



2007 NORTHWEST PHYSICIANS'
BEST PRACTICES SURVEY
EXECUTIVE SUMMARY

COMMISSIONED BY:

ALDRICH, KILBRIDE & TATONE, LLC

SCHWABE, WILLIAMSON & WYATT, PC

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Survey Project

While there is an abundance of data available to physician leaders and clinic executives, it is not always available with sufficient geographic specificity nor is there always sufficient information for some of the vexing questions that confront medical groups. Information specific to the Pacific Northwest is difficult to obtain. In addition, information to aid leaders in making decisions as to part time physician policies, covenants not to compete and hospital joint ventures is not easily found.

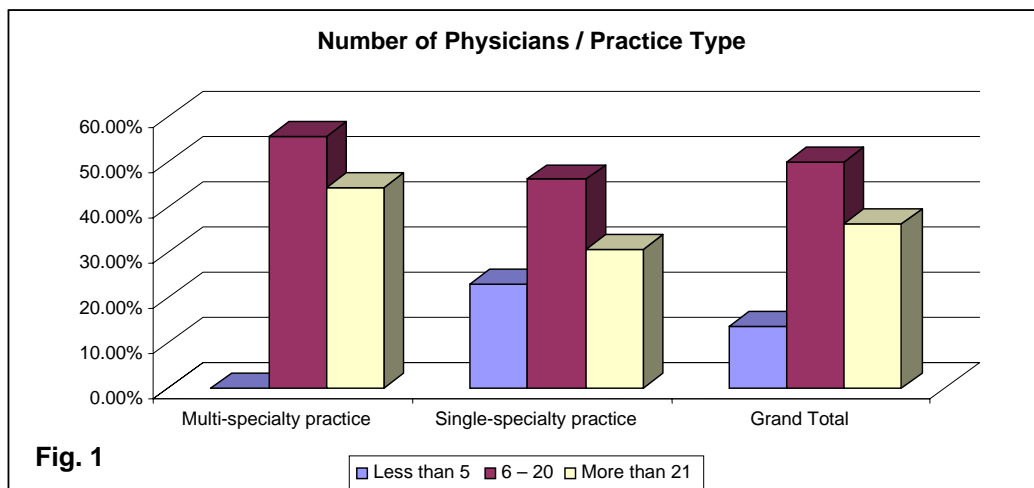
To provide some of this benchmark data, a survey was conducted of physician practices in Oregon, Washington, and Idaho throughout the month of November 2006. Invitations were mailed to administrators, CEOs, and other principals of the practice. All responses were stored securely using a third-party research partner and no identifying information was shared with either AKT or Schwabe.

The survey covered three areas of practice management: Operations, Hospital Relations, and Ownership. The questionnaire consisted of a maximum 32 questions, depending on a respondent's answers.

We hope that this survey will provide some perspective to these and other issues facing medical clinics. If you have questions, comments, or suggestion topics you would like to see addressed in the next survey, please do not hesitate to let us know.

Operations

Just under 60% of the survey respondents were single-specialty practices. The majority of respondents report between 6 and 20 physicians. Not surprisingly, there were no multi-specialty practices with 5 or fewer physicians that responded.



On average, 86% of practices have only full-time physicians and only 12% reported that they have half-time physicians. All physicians are compensated at least in part on productivity measures. For three-quarters of the respondents, more than 50% of the physician's

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compensation is based on productivity. The formulas used for calculating productivity vary from practice to practice but generally include some measure of revenue (billing, collections, or standard units) minus a measure of expenses (actual costs, prorated costs, etc.).

The majority of practices report being open 5 days a week but nearly one-third are open 7 days a week. Not quite 40% provide after-hours support, with only one-quarter of midsize practices providing after-hours support. After-hours support is defined widely by different practices, the most common remaining open until 8:00 p.m. on weekdays and shortened hours on weekends and holidays.

