

Flying Solo

Physician Employment

“How to Start/Re-Start a Practice”

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Today's Objective

To provide information and advice to practicing physicians regarding the Medical Practice consolidation movement in order to make informed business decisions

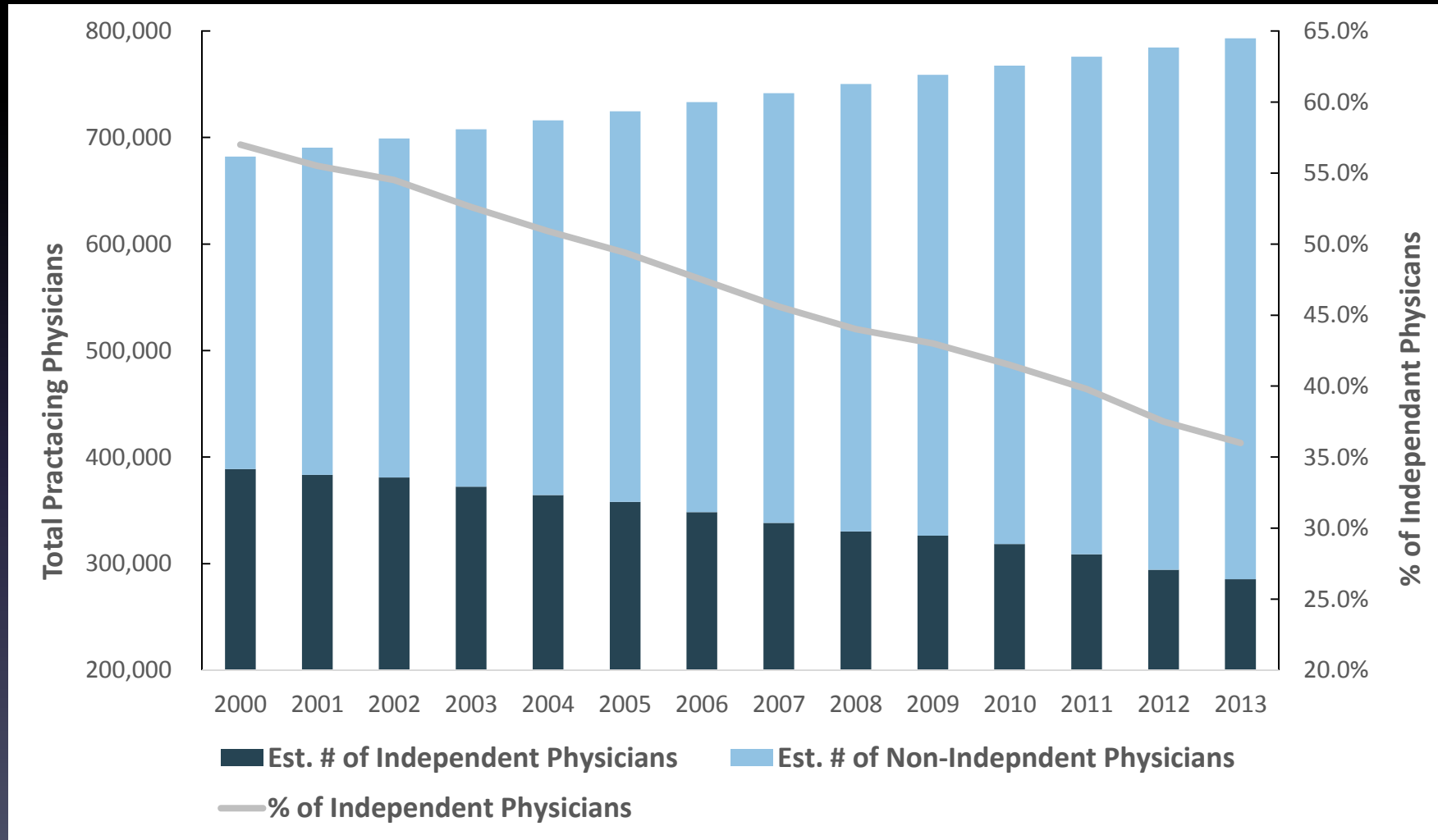


Discussion Topics

- History of the Consolidation
- Pros / Cons of Selling
- Making the Right Decision
- Flying Solo
- Medical Group Formation
- Practice Sale Considerations

