

MEDICAL MARRIAGES

Health care mergers and acquisitions will increase in the new year

By **BERNADETTE STARZEE**

It's not an easy time to be a doctor.

Declining fees and soaring costs have led physicians to merge their practices to form mega-groups or to become hospital employees in increasing numbers.

The trend is expected to accelerate in 2013 as the nation moves toward health care reform.

"Reimbursements are under attack – Medicare reimbursements have been cut and commercial insurers have done their best to ratchet down reimbursements for doctors," said Robert Wild, chairman and managing partner of the Great Neck law firm Garfunkel Wild, which has a full-service health care division. "Small practices are finding it's too expensive and difficult to retain that model."

As part of the fiscal cliff, doctors can expect a 26 percent reduction in fees from Medicare come Jan. 1, said Jeffrey Kraut, senior vice president of strategic planning for the North Shore-Long Island Jewish Health System, which is based in Great Neck.

All the while, the expenses associated with running a medical practice continue to mount. In addition to the high costs of malpractice insurance and general office overhead, doctors are being pushed to implement costly electronic medical records systems.

Dr. Joanna Dolgoff, a Garden City pediatrician specializing in the treatment of childhood obesity, joined Allied Pediatrics of New York, a Melville-based mega-practice with about 100 pediatricians in the New York area.

"I joined to bring my overhead down," Dolgoff said, noting that, for instance, "we use one common billing company, which cuts expenses." She added, "I now have access to so many more resources than I would have had on my own."

The mega-practice brought 10 physicians into the fold in late 2011 and added a three-doctor practice this year. CEO Dr. Gary Mirkin expects a greater number of doctors will join in 2013.



“Physicians are scared to be left blowing in the wind,” Mirkin said. “No one knows what Obamacare will bring – there’s safety in numbers.”

The lure of the hospital

Hospitals are acquiring doctors’ practices in increasing numbers, and it’s a proposition that is very attractive to some physicians.

“There’s a cohort, typically north of age 50, who intend to practice for another decade or more, and they want to be able to continue seeing patients without managing an office,” Kraut said. “The number of physicians that have approached us is significantly in excess of the number we have employed.”

Physicians who seek out hospital employment are looking for compensation protection, said Mark Bogen, senior vice president and CFO of South Nassau Communities Hospital in Oceanside.

“They have seen their compensation slip for a variety of reasons, and they want some certainty in terms of compensation and cash flow,” Bogen said. “Becoming a hospital employee removes the headache of running a business and allows doctors to focus on practicing medicine.”

What’s in it for the hospital

South Nassau added a primary care practice in May and a cardiology practice in September.

“We’re looking to acquire practices on a case-by-case basis,” Bogen said. “We’re not large, so we have to be strategic about which ones we purchase.”

Bogen said acquiring practices benefits the hospital in two ways.

“In the short-term – with the current fee-for-service model – the more physicians we have, the higher the volume of referrals we can expect,” he said.

Secondly, over the next three to five years, the industry is moving toward a value-based payment system, in which government and private insurance companies will reimburse providers based on meeting quality benchmarks and the size of the population they care for, rather than the number of claims that are submitted. This will transfer risk from insurance companies to providers, and greater alignment between physicians and hospitals will help absorb the risk while better providing the full continuum of care that

changing reimbursement models will require.

“If the hospital and physicians are clinically and financially integrated, incentives will be properly aligned and we will have a much greater chance for success in the new world order,” Bogen said.

North Shore-LIJ employs approximately 2,500 physicians and expects to bring another 200 to 300 aboard going forward, Kraut said.

For future acquisitions, the system will focus on the geographic areas across its footprint where it has fewer doctors – mainly in New York City – and it will concentrate on acquiring primary care practices. With an increasing shortage of primary care physicians in the marketplace, the system is looking to secure a larger physician base in this crucial area, Kraut said.



MARK BOGEN: When hospitals hire physicians, they benefit from an increase in referrals.

Drawbacks to getting hitched

When doctor’s offices merge, they face all the potential pitfalls of firms in any industry.

“They have to merge different cultures, philosophies and systems, and sometimes it’s not a good match,” said Kevin Quinn, a partner at Chernoff Diamond, a Garden City benefits and risk management consulting firm, who has advised clients on mergers and acquisitions.

“When two practices merge, you now have to deal with more personalities, and there are more people to which you’re accountable,” said Patrick Formato, senior partner and chair of the

health care practice group at the Lake Success law firm of Abrams, Fensterman, Fensterman, Eisman, Formato, Ferrara & Einiger, who noted that partnership agreements have to be set up properly so they don’t run afoul of state and federal regulations.

Going from the head of a medical practice to a hospital employee requires an adjustment.

“Doctors are professionals, and they like their autonomy,” Formato said. “Being a hospital employee is very different from being your own boss. Hospitals place certain restraints with regard to taking time off, office hours and income.”

There was a similar wave of consolidations in the 1990s, many of which later broke up, Formato said.

“Hospitals found that when doctors became employees and it wasn’t their business anymore, they lost the incentive to work hard,” he said. “The hospitals learned from that experience and have put performance-based systems in place to incentivize doctors to work more.”

Instead of going the hospital route, joining a larger practice “gives physicians more control over their practice and where they practice,” Mirkin said. “If you’re a hospital employee, and you have always practiced in Great Neck, the hospital might call you up and say, ‘We need you in Syosset.’”

When physicians work for hospitals, “the hospital’s bottom line is the No. 1 goal,” Dolgoff said. “In our group, we’re all physicians, and we are all on the same page and working toward the same goals.”

Hospitals, too, face struggles when bringing doctors on board. The practices that look to be purchased are often struggling, Bogen said.

“We have to spend time helping them get back on their feet financially,” he said.

Though it benefits from increased referrals when it acquires a physician’s practice, South Nassau aims to not be too heavy-handed with regard to insisting on every referral, Bogen said.

“Doctors may have been practicing for 15 or 20 years and may have successful mutual referral relationships,” he said. “We try not to interfere and disrupt the relationships, as it could negatively impact the practice. If we insist on 100 percent referrals, it may be a smaller pie.”