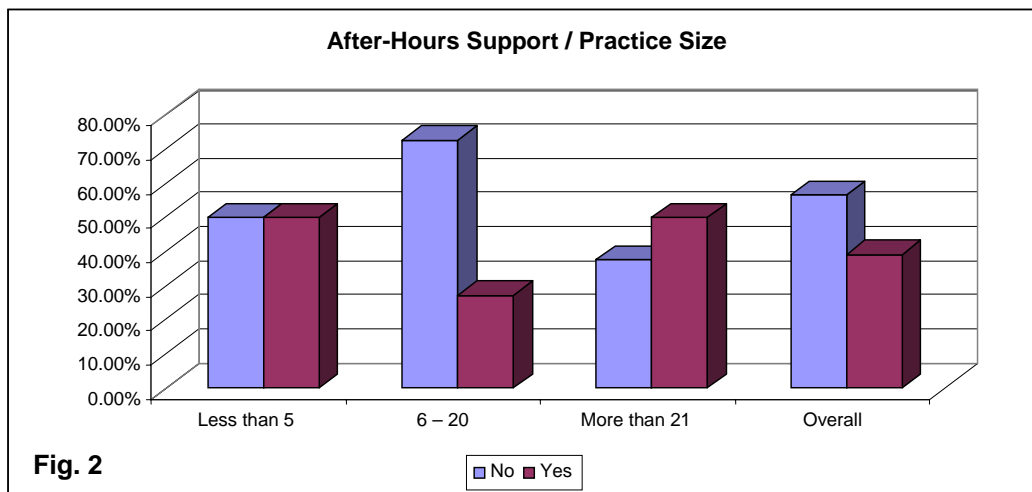


Fig. 2

Very few of the practices report providing email consultations with clients. Those practices that do provide email consultations say they are not reimbursed by payers for such consultations.

Seventy percent of respondent practices say that they perform their own billing in-house. One hundred percent of small clinics make this assertion but only half of large clinics (more than 21 doctors) say they bill internally. The number of FTEs dedicated to internal billing correlates with the practice size.

Just over 80% of all respondents and *all* multi-specialty practices provide ancillary services to their patients, including laboratory, imaging, echocardiogram, and optical diagnostic services.

Ideas to Consider

- *If you do not have family leave or part-time policies, consider implementing them before you need them. For further information, refer to the January 1/8, 2007, American Medical News which has a useful article entitled "Baby bias: Setting policies that are fair for workers." The article describes the creation of family-friendly program fair to both parents and non-parents.*
- *Clinics that implement and carefully follow some form of productivity-based compensation system tend to enjoy stronger financial results and more satisfied physicians. If you don't have a productivity-based compensation system, consider*

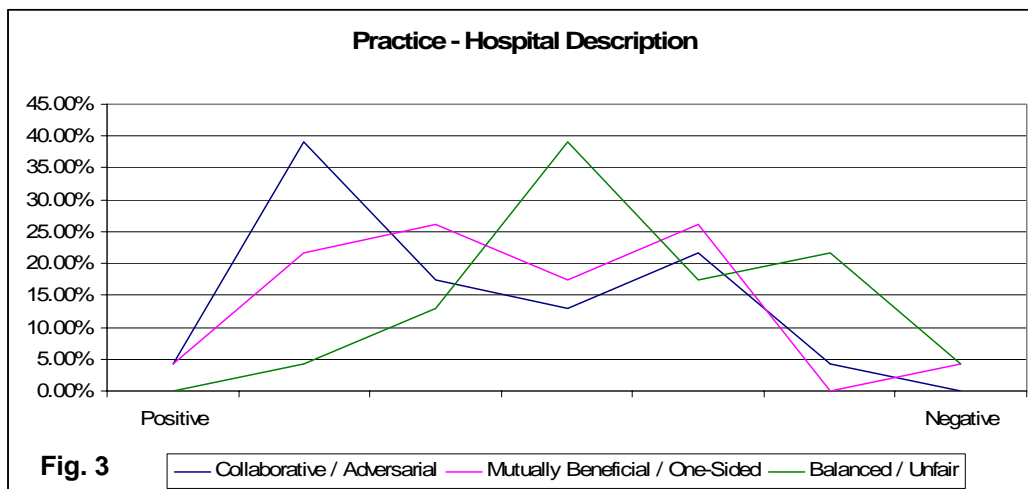
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implementing one. If you do have a productivity-based compensation system and your financial results aren't where you'd like to see them, take a hard look at your existing system to make certain that it is driving the results you want to see.

