

The Growth of Specialized Hospitalist Programs — A Valuator's Perspective

An introduction to the growth in hospitalist medicine

By Luis A. Argueso, Director, and Todd J. Mello, Partner, HealthCare Appraisers

Hospitalist programs have seen a significant rise in popularity in the past two decades.

According to Cheryl Clark from HealthLeaders Media, the number of dedicated hospitalists has increased dramatically from "100 in 1996, to 11,000 in 2003, to 44,000 [in 2014]." Well over a majority of hospitals rely on the services of hospitalists; according to Ms. Clark, "The percentage of hospitals using hospitalists has risen from 29 percent in 2003 to 50 percent in 2007 to 72 percent in 2014."

This rise can be attributable to the following factors:

- The proportion of uninsured and Medicaid patients at hospitals nationwide. These financial classes typically yield reimbursement levels that are insufficient to cover the cost of patient time;
- Decreasing willingness by physicians, including primary care providers, to provide call coverage of hospital emergency rooms and inpatient units;
- An unwillingness among office-based primary care physicians to interrupt services at their private practices to round on hospital inpatients; and
- Improved patient outcomes/satisfaction and reduced hospital length-of-stay associated with dedicated hospitalist programs.

A material proportion of hospitalist practices desire to maintain independence from hospital employment, resulting in professional services arrangements between hospitals and hospitalist practices. Due to the nature of hospitalist medicine, these independent contractor groups are increasingly finding the need to obtain financial support from the hospitals in order to cover the costs.

According to the Society for Hospitalist Medicine's "2014 State of Hospital Medi-

cine Report," based on 2013 data, 94 percent of adult hospitalist practices and 87 percent of pediatric hospitalist practices reported financial shortfalls. The need of independent hospitalist groups for financial support from hospitals will remain a consistent feature of the healthcare marketplace for the following reasons:

- Compensation of hospitalists has increased substantially in the past seven years. For example, according to the "2014 Hospital Compensation Report" published by *Today's Hospitalist*, "Over the seven years that *Today's Hospitalist* has been surveying readers, full-time adult hospitalists have seen their earnings jump 26 percent, more than double the rate of inflation over [the] period [from 2008 to 2014]."
- Reimbursement for primary care services in a hospital setting has been fairly stagnant over those seven years. For example, from 2008 to 2014, national average Medicare reimbursement for current procedural terminology (CPT) code 99233 (a level three subsequent care visit in a hospital setting) increased from \$90.65 to \$104.24, for an increase of 15 percent. This rate of increase is well below the growth rate in hospitalist compensation cited above.
- As mentioned earlier, the patient payer mix at hospitals has become less favorable in terms of patient reimbursement over time.

In summary, the rise of hospitalist medicine has been accompanied by increasing prevalence of the compensation of independent hospitalist groups by hospitals. In order to ensure compliance with Stark Law and the Anti-Kickback Statute, hospitals must ensure that their financial support payments are consistent with fair market value.

The appearance of specialized-hospitalist programs

Hospitals have discovered that the success of hospitalists in managing the primary care needs of the general inpatient population can be expanded to the specialized care of select patient subpopulations. In the past 2 years, HealthCare Appraisers has observed a notable increase in hospitalist programs focused specifically on non-primary care disciplines including but not limited to the following:

- Gastroenterology (GI hospitalists)
- General Surgery (surgicalists)
- Neurology (neurohospitalist)
- Obstetrical care (laborists)
- Orthopedic Surgery (orthopedic hospitalists)

As mentioned in the introduction, many specialized physicians are unwilling to provide call coverage to hospital patients due to the burden of 24/7 availability and interruptions to private-practice services. Accordingly, hospitals have sought to employ or enter into PSAs with board-certified specialists to secure dedicated hospital coverage of the aforementioned specialties.

The advantages of dedicated specialist hospital coverage include the following:

- Guaranteed full-time specialty coverage, not subject to the inefficiencies associated with securing coverage from private-practice physicians.
- Procedures performed in a hospital setting can differ substantially from the outpatient procedures more typically performed by private-practice specialists (e.g., endoscopic retrograde cholangiopancreatography, or ERCP, in a hospital versus a more standard endoscopy in an outpatient setting). As a result, operating room

time and patient outcomes can be improved when care is provided by a specialist that is highly experienced in practicing in a hospital setting.

