2015 INDEPENDENT PHYSICIAN OUTLOOK SURVEY

PHYSICIAN MIGRATORY PATTERNS

THREATS TO INDEPENDENCE

and Implications for the Future

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Nearly half of independent specialists expect to sell their practices in the coming years, but not because they want to, a new survey shows.

But the pressure to consolidate is also driving innovation, as independent specialists seek new practice models that would allow them to sustain their autonomy.

Those are the key findings in the **2015 Independent Physician Outlook Survey**, a new study published by medical management consultancy ProCare Systems, which provides powerful insights into how changes in American healthcare are impacting independent doctors.

As the economic and regulatory landscapes shift under their feet, independent specialists and smaller physician groups face unprecedented uncertainty. Revenue lifelines are being squeezed from every direction. Securing payment for their services becomes more difficult every year, while referral streams have come under the nearly exclusive control of big hospitals, insurance providers and health panels. Their practices also face relentless cost pressure as regulators and private insurance giants continue to pile on complex administrative tasks.

Given those conditions, it's no surprise that many independent specialists have already taken refuge from the escalating challenges by selling their practices to larger organizations. According to the survey, more of these transactions are likely on the way: 44% of survey respondents say they anticipate selling their practices in the future. At the same time, however, 73% of respondents say they would prefer not to sell — a clear indication that doctors are feeling pressured to seek shelter within the scale of a hospital or larger group.

"Given the staggering majority of physicians that desire continued independence, the findings in this survey indicate that we cannot continue with 'business as usual' in our standard practice models," said Fred Davis, MD, co-founder and president of ProCare Systems. "Physicians can thrive in their practices, rather than becoming employed by larger healthcare institutions, by embracing innovative business models designed to meet the increasing complexity of today's healthcare environment while keeping small practices profitable."

Of course, as in any business sector, there will always be a natural ebb and flow between big and small business structures. And while the seismic changes wrought by the 2010 passage of the Affordable Care Act have made it more attractive to seek the shelter of a larger organization's scale, that scale has its downsides—

bureaucracy, inefficiency, barriers to innovation, and stagnant wages among them. So even as doctors anticipate foregoing independence now, 72% of those we surveyed also said they envision a significant number of physicians returning to independent practice in the future.

And as payment incentives shift from a volume model to one built around value and patient outcomes, smaller physician groups, with their agility and natural inclination toward innovation and efficiency, are well-positioned to seize market share in an increasingly consumer-driven marketplace. This could not only help small practices remain independent, but help others reclaim their independence as well.

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In the meantime, independent doctors are beginning to think seriously about strategies to mimic the support infrastructure and scale of large institutions, while maintaining the qualities that have long been hallmarks of smaller, more nimble organizations.

The ProCare survey, which covers a broad range of topics, shows a sector in the throes of a difficult evolution. And while it reveals clear frustration with the difficulties facing independent practices, it also suggests widespread hope for positive shifts in the market.

SURVEY HIGHLIGHTS

Docs Want to Remain Independent, But Don't Expect to

As noted, 73% of respondents stated that, assuming their practices could be reliably profitable and sustainable, they would prefer to remain independent. But 44% say they are likely to sell their practice at some point in the next decade.

Reimbursement and Costs Are Major Headaches

The physicians we surveyed ranked escalating costs and downward reimbursement pressure as the most challenging aspect of running their businesses, followed by the difficulty of maintaining referral streams. Not surprisingly, they also ranked costs and reimbursement pressures as the factors most likely to lead them to sell their practices.

Specialization is Sustaining Them

Asked to identify the most important factor in sustaining their ability to remain independent, 70% of respondents chose the "specialized nature of their practice within the local healthcare community."

They Recognize That Quality and Outcomes Will Drive Reimbursement

88% of respondents said they envision a future in which reimbursement is driven by their ability to provide value, defined as the intersection between quality care and cost management.

This reflects the reality that, as reimbursement structures continue to shift from fee-for-service to outcomes- and value-based models, independent groups who can deliver measurable clinical outcomes will be well positioned to strengthen their relationships with healthcare payors.