- *Critically review your classification of employees as exempt from overtime requirements, and be wary of arrangements spanning more than a workweek in which shorter hours are offset against overtime.*
- *It is more important than ever to implement, enforce and audit your billing compliance plan. CMS has added sophisticated tools to analyze and mine your billing data and can now select physicians and clinics for auditing simply because bills fall outside the bell curve. CMS and the OIG hold both the physician and the clinic ultimately responsible for every bill submitted - regardless of whether you use a billing service.*
- *If you do utilize an outside billing provider, make sure that you fully understand the cost of the service, including whether you are paying extra fees and additional charges for services outside the scope of the original arrangement.*
- *Offering ancillary services (for example, imaging) can generate revenue, but should only be undertaken after regulatory compliance has been carefully evaluated.*

Hospital Relations

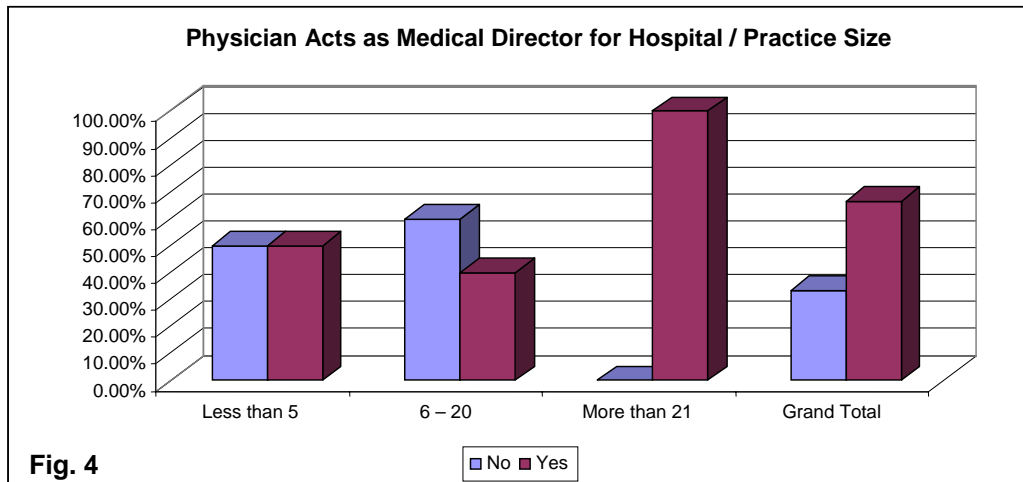
The majority of respondents describe their relations with their primary hospital in positive terms: *Collaborative* compared to *Adversarial*; *Mutually Beneficial* instead of *One-Sided*; and *Balanced* as opposed to *Unfair*. Despite these collegial relations, very few practices report to having entered into joint ventures with their primary hospital partner.



Two-thirds of respondents say that they have physicians who also act as medical director for a hospital or other healthcare facility. Larger clinics universally report that they have physicians who perform these services. Clinics with fewer than 5 physicians report that the compensation for a medical directorship is paid directly to the physician. For larger practices, however,

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approximately three-fourths state that the compensation is contributed to the practice's overall revenue, whether or not the physician receives production credit.



About 60% of clinics provide insurance for the physician's medical directorship. This result is reasonably consistent across practice size.