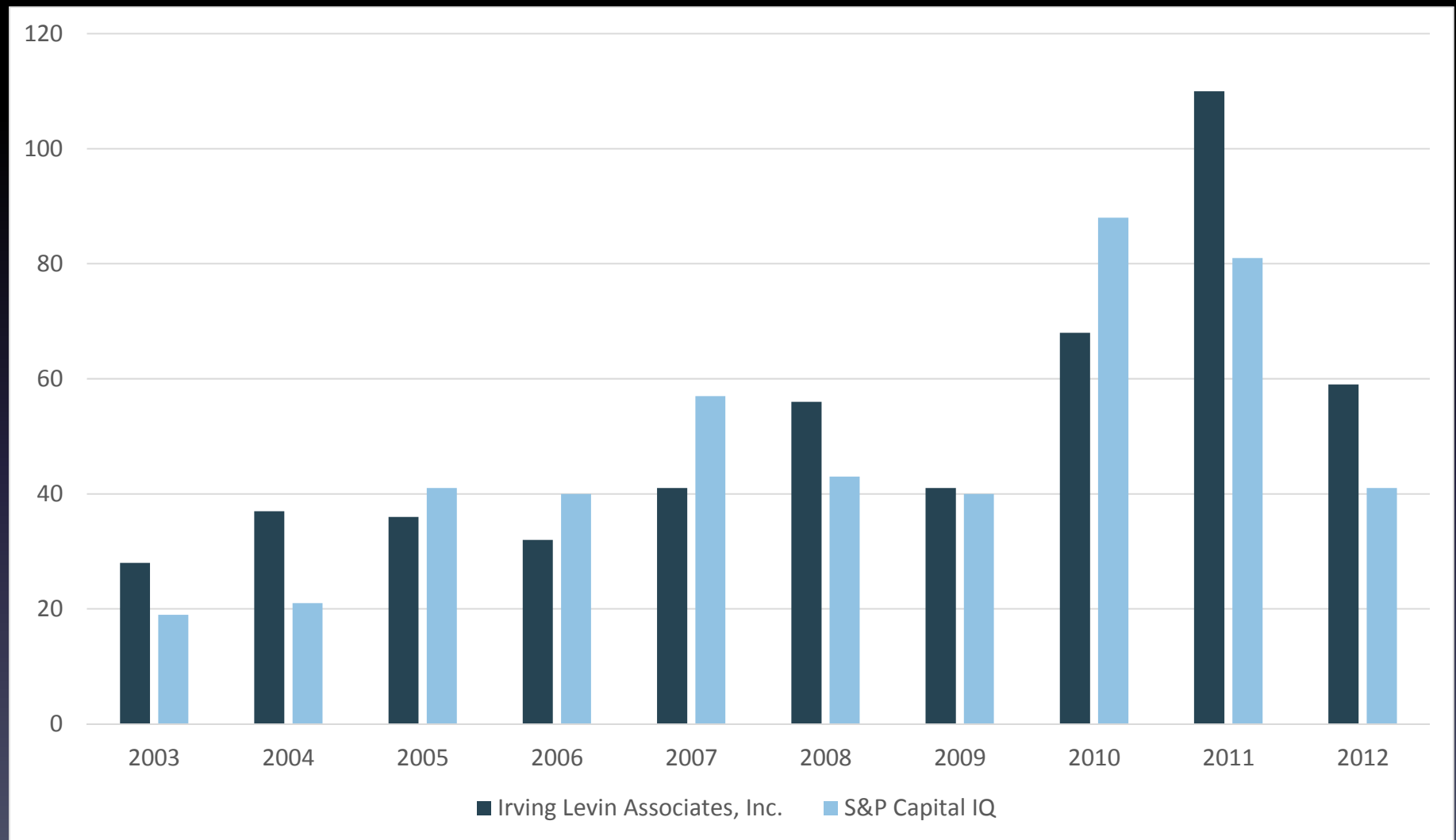
History of Medical Consolidation

Independent vs. Non-Independent



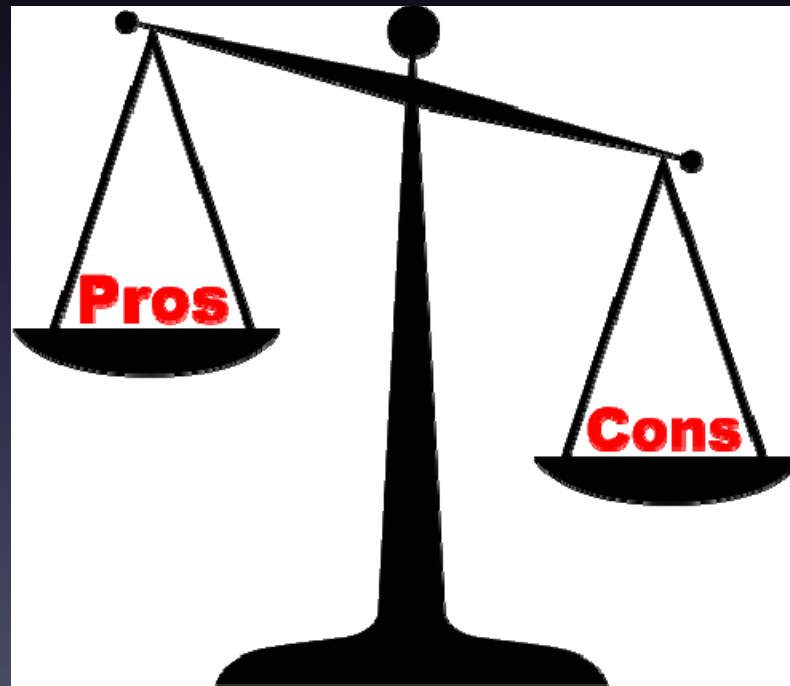
Source: Healthcare Appraisers, Inc.

Mergers & Acquisition Activity



Source: Healthcare Appraisers, Inc.

Pros and Cons of Selling



Pros

- The check will clear
- Administrative duties
- Incomes are often higher
- Work-life balance
- Job security
- Access to additional resources and state of the art equipment
- Higher reimbursement rates

Cons

- You aren't in charge
- Compensation can be changed
- You may be judged by new metrics (monthly quotas)
- Administrative duties
- Introduction to new technology

How to Make the Right Decision?!?!



- Talk to colleagues
- Does your view of the future agree with the hospital?
- Weigh pros and cons
- Compensation
- Discuss options with your CPA/Business Advisor

Market Forces to Consider

Reimbursement

Rising
Technology
Costs ("EHR")

