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ACI's Neuroscience Centers of Excellence
Physician-Hospital Alignment Opportunities

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FOCUSED HEALTHCARE STRATEGY

Presentation Agenda

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- How alignment models can help sustain Centers of Excellence
- Alignment options: from joint ventures to co-management
- Discuss case studies
- Key considerations, success factors, common barriers

DISCLAIMER

The regulatory hurdles discussed in this presentation have numerous nuances that must be fully understood to adequately apply the laws to a particular situation. Advice of an experienced health care attorney is recommended.

Regulatory Hurdles

- ✿ Laws governing physician/hospital relationships for providers participating in Federal programs (Medicare, Medicaid, etc.)
 - ✦ Stark Law
 - ✦ Anti-kickback Statute
 - ✦ Provider-based Billing Rules
 - ✦ IRS Rules and Regulations
 - ✦ Tax-exempt Bond Financing Rules
 - ✦ Antitrust
 - ✦ State Laws



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Use of Alignment Models to Sustain
Centers of Excellence

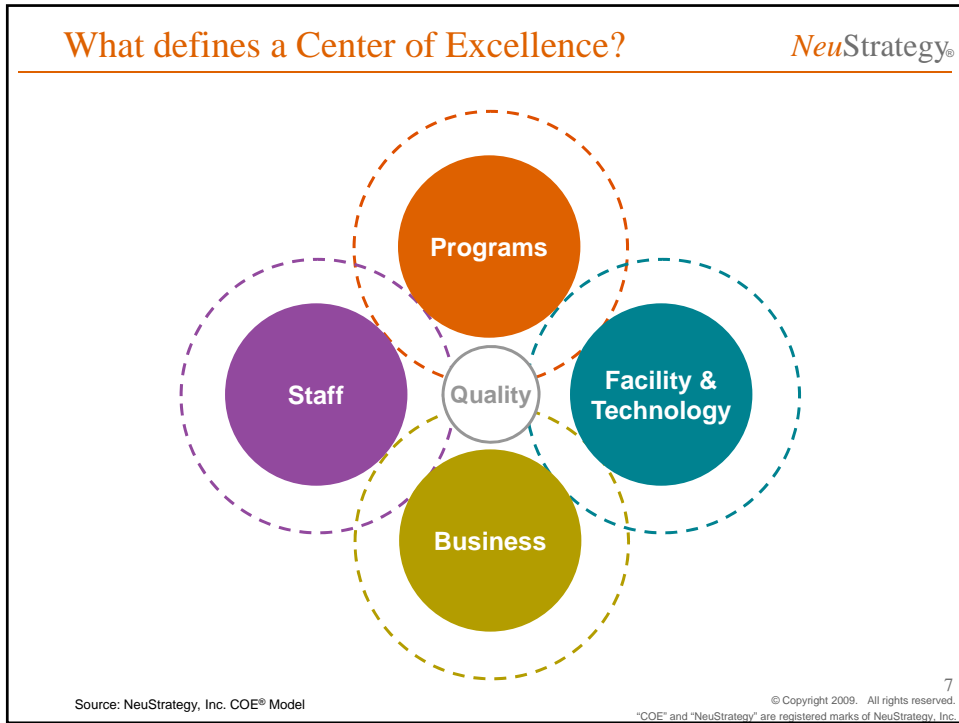
FOCUSED HEALTHCARE STRATEGY

COE® Program Staging Plan NeuStrategy®

STAGE 1	STAGE 2	STAGE 3	STAGE 4
1 - 25%	26 - 50%	51 - 75%	76 - 100%
Clinical Service <ul style="list-style-type: none"> • Service divided between surgical & medical services • Traditional surgical cases • Basic technology • Base level med/surg support skills 	Service Line <ul style="list-style-type: none"> • Service line recognition • Advanced surgical cases • Latest traditional technologies • Service line med/surg support skills 	Specialty Center <ul style="list-style-type: none"> • Dedicated administrator & governance • Dedicated patient units & ORs • Targeted subspecialty surgical and medical skills • State-of-the-art technology • Dedicated OR, nursing and rehab support • Clinical research 	Institute <ul style="list-style-type: none"> • Integrated specialty facilities (imaging, ORs, ICU, etc.) • Multidisciplinary approach to care • Expansive subspecialty surgical & medical skills • Integrated basic and translational research