Whole Person Care Will be Key

Following on the shift toward clinical outcomes and the increasing focus on preventative care and wellness, 91% of respondents said they could envision a future where "whole person care" will play a significant role in how their practice operates.

SURVEY HIGHLIGHTS CONTINUED

Reimbursement Models Remain in Flux

Even with the jury still out on the evolution of reimbursement models, approximately half of the surveyed doctors are encountering new alternatives to the standard fee-for-service model. Those include shared risk and global payments.

Others have yet to encounter such models, but the general trend, based on the entirety of the survey, indicates that the pendulum is swinging away from the status quo.

They Recognize the Need for New Solutions

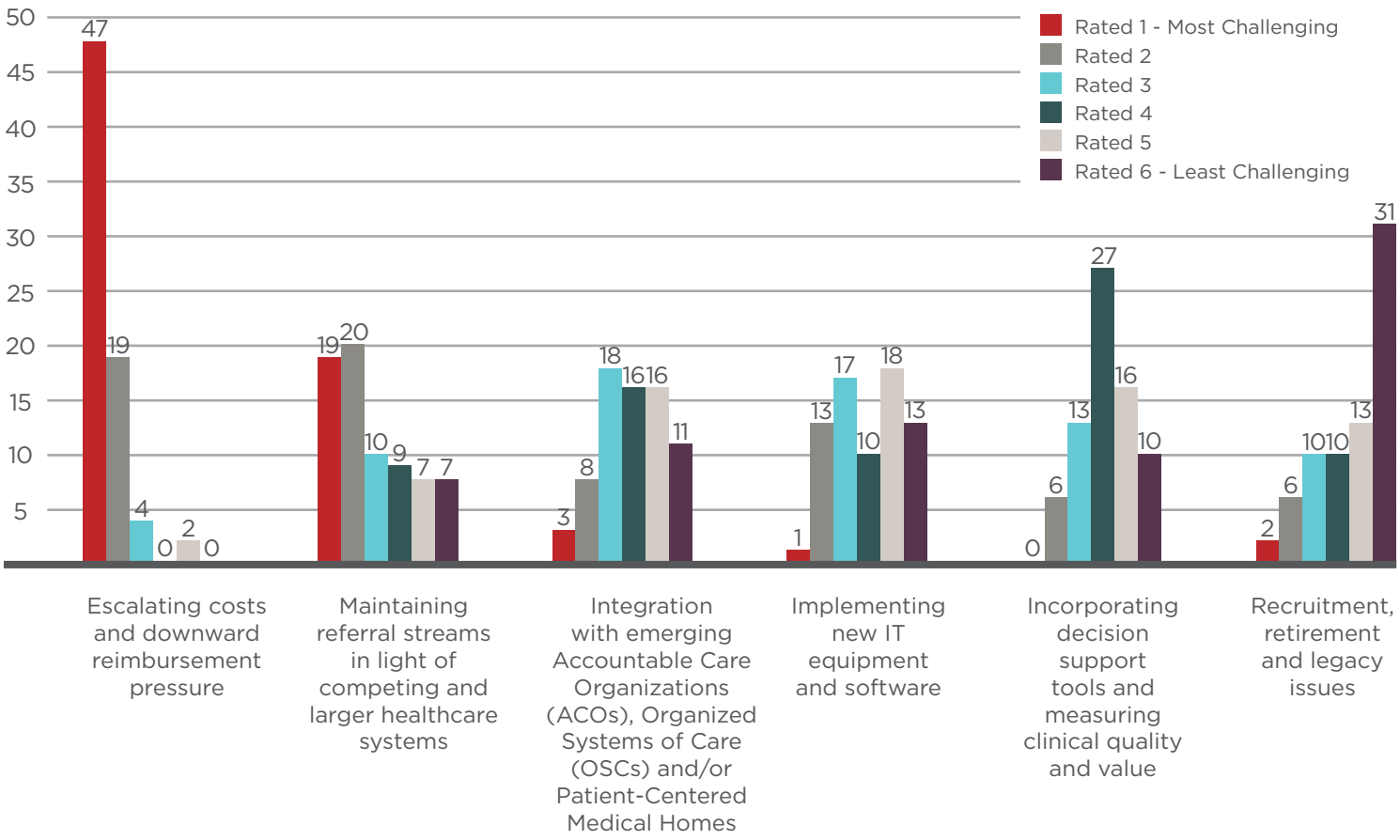
Nearly all of the physicians surveyed, a full 94%, said the marketplace ought to offer new practice models to ensure independence and sustainability for the new healthcare economy.