Pressure to
Consolidate

Growing
Regulatory
Pressures

Privacy Rules

Burdens of
Billing and
Collections

Data Collection
Requirements

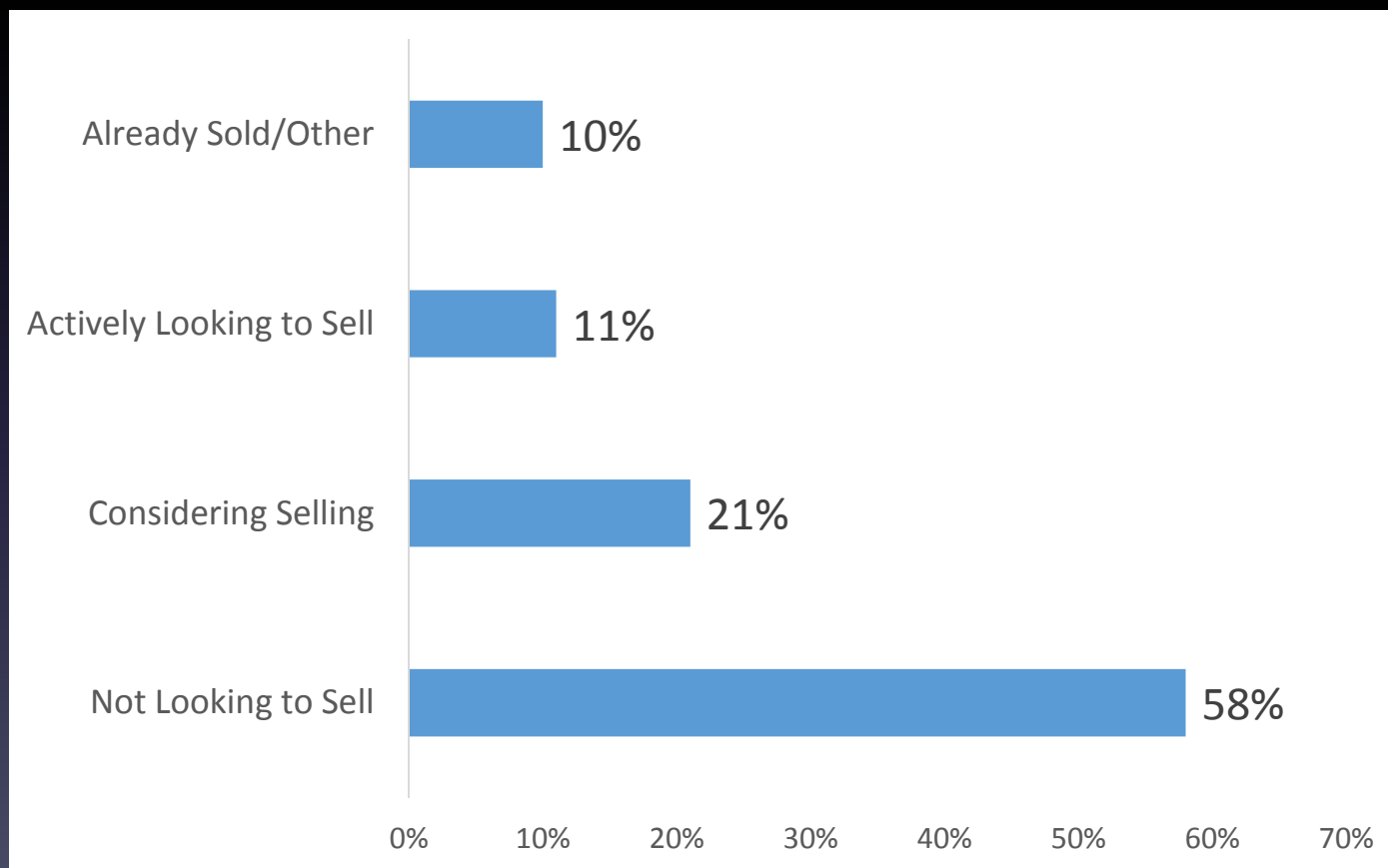
Student Debt

Health of the
Population

FLYING SOLO

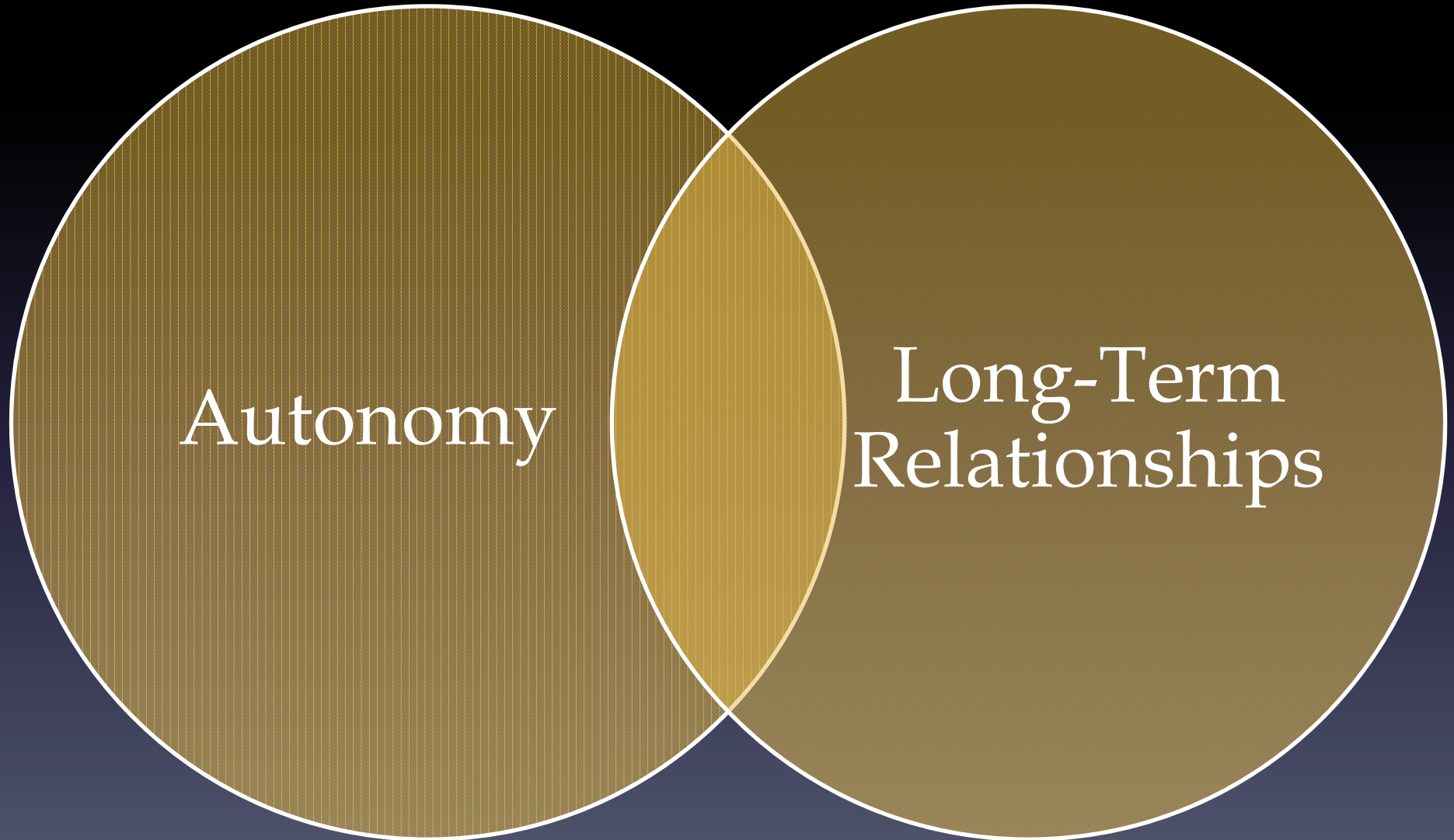