Source: NeuStrategy, Inc. COE® Model 6

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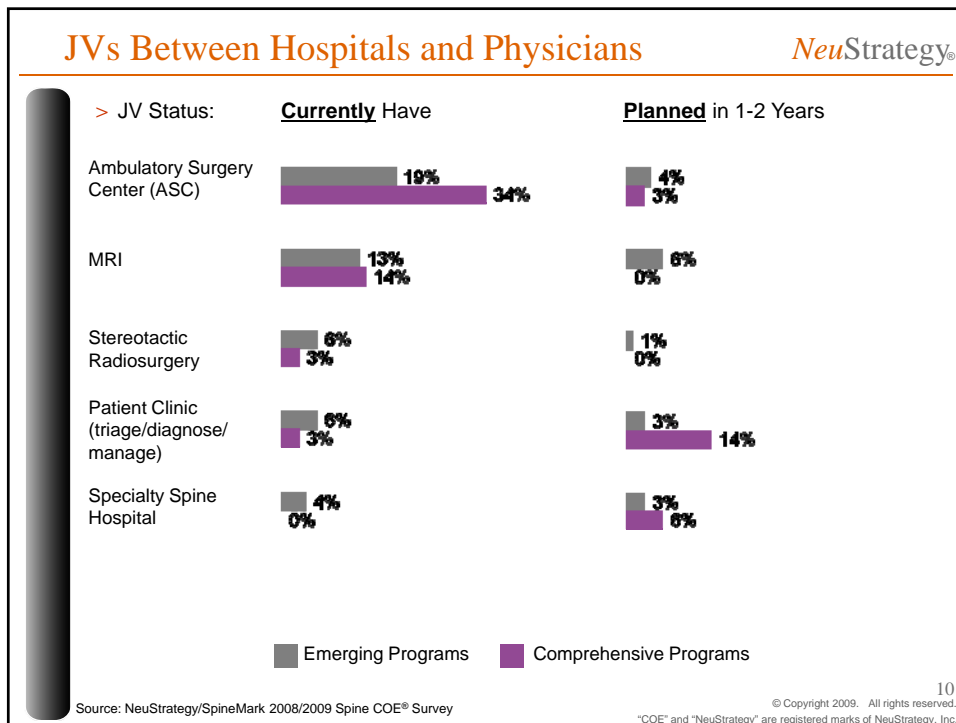
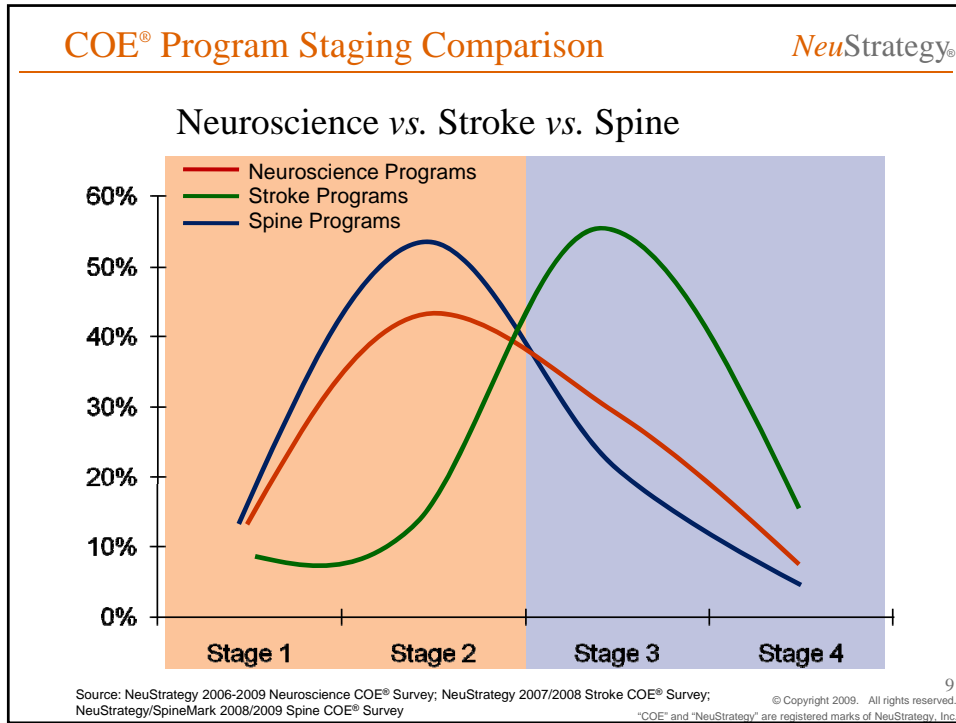