And They're Eager to Explore New Practice Models

51% of respondents are interested in exploring innovative business models and capital structures in order to preserve their independence. 28% said they were most interested in a practice management or shared equity model that allows physicians groups to operate independently while sharing equity in a combined entity. Another 23% said they were most interested in pursuing mergers and acquisitions with other practice groups to achieve scale and increase their leverage with providers and insurers.

49% of respondents said being a part of an independent practice association—a co-op style alliance of physician practices—was attractive for the increased scale it would provide in negotiating with payors and larger organized systems of care.

Q1: What is the most challenging aspect of running an independent practice today?

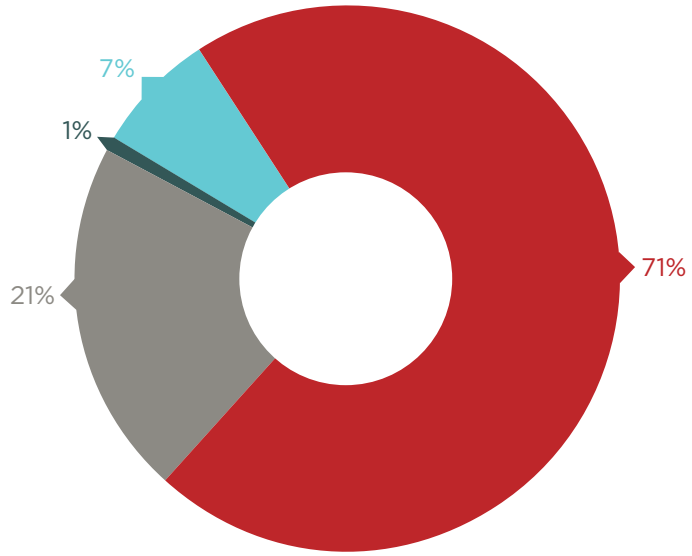


Without a doubt, the most pressing concerns facing the professionals included in this survey were the accelerating escalation of costs, coupled with the ever-increasing downward pressure on practice reimbursement levels.

66 out of **72** total respondents rated these as either the **#1 or #2** most challenging aspects of running their independent practice. While pressures such as protecting referral streams proved to be concerns not easily dismissed, nothing else came close.

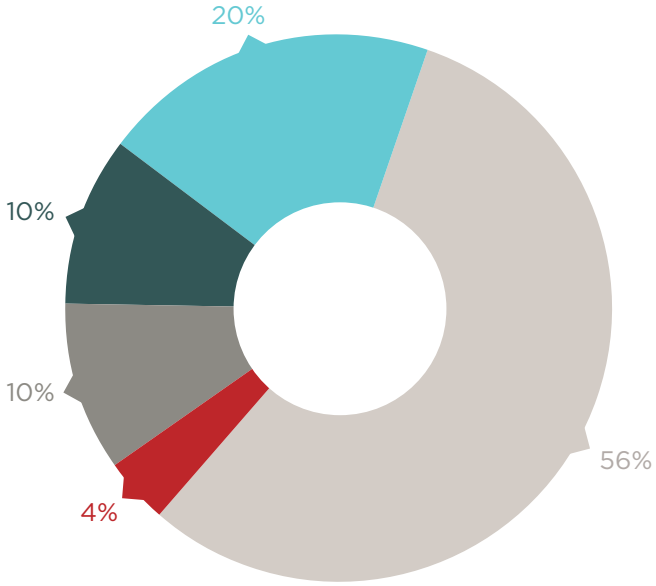
As practices consistently reevaluate the costs and benefits of maintaining their independence, the data reveals that developing strategies to address these concerns will continue to be paramount.

Q2: To what extent do changes in the healthcare regulatory, compliance and government policy landscape affect your future as an independent physician?