58% of Physicians do not Want to Sell



Source: CareCloud and QuantiaMD

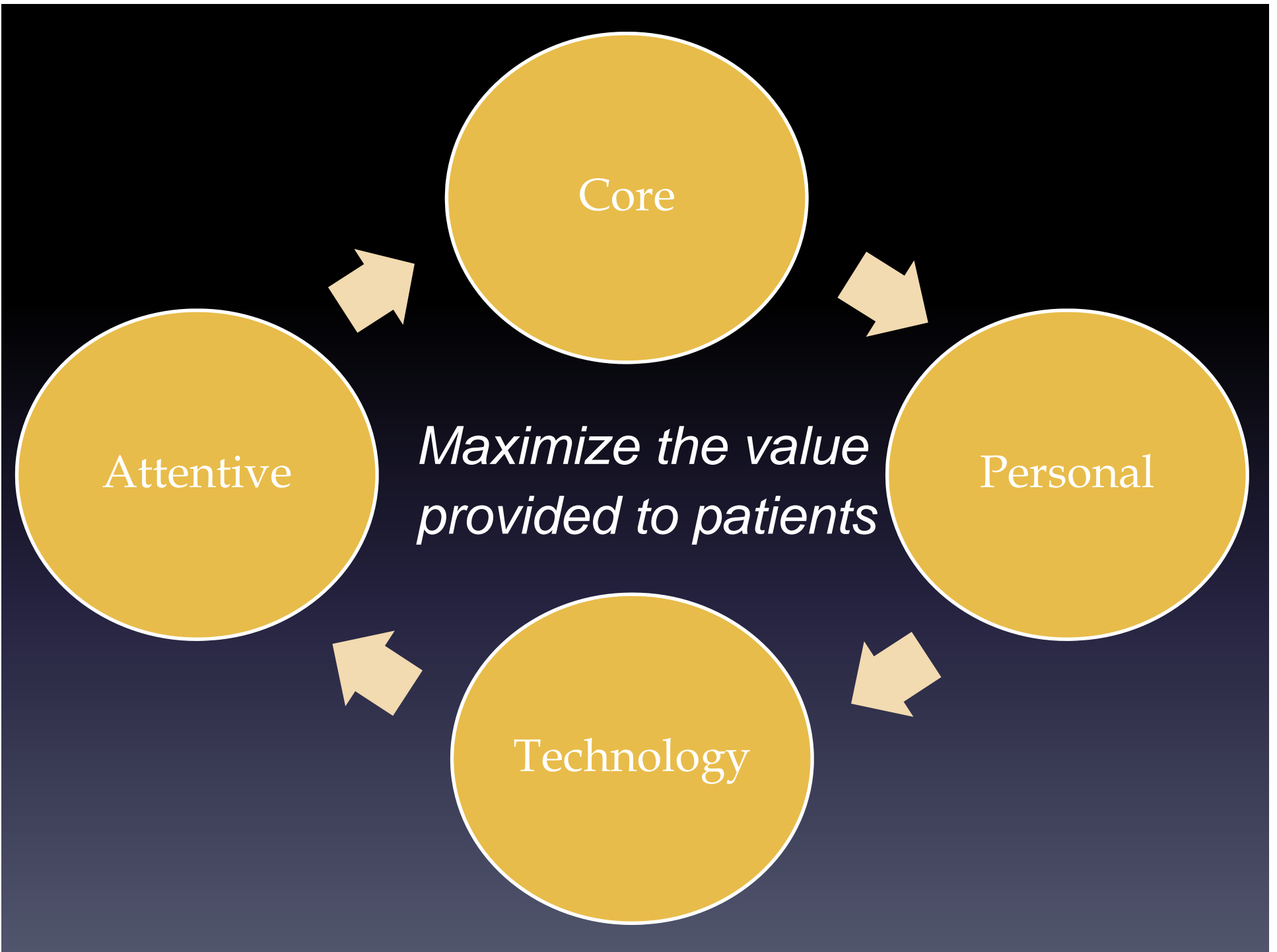
Why Stay Independent?