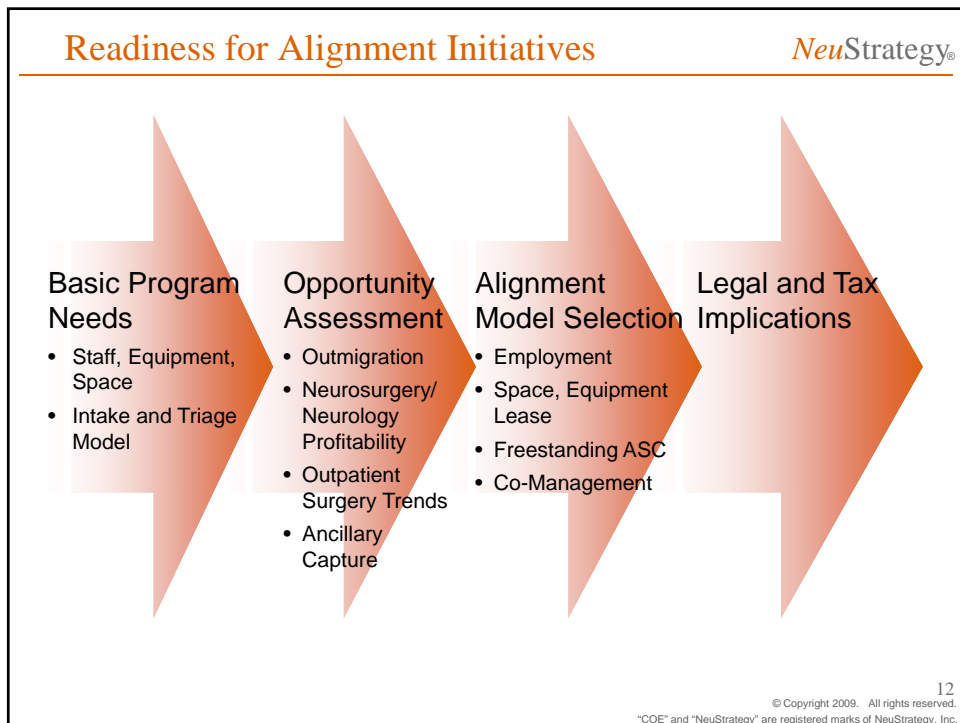
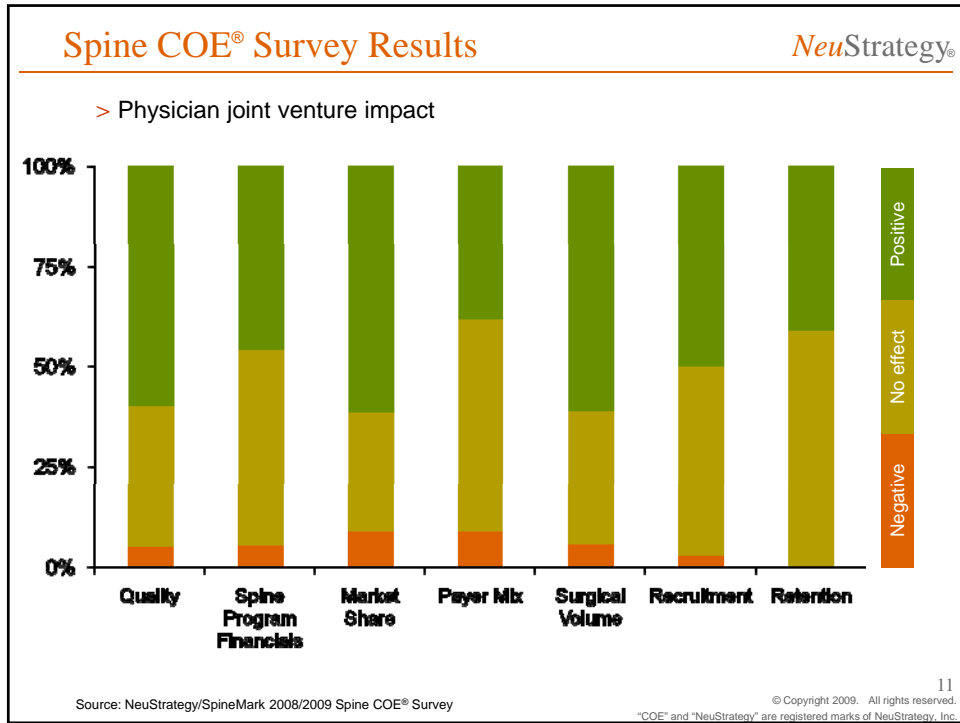
COE® Survey Performance Report