- They significantly affect my future
- They somewhat affect my future
- They do not affect my future
- I am unsure how they affect my future

Q3: Do you anticipate selling your practice to a larger healthcare system in the future?



- Yes, within the next year
- Yes, within the next three years
- Yes, within the next five years
- Yes, within the next decade
- I do not anticipate selling my practice

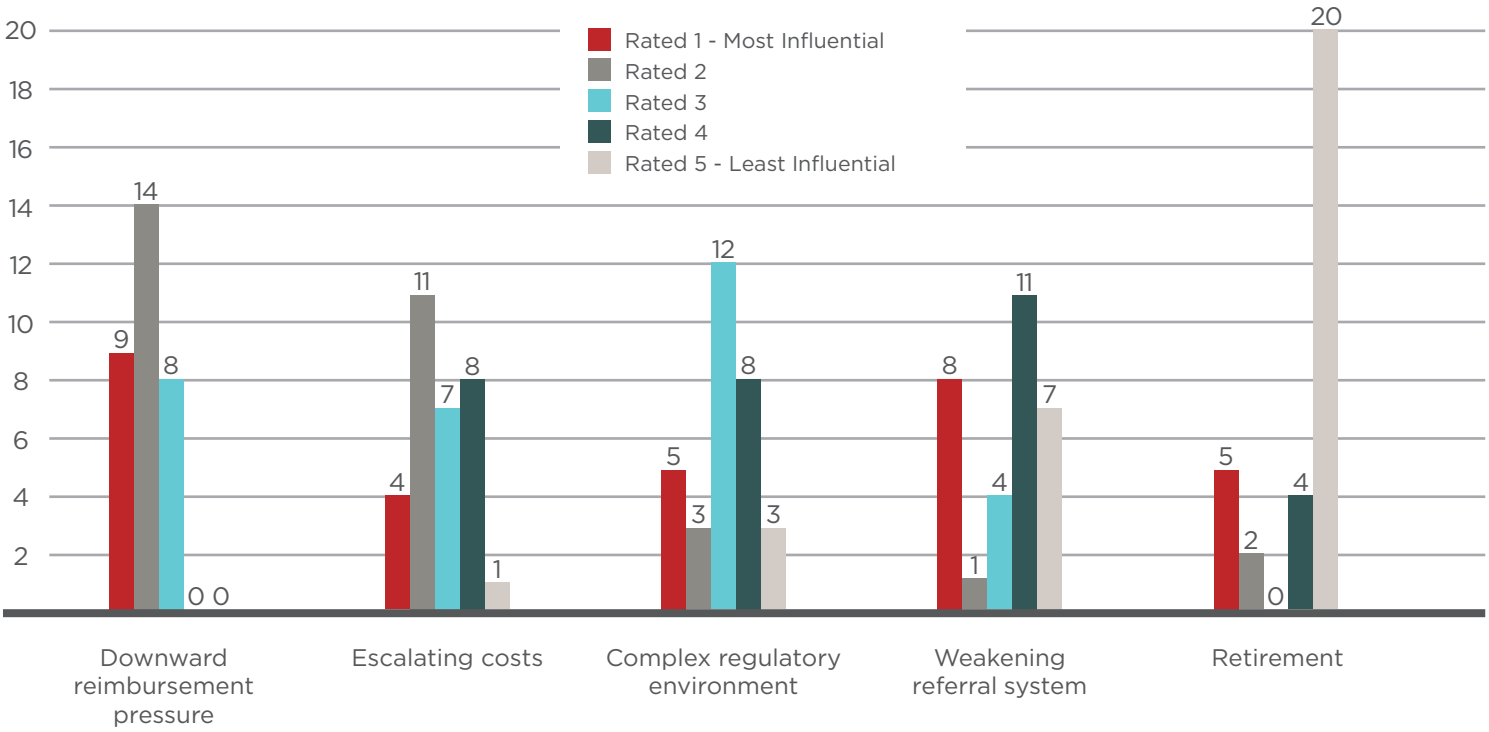
There is an overwhelming consensus among independent specialists that the regulatory and compliance changes spearheaded by the Affordable Care Act will significantly impact their practices in the years to come. A full **70%** anticipate that their future as physicians will be significantly affected, while **21%** anticipate that they will be somewhat affected.