Autonomy

Long-Term
Relationships

Independence is NOT
Impossible



Core

Attentive

*Maximize the value
provided to patients*

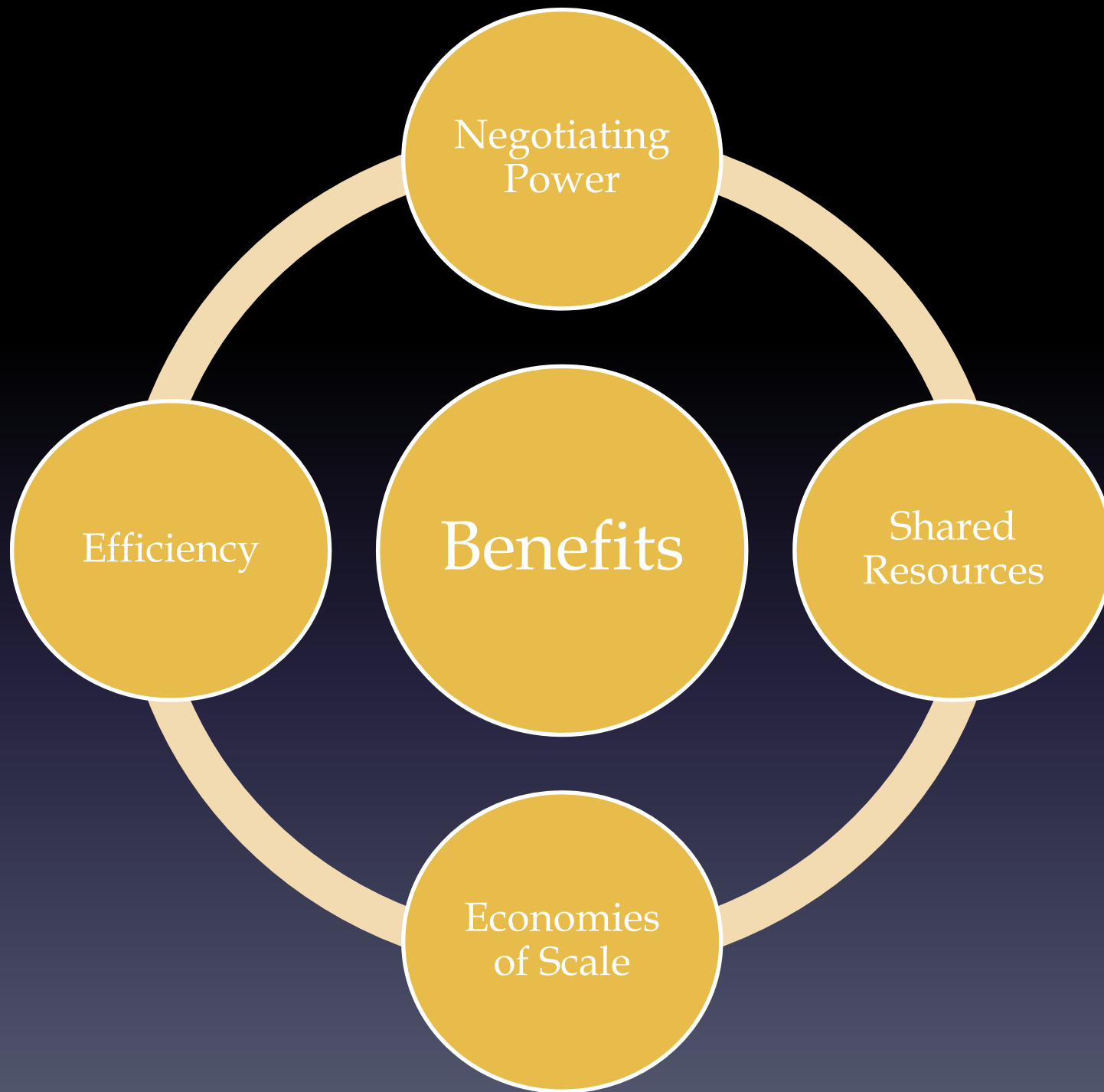
Personal

Technology

Medical Group Formation

“Strength in Numbers”





Negotiating
Power

Efficiency

Benefits

Shared
Resources

Economies
of Scale

Why Form a Medical Group

- Greater patient convenience and competitive advantages
- Enhanced access to managed care contracts
- Greater access to contracts with hospitals
 - Exclusive, hospital based contracts for specialty services
 - Medical-director agreements
 - Joint ventures
- Ability to keep referrals within the group
 - Increase revenue and profitability

Why Form a Medical Group (Cont.)

- Greater ability to afford expensive new medical equipment
- Improved quality of care and physician resources
- Positive impact on operating efficiency through:
 - Ability to spread costs
 - Hire professional managers
 - Diversify revenue sources
- Reduced “on-call” time for each physician
- Perceived “safety in numbers” in an increasingly difficult health care environment

Goals of a Merger

- Aligning providers to better coordinate and manage patient care
- Providing quality care at better cost
- Creating an organization that will enforce compliance with established goals and metrics
- Coordinating development of approved clinical processes
- Developing enhanced recruitment opportunities
- Assisting with physician manpower planning
- Assisting with strategic and succession planning
- Developing new service lines

What you need to do

1

Objective of the Group

- Purpose of the Group (Vision Statement)
- Identify Goals and Objectives
- Achievability of the goals

2

Assemble the Planning Team

- Some or All Physicians
- Practice Management Consultant (CEO)
- Office Manager
- CPA
- Attorney

3

Operational Issues

- Choice of Entity
- Capitalization
- Ownership Interest
- Management and Control
- Compensation
- Withdrawal from the group
- Agreement to form group