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Category	Average Survey Score	Average Stage 1 Score	Average Stage 2 Score	Average Stage 3 Score	Average Stage 4 Score
Programs	41%	18%	37%	57%	75%
Clinical	51%	24%	47%	71%	87%
Research	11%	0%	9%	17%	40%
Staff	34%	13%	29%	50%	71%
Medical Staff	30%	12%	26%	43%	59%
Administrative and Allied Health	37%	14%	31%	56%	81%
Facility & Technology	47%	14%	46%	65%	84%
Facility	41%	12%	38%	54%	88%
Technology	51%	15%	50%	71%	82%
Business	40%	11%	35%	60%	82%
Leadership & Governance	48%	11%	43%	73%	90%
Marketing & Outreach	30%	2%	23%	49%	89%
Financial Support	39%	19%	36%	53%	63%
Current Score	41%	14%	37%	58%	78%

Source: NeuStrategy/SpineMark 2008/2009 Spine COE® Survey © Copyright 2009. All rights reserved. 8
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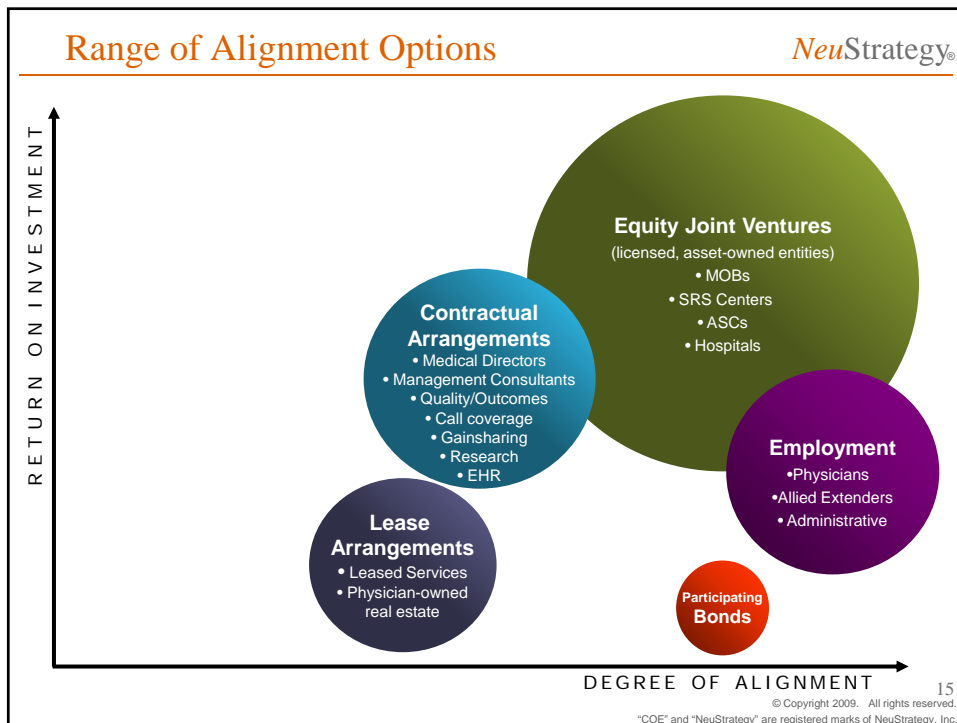


