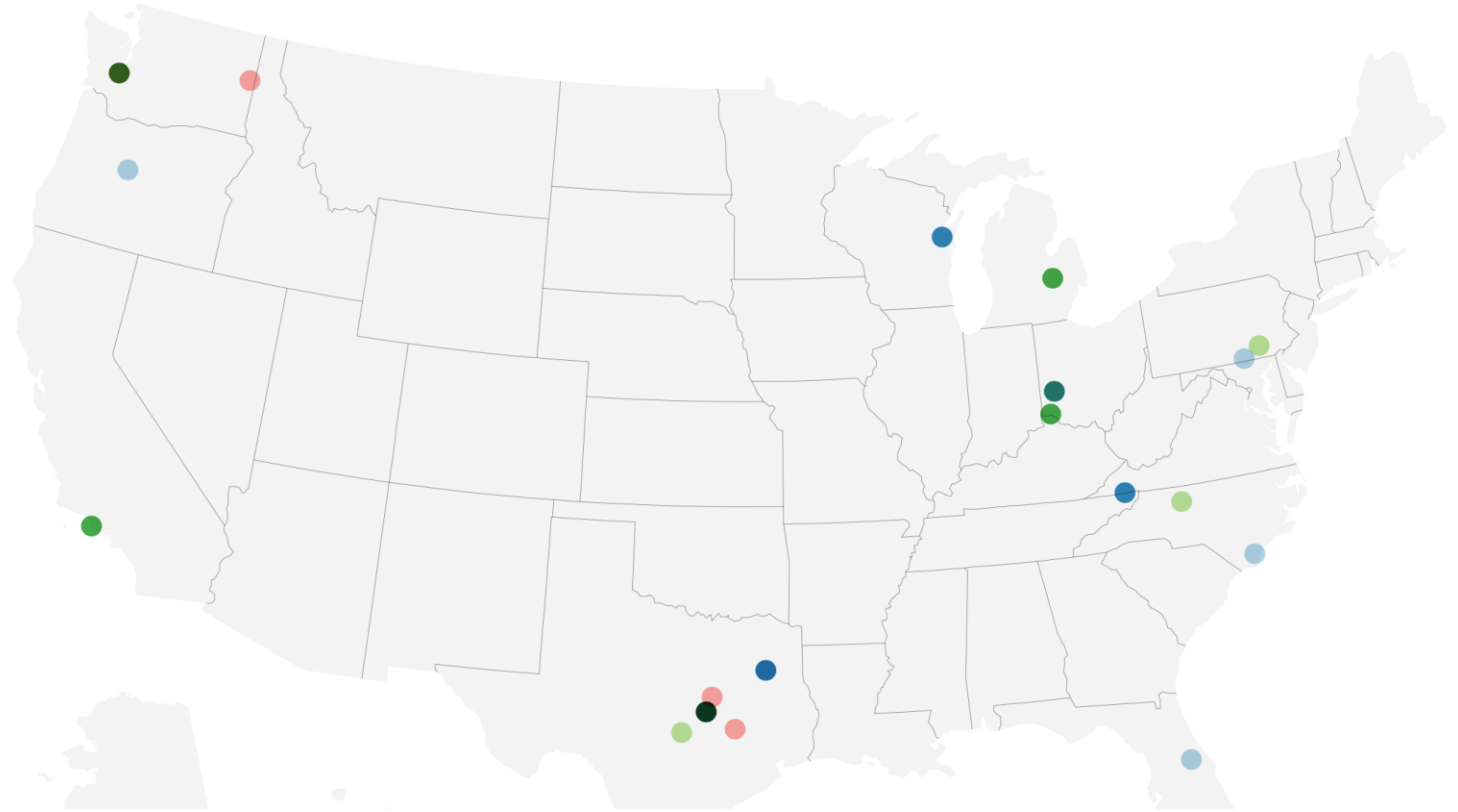
- Attractive business for private equity
 - Tapping into the healthcare profit pool
 - Significant growth
 - Administrative redundancy
 - Scalability
 - Exit strategies available
 - Hospitals
 - Roll-up consolidation of practices
 - Same specialty
 - Multi-specialty
 - 90% below FTC and DOJ trigger of \$101MM
 - \$1 Trillion into 8,000 healthcare transactions in the last decade
 - Goal =20% return in 3-5 years.

Sick Profit: Investigating Private Equity's Stealthy Takeover of Health Care Across Cities and Specialties

Private Equity's Market Control

These metropolitan areas had some of the highest percentages of physician specialists affiliated with private equity firms in 2021:

■ Anesthesiology ■ Dermatology ■ Gastroenterology ■ Ophthalmology ■ Primary care



Private Equity Takeover

Specialty Care

PRIVATE EQUITY

- Gastroenterologists
 - Pressure on reimbursement
 - Rising Costs
 - 1,400 gastroenterologists acquired by private equity – total value excess of \$1B
 - Example: Texas Digestive Disease Consultants deal with Chicago private equity firm in 2018.
 - Expanded from 110 locations in Texas to 15 states and over 400 locations
 - Market dominance enables the ability to set and maintain high prices
 - Physician-led; private equity-financed.

Specialty Care

PRIVATE EQUITY DOMINANCE

- Anesthesiology:
 - U.S Anesthesia Partners
 - Started in 2015 with largest group in Denver
 - Contracts at 10/15 largest hospitals in region
 - Raised prices 30% in first year and continued
 - 1/3 doctors left in first 3 years
 - Now 4,500 clinicians in 9 states
 - Company states that there is plenty of competition and price raises are in sync with the market.

Source: Washington Post article 6/29/23 “Financiers bought up anesthesia practices, then raised prices”

Specialty Care

PRIVATE EQUITY

- Anesthesiology
 - Private equity hold 12% of market nationwide
 - 2/3 of market in parts of 5 state source: KFF Health
- JAMA article 2022
 - Private equity take over study, 578 practices
 - Dermatology, gastroenterology and ophthalmology
 - Average increase of \$71 per claim filed
 - 9% increase in lengthy, more costly, patient visits (upcoding)

Specialty Care

PRIVATE EQUITY

Anti-trust Institute Study: Monetizing Medicine: Private Equity and Competition in Physician Practice Markets July 2023

Key Findings:

- PE firms are amassing high market share in local markets
 - 28% of MSAs a single PE firm has more than 30% of the market share, 13% exceed 50%
 - 8/10 practices studied statistically significant prices increased post-purchase
 - Higher market share leads to higher prices
 - Under the radar of the FTC
 - Recommend changes to modernize FTC to current practices
 - More study needed.

Specialty Care

BUSINESS ISSUES

- Large hospital systems' acquisition of specialty practices
 - Ongoing for several years
 - Create bargaining power in a market
 - A required piece of Value-Based Care initiatives
 - Care coordination across specialties
 - Creation of an integrated network with primary care
 - Ensure referral flow.

Primary and Specialty Care

SUMMARY AND QUESTIONS

- Consolidation
- Business models
- Private equity influences
- Transformation to Value-based care
- Demographics affect
- CHANGE.