4

Group Formation

- Corporate Organizational documents
- Apply for a new group provider number
- Establish books and records
- Office space and equipment expense
- Obtaining new materials and phone numbers
- Securing insurance coverage
- Establishing new bank accounts

Tips of Integration

Make Connections

- Market Research
- Investment
- Independence
- Culture

Build out Management Team

- Hire non-physician CEO
- Create a Board of Directors

Determine Level of Integration

- Physician Leadership
- Performance Monitoring
- Payor Communications
- Compensation

Investigate Integrated Business Models

- Managed Service Organizations (“MSO”)
- Independent Physician Associations (“IPA”)
- Accountable Care Organizations (“ACO”)

Practice Sale Considerations

No Easy Task

Since the sale of a practice is for all intents and purposes irrevocable, physicians are encouraged to think long and hard before signing on the dotted line.

**What you
should know**

What Physicians should know

➤ Motivational Factor

- Quality of life, Job Security, Resources, technology

➤ Form of Purchase

- Asset vs. Stock

➤ Structure

- Various tax implications

➤ Saleable Assets

- Tangible assets, Accounts Receivable, Intangible Assets

➤ Valuation Methodologies

- Asset, Income, & Market Approach

What Physicians should know (Cont.)

- **Employment and Compensation**
 - Guaranteed income (1-5 years), production based
- **Regulatory Compliance**
 - Anti-kickback laws, self-referral legislation, state medical laws, etc.
- **STARK**
 - Prohibits the making of referrals for certain health services covered by Medicare or Medicaid if there is a financial relationship between the referring physician and the entity receiving payments
- **Fair Market Value vs. Commercial Reasonableness**
 - Fair market value requires a willing buyer and willing seller
 - Commercial reasonableness under STARK

Begin Transition Planning 3-5 Years Prior to Sale

- Understanding Market Trends
- Increase Production/Collection
- Management by Statistics
- Track and Monitor Practice Performance
- Key Performance Indicators (“KPIs”)

Understanding Value

... “**fair market value**” is the **price** at which a property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell” ...



Value Determined by 3 Categories of Assets

1. Tangible Assets

2. Accounts Receivable

3. Intangible Assets

("Goodwill")

Factors Impacting Value

- Overhead
- Patients
- Treatment Mix
- Market Conditions
- Market Trends
- Demographics
- Owner Transition
- Competition
- Technology
- Staff
- Management Systems
- Revenue Trend
- Collections Ratio
- Type of Practice
- Fees
- Facility

Beware of Asset Allocation!



Choose Carefully

- Evaluate the Purchaser
- Look for Experience

Avoiding These Common Mistakes

- Selling to an Unknown Buyer
- Focusing more on Term than Termination
- Forgetting to Specify What You Aren't Selling
- Tax Implications
- Being Too Trusting
- Failing to Secure Future Payments
- Restrictive Covenant
- Failing to Guard Against Future Owners



Consult Your Trusted Advisors



Questions?



Thank You

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- [✓] CFO/Controller Services
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- [✓] Accounting systems setup and training
- [✓] Tax planning and preparation
- [✓] Cash Flow analysis
- [✓] Financial Statement preparation and analysis
- [✓] Analyzing Key Performance Indicators (“KPI’s”)

TRANSACTION SERVICES

- [✓] Mergers and Acquisitions
- [✓] Practice Brokerage
- [✓] Valuations and Fairness Opinions
- [✓] Succession planning
- [✓] Tax planning for business acquisitions and dispositions
- [✓] Financial and accounting due diligence

TAX AND BUSINESS PLANNING AND PREPARATION

- [✓] Federal, state, and local income tax strategies
- [✓] Estate, gift, and trust tax return preparation
- [✓] Individual tax planning and preparation
- [✓] Ensuring Multi-state and local tax compliance

RETIREMENT PLANNING SERVICES

- [✓] Estate planning and administration
- [✓] Defined Benefit, Profit Sharing and 401(k) plans
- [✓] Trusted third-party administrator (TPA)

ADVISORY SERVICES

- [✓] Profitability Consulting
- [✓] Internal Control implementation
- [✓] Practice Management
- [✓] Bank and private financing assistance