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Alignment Options

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Alignment Models		NeuStrategy®
Lease Arrangements	Regulatory Hurdles	Exception/ Safe Harbor
Space and Equipment		
Per Click Lease	Not available after 10/1/09	
Percentage-based Lease	Not available after 10/1/09 (if Stark-covered referrals between the parties exist)	
Time-based Block Lease On-demand (<i>short periods</i>)	Not available after 10/1/09	
Time-based Block Lease (<i>Not at same address</i>)	Not available after 10/1/09	
Time-based Block Lease (<i>Same address</i>)	Physician may use if patients seen in same location as "leased services"; locked into rigid time-based block schedule; must be FMV and commercially reasonable	In-Office Ancillary Exception
Exclusive Use Lease	May be used to provide dedicated access to space or equipment; limited to "necessary" space, equipment; must be FMV and commercially reasonable	Space and Equipment Exception
Joint Venture Lease	Hospital may use if other capital sources not available for equipment/space/staff; lease is exclusive use; must be FMV and commercially reasonable	Space and Equipment Exception/Contractual JV Safe Harbor

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Alignment Models		NeuStrategy®
Equity Joint Ventures	Regulatory Hurdles	Exception/ Safe Harbor
Facilities and Services		
Cath Lab	Permissible; should follow JV guidelines: no referral requirement, no differential treatment by payer, no loan to invest, dividends tied to ownership %	<i>Cardiac cath not considered a DHS</i>
Dialysis Center	Permissible; should follow JV guidelines: no referral requirement, no differential treatment by payer, no loan to invest, dividends tied to ownership %	<i>Dialysis not considered a DHS</i>
Radiation Therapy Center	Permissible for Radiation Oncologists only	<i>Rad Onc's not considered referral sources</i>
Imaging Center (Hospital-Radiologist JV)	Independent Diagnostic Testing Facility (IDTF) JV; permissible for Radiologists only	<i>Radiologists not considered referral sources</i>
Hospital OP Surgery Center	Difficult to meet Stark exceptions since physician performing the service is now considered to be a provider of DHS and cannot self-refer. <i>Previously, only the entity billing (hospital) was considered to be providing DHS.</i>	
Freestanding Ambulatory Surgery Center (ASC)	Freestanding ASCs are not considered DHS and are still permissible; must meet 1/3 rules; must address control/charity care for tax-exempt status; ancillary procedures must be related to procedure and not separately billed; related contracts must meet safe harbors and exceptions	Physician-Hospital ASC Safe Harbor

NOTE: **Bolded** items represent current potential neuroscience alignment opportunities.

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Alignment Models		NeuStrategy®
Equity Joint Ventures (cont.)	Regulatory Hurdles	Exception/ Safe Harbor
Facilities and Services		
Specialty or Whole Hospital	Specialty hospital still permissible (heart, ortho, neuro)	Whole Hospital Exception, Safe Harbor is underserved area or 60/40 rule met
Participating Bonds	Regulatory Hurdles	Exception/ Safe Harbor
Bonds		
Tax-exempt Participating Bonds	IRS Rules and Regulations New facility must participate in Federal programs and offer charity care	Tax-exempt Bond Financing Rules

NOTE: **Bolded** items represent current potential neuroscience alignment opportunities.