While the extent of the impact is yet to be seen, physicians are currently feeling the pressure from all sides of their practices. Maintaining revenue lifelines, payment for services and referral streams is increasingly challenging, and practices face increased cost pressure from regulators and private insurance companies. Only **1%** of independent specialists do not anticipate being impacted by these factors.

A quick glance at this graph might lead the casual observer to an incorrect conclusion that few doctors are considering selling their practices. Although **56%** of the respondents said that they do not anticipate such a move, the remaining **44%** stated that they will likely sell within 10 years.

To better understand the implications of this point, it is also important to consider the responses to **Question #6**. If the **44%** represented in this question's respondents anticipate selling, there must be a significant amount of overlap with the **73%** who state that, given the choice, they would prefer to remain independent. The combination of these two data points evidences the underlying tension facing private practitioners.

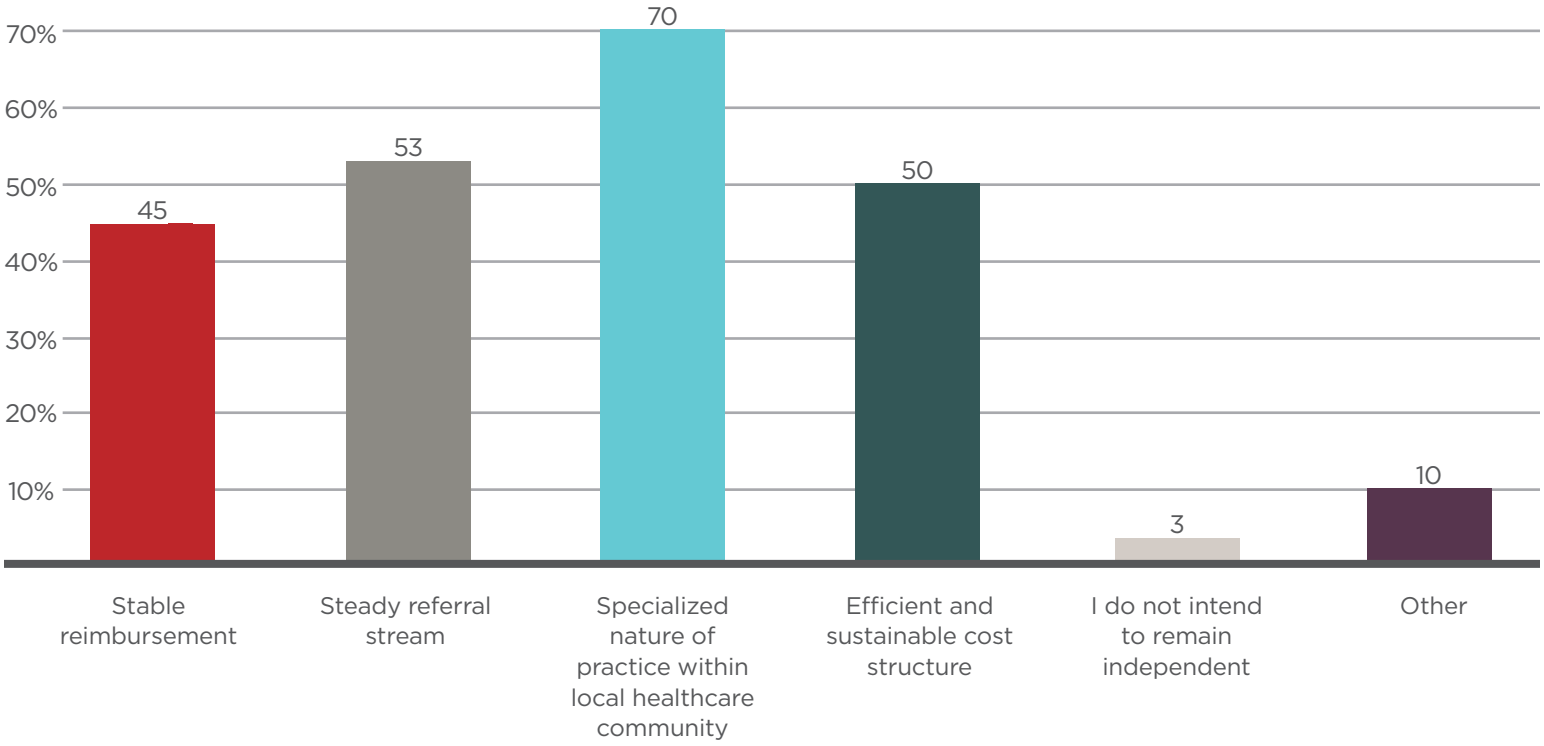
Q4: Which factors are most important in influencing your decision to sell your practice in the future?