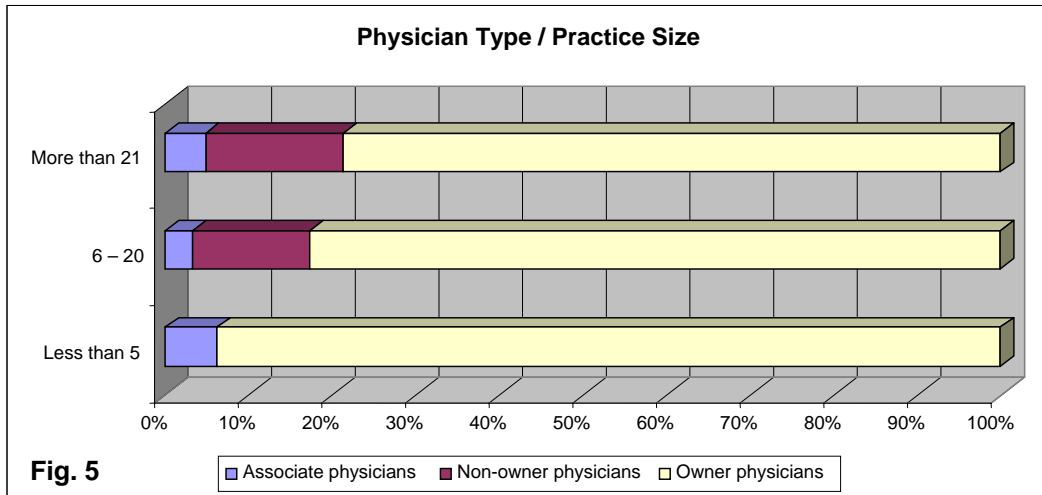
Ideas to Consider

- *A common theme of successful practices is the existence of an open and direct relationship with the hospital or system administration. Don't leave this to chance. Make certain that your clinic administrator and physician leadership are fully engaged in developing and maintaining these relationships with your affiliated hospital.*
- *Hospitals' tax-exempt status is under increasing federal scrutiny. Don't be offended by documentation requirements for medical director services or additional provisions required in joint venture arrangements; there is a reason for them.*
- *It is wise to confirm that either your insurance policy or the hospital's insurance policy provides coverage for claims that might arise from the performance of medical director duties in the hospital.*

Ownership and Employment

In more than 90% of practices with fewer than 5 physicians, all of the physicians are owners. In just over 70% of clinics with more than 21 physicians, all of the physicians are owners. The average time required to become eligible for ownership is 24 months. Once a physician is eligible, most practices make ownership immediate upon approval by existing owners.

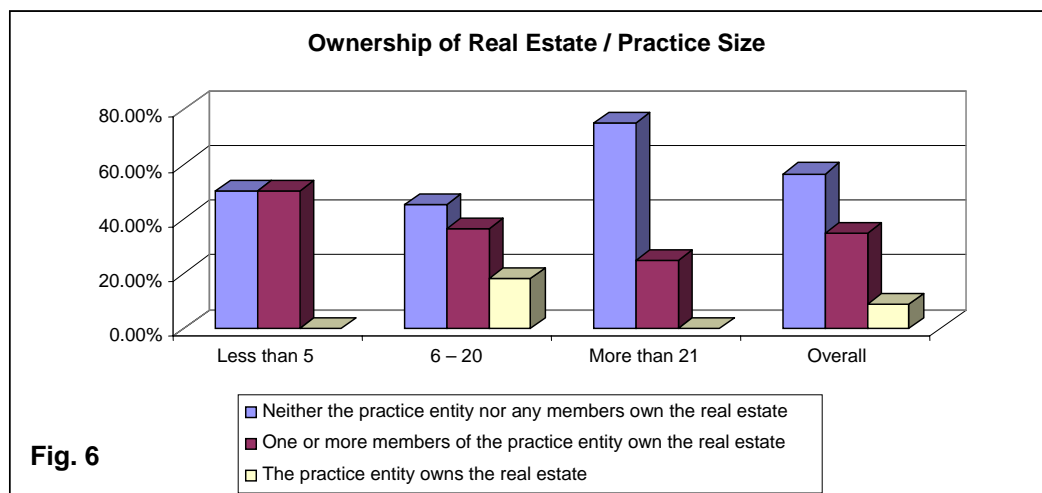
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Only one-third of respondents indicated that they had lost a physician recruit in the previous 12 months due to better financial terms. Ninety-four percent of respondents indicated that they had recruited physicians in the past year.