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Alignment Models		NeuStrategy®
Contractual Arrangements	Regulatory Hurdles	Exception/ Safe Harbor
Clinical Co-Management Center of Excellence or Service Line		
Consulting Services for Program Development and Ongoing Performance Improvement Medical Direction Quality Improvement	Must be paid in FMV range for specialty of physician; hourly payment with maximum number in contract; incentive-based compensation tied to achieving quality indicators/thresholds; hours tracked	Personal Services Exception
Call Coverage	Must be equivalent to FMV for specialty of physician	Personal Services Exception
Physician Recruitment	Practice assistance – incremental expense	Recruitment Exception
Professional services for hospital clinic	Must be paid in FMV range for specialty of physician	Personal Services Exception
Gainsharing	Generally min. 1 yr term; max. 3 yrs; limited to physicians already on staff; payments must be distributed equally and are capped; requires referral tracking and quality monitoring	No specific Exception or Safe Harbor Favorable OIG Opinions
Electronic Health Records	Limited to software and services with core EHR function; software is interoperable; may not replace existing capability; min. 15% of cost shared by physician	EHR Exception EHR Safe Harbor

NOTE: **Bolded** items represent current potential neuroscience alignment opportunities.

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Alignment Models		NeuStrategy®
Employment	Regulatory Hurdles	Exception/ Safe Harbor
Employment		
Hospital Direct, Full-time Employment	Services are identifiable and commercially Reasonable; Compensation is FMV and determined objectively; Productivity bonuses allowed if based on services personally performed; Employer can require referrals to specific providers if certain conditions are met	<i>Bona fide Employment Arrangements</i>
Hospital Contracted, Part-time Employment		
Hospital Employment as Bridge to Private Practice		

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Sustainability	NeuStrategy®
<p>✿ Pending CMS Issues and Impact to Partnership Models</p> <ul style="list-style-type: none"> ✦ <i>Some good news...</i> <ul style="list-style-type: none"> ▪ New exception for Incentive Payment Gainsharing Programs (+) <ul style="list-style-type: none"> – Proposed: Stark exception for “savings-based” and “quality-based” gainsharing programs ✦ <i>But mostly not so good...</i> <ul style="list-style-type: none"> ▪ In-office Ancillary Exception (-) <ul style="list-style-type: none"> – CMS Comments Solicited: Narrowing the definition of services that would qualify for this exception ▪ Physician-owned implant and device companies (-) <ul style="list-style-type: none"> – CMS Comments Solicited: Whether Stark regulations should be amended to address physician-owned implant and other medical device companies ▪ Exclusive Use Leases (-) <ul style="list-style-type: none"> – CMS Radar: Small blocks of time leased of particular concern; may see new rule-making 	