- Reduced risks associated with patient hand-offs in the event a private practice physician is performing an elective outpatient procedure and is required to present to a hospital in the event of an emergency.

As with general hospitalist practices, specialized hospital physicians can run into situations where financial support is required in order to cover the costs of delivering professional services. Unlike general hospitalist practices, however, specialist hospitalist services require additional scrutiny on the part of hospitals, as oftentimes the practices rendering the services also maintain private practices, which may take elective cases to the hospital providing financial support.

Considerations in the valuation of specialized hospitalist support payments

Given the potential for referrals between independent practices receiving financial support and hospitals subsidizing such practices for specialist hospitalist services, extra care is warranted in ensuring that such payments are both commercially reasonable and consistent with fair market value.

With regard to commercial reasonableness, HealthCare Appraisers (HAI) cautions that while there are potential benefits from the implementation of a specialized hospitalist practice, the following considerations must be made to determine if such a model “makes business sense:”

Does the program generate sufficient volume to merit the full-time availability of specialized hospitalists? As with general hospitalist practices, the average daily census of patients requiring care is

the key driver of physician workload, as they require regular rounding and ongoing monitoring. Unlike general hospitalist practices, however, specialized hospitalists may also be required to perform procedures on emergent and unassigned patients. Therefore, both census and procedure volume must be sufficient to merit full-time specialist coverage at a hospital to ensure commercial reasonableness.

Might other forms of financial support provide an effective way to secure specialized inpatient coverage? For example, it is common for hospitals to provide *per diem* (i.e., daily) payments to specialists for coverage of the emergency department. Additionally, HAI has observed arrangements where hospitals cover the cost of a practice to secure malpractice insurance in the event that such expenses make hospital coverage financially unviable.

In the event that a specialized hospitalist program generates sufficient volume to merit full-time staffing, is financial support needed at all? Some facilities and associated practices face favorable payer environments, resulting in sufficient reimbursement to cover professional service costs.

With regard to fair market value, the key consideration driving the determination of value is an accurate matching of the financial support to the scope of services provided. While HAI is aware of surveys that report levels of financial support provided to hospitalist practices, such data is insufficiently granular to match the payment amounts to the services delivered. For example, a specialized hospitalist program required to maintain continuous in-house presence is likely to incur greater costs than a practice that is only required to furnish continuous on-call availability.

As such, HAI has observed the following potential pitfalls in the valuation of specialized hospitalist arrangements:

The costs of maintaining a private practice should not be subsidized by a hospital. Like general hospitalists, specialized hospitalists will practice in a hospital setting; thus, their level of operating expenses is materially lower than that of a private practice with the same specialization, since the hospital will be providing the benefits of space, personnel and select equipment.

Facilities must exercise caution when basing their financial support on staffing representations made by the specialists. If a dedicated specialized hospitalist also provides private practice services to patients outside of the hospital setting, the burden of such time may not be subsidized by the hospital.

Specialist hospitalist PSAs must clearly establish a level of priority over a physician that can practice outside of the hospital. It is common for specialists, such as general and orthopedic surgeons, to see patients in an outpatient setting outside of the hospital. If the intent of the hospital is to require immediate presentation to its campus in the event of an emergency, the subject physicians are obligated to respond accordingly. Should they prioritize their private practice work, any support payment must be adjusted downward to reflect the reduced burden on the physicians.

As illustrated above, specialist hospitalist support arrangements introduce an additional layer of complexity with regard to determining fair market value. In the event a facility has had little experience in contracting with specialist physicians for hospitalist coverage, it should strongly consider engaging an independent expert to ensure that the proposed financial support is both commercially reasonable and consistent with fair market value. ■



HealthCare Appraisers, a nationally recognized valuation and consulting firm, provides services exclusively to the healthcare industry, including: business valuation (e.g., ASCs, hospitals, physician practices, dialysis centers, home health, diagnostic/treatment facilities, and intangible assets); fixed asset appraisals for furnishings, machinery and equipment; fair market value opinions for compensation and service agreements (e.g., employment, ED call coverage, medical directorships, collection guarantees, equipment lease/use arrangements, and service/co-management arrangements); consulting and advisory services (including valuation for financial reporting); and litigation support.