Once again, the downward reimbursement pressure and escalating costs are shown to be significant pain points for private practitioners. A significant number of physicians also cite referral streams as their primary reason for considering a possible sale.

As smaller practices compete with bigger systems, it is clear that the effects of that competition can vary across those surveyed. For some, maintaining a steady referral stream is one of the factors sustaining their independence. For others, its erosion is pressuring them into selling out to a bigger market player.

Q5: If you intend to remain independent, which factors are most enabling you to remain that way? Select all that apply.

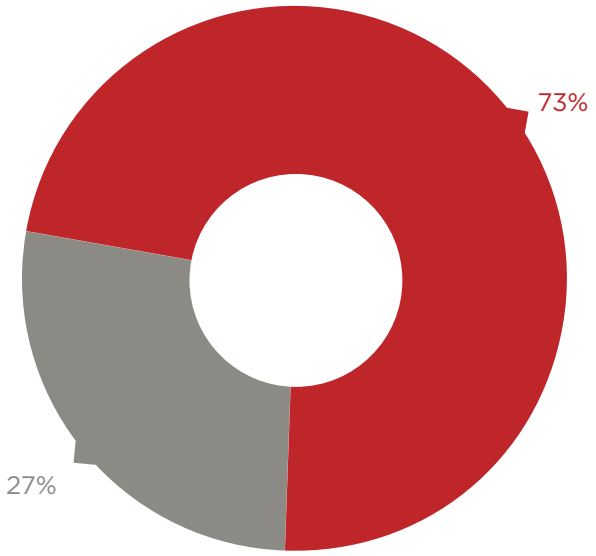


70% of respondents chose the "specialized nature of practice within local healthcare community" as the chief factor currently allowing them to maintain their independence.

There is certainly a sense of security in being one of the only providers of very specific services within a market, especially when coupled with the "stable reimbursement," "steady referral stream," and "efficient and sustainable cost" factors which round out the top four responses.

As was shown in previous responses, however, the overwhelming majority of the survey's respondents found that those factors are the cause of the most pressing concerns for private practices. If specialization is to remain a sustaining factor, its status remains tenuous as long as the other three remain points of worry.

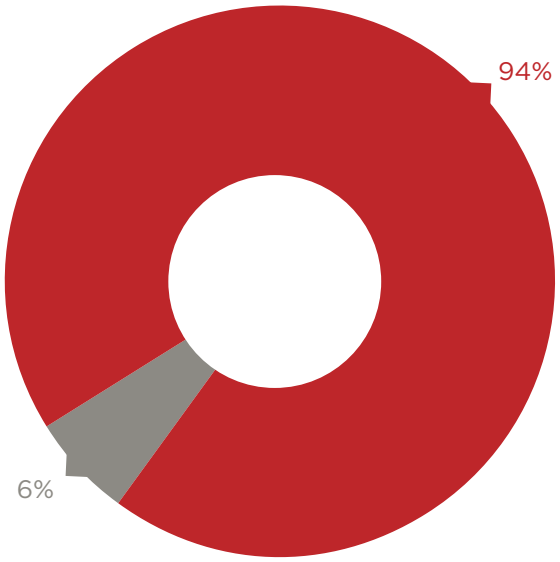
Q6: If you could maintain your independence as a profitable and sustainable medical practice, would you prefer it to being employed by a larger healthcare institution?



Yes
No

Despite the intense