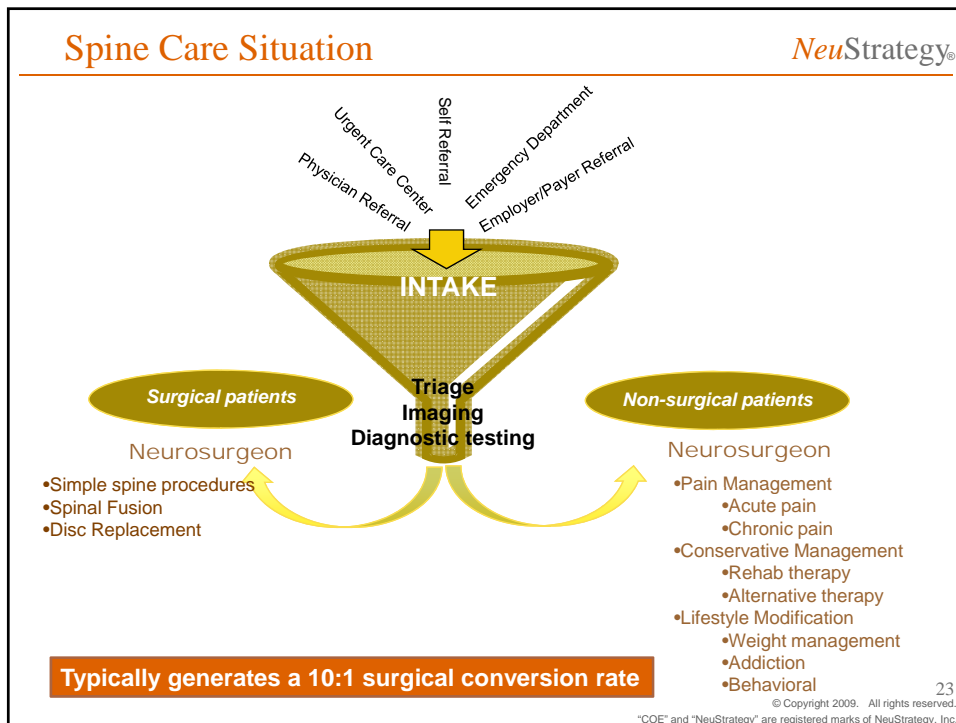
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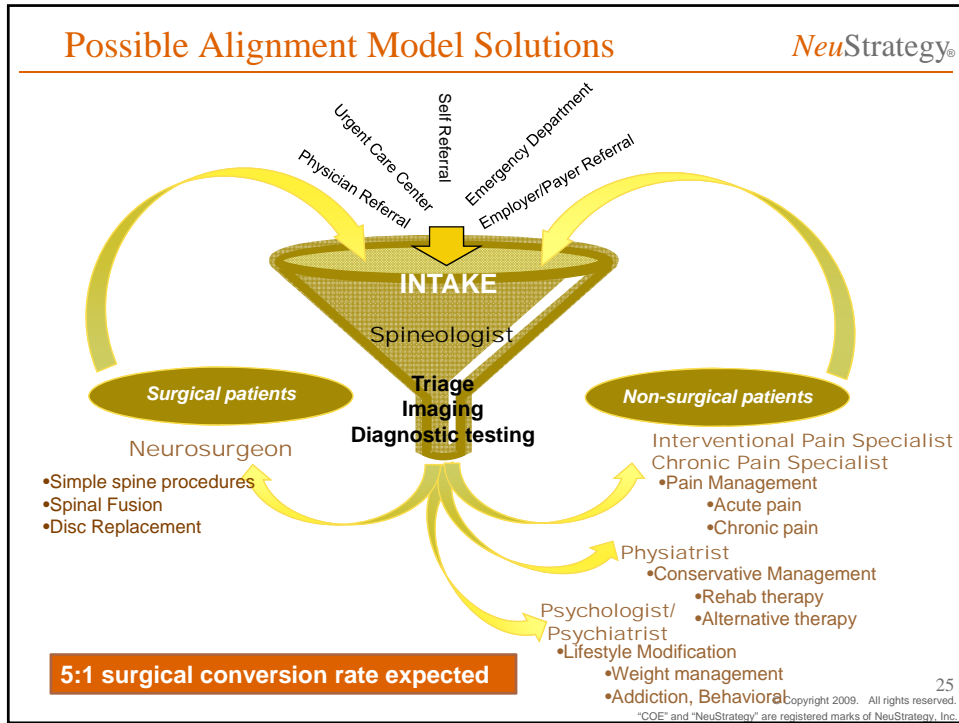
Assessing Your Options NeuStrategy®

Alignment Model Options and Findings	Strategic Value	Physician Investment	Economic Risk/Reward	Sustainability	Implementation Complexity	Ease of Measurement
Time-based Block Lease (Same address)	Yellow	Green	Yellow	Yellow	Yellow	Green
Freestanding Ambulatory Surgery Center (ASC)	Green	Red	Red	Green	Red	Green
Specialty Hospital	Green	Red	Red	Green	Red	Green
Participating Bonds	Yellow	Yellow	Green	Yellow	Red	Yellow
Equipment (and Space) Lease • CyberKnife®, Novalis Tx, etc.	Green	Red	Yellow	Yellow	Yellow	Green
Co-management Agreement	Green	Green	Yellow	Yellow	Yellow	Green
Employment	Green	Green	Yellow	Yellow	Green	Green

■ Negative ■ Neutral ■ Positive

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- ### Opportunity: Employment NeuStrategy®
- | | |
|--|--|
| <p>◆ Employment</p> <ul style="list-style-type: none"> ◆ Full-time as bridge to private practice or to fill demand for “subsidized” specialists ◆ Part-time to meet hospital coverage needs | <p>◆ Assessment</p> <ul style="list-style-type: none"> ◆ Strategic and Competitive Value <ul style="list-style-type: none"> ▪ Recruitment edge ▪ Program need fulfillment ◆ Economic Risk and Reward <ul style="list-style-type: none"> ▪ Income guarantee for physician ▪ Practice ramp, payer mix and practice overhead exposure minimized ◆ Sustainability <ul style="list-style-type: none"> ▪ Physician income stability ◆ Political Implications <ul style="list-style-type: none"> ▪ Bridge to demonstrated “community need” ▪ Perceived threat to private practices ◆ Operational Considerations <ul style="list-style-type: none"> ▪ Compensation models ▪ Billing considerations with part-time employment ◆ Prospective Performance Metrics <ul style="list-style-type: none"> ▪ Employed physician productivity ▪ Program growth |
|--|--|
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Opportunity: Co-management Agreement NeuStrategy®

Co-management

- ◆ Separate agreements with individual physicians tied to mission-sensitive services and/or initiatives

Assessment

- ◆ Strategic and Competitive Value
 - Physician recruitment edge
 - Physician stability
 - Quality and operations improvement
- ◆ Economic Risk and Reward
 - Income support for physicians
 - No capital investment required
- ◆ Sustainability
 - Ability to grow market share
 - Ability to sustain adequate physician income support
- ◆ Political Implications
 - Perception of equitable structure
 - Need to duplicate for other service areas
- ◆ Operational Considerations
 - Less complex than equity JVs
 - Higher level of joint accountability
- ◆ Prospective Performance Metrics
 - Improvements in quality, operations
 - Market share growth

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Example: Co-management Model Value NeuStrategy®

Type of Case	Est. Volume	Estimated Rev/Case	Estimated Revenue	Estimated Value @ 2.5% of Net Revenue
Estimated 2009:				
Surgery	800	\$12,813	\$ 10,250,000	\$256,250
Medical	800	\$6,000	4,800,000	120,000
Total	1,600	\$9,406	\$15,050,000	\$376,250
Hypothetical 2013:				
Surgery	1,400	\$13,071	\$18,300,000	\$457,500
Medical	1,000	\$6,000	6,000,000	150,000
Total	2,000	\$10,125	\$24,300,000	\$607,500

Possible Upside for hospital = \$9,250,000

Possible Commitment

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Example: Co-management Components

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- **Co-management Components** (negotiated across various service offerings based on FMV for each service)
 - ◆ Management Services
 - ◆ Medical Direction
 - ◆ Physician/Administrative Management Consultants
 - ◆ Quality improvement
 - ◆ Call coverage
 - ◆ Physician recruitment
 - ◆ Professional services in a hospital clinic
 - ◆ Gainsharing
 - ◆ Electronic health records

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Key Considerations, Success Factors, Barriers

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- **Know the opportunity**
 - ◆ Market demand
 - ◆ Competitor trends
 - ◆ Reimbursement trends
 - ◆ Ability to differentiate and sustain Centers of Excellence
- **Understand the long-term commitment to partnering**
 - ◆ Stability of the players is essential (executive team AND physicians)
 - ◆ Contingency plans
- **Appreciate the regulatory and financial complexity**

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Conclusion

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- Increasing complexity and regulatory limitations will continue to reshape hospital-physician alignment models
- Rapid rise in co-management model interest reflects current barriers
 - ◆ Shifting regulatory environment
 - ◆ Limited access to capital
 - ◆ Looming national healthcare trends

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