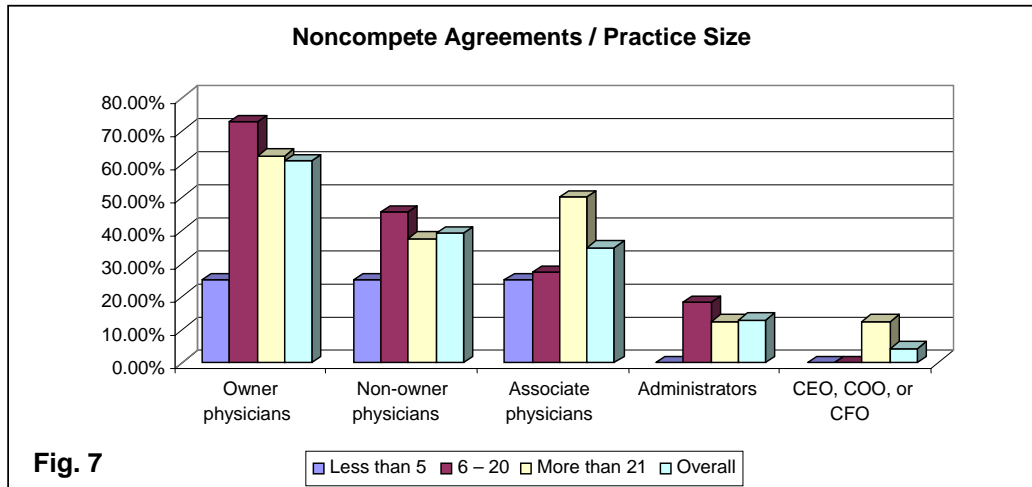
Approximately two-thirds of respondents said that ancillary income is distributed on the basis of productivity as opposed to pro rata.

Very few practices own the real estate in which the practice facility is located, although it is more common for smaller practices than for larger practices. In just under half of these cases, the real estate is owned by all of the physician owners. Three-quarters of those who do own their real estate lease space to another physician or healthcare business.



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The majority of practices use noncompete agreements with the owner physicians, regardless of practice size. Larger practices are more likely to use noncompetes with all physicians. Very few practices indicate that they use noncompetes with executive personnel (administrators, CEOs, and COOs).



Ideas to Consider

- *All employment relationships should be in writing. If partnership or shareholder status is a possibility, rather than a promise, then be sure your offer letter or employment agreement avoids creating an expectation of ownership.*
- *It is advisable to spell out key duties (for example, call coverage) in writing.*
- *While clinic ownership of appreciating real property can be a great investment, it can create a host of issues when a physician buys into or retires from a clinic which owns its own real estate. The clinic's partners must be in agreement as to the parameters for ownership - before the property is purchased. Also, considerations as to the type of entity that owns the real property are very important. Carefully consider all of the tax, legal and operational issues before choosing the type of entity to own the real property investment.*
- *Clinics are investing greater resources in recruiting and retaining administrators and non-owner physicians. Many clinics protect their investment by requiring administrators/executive officers and employed physicians to sign covenants not to compete. Clinics who have not required covenants as a condition of employment can find themselves wishing that they had one - when, of course, it is too late.*



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Schwabe, Williamson & Wyatt is one of the top law firms serving the needs of businesses in the Pacific Northwest, providing a broad range of transactional and litigation services to the region's leading companies. SW&W has developed a solid reputation within the healthcare industry for its quality representation of medical and dental groups, hospitals, nursing homes, pharmacies and other healthcare professionals. For more information, please contact Mitch Hornecker at (503) 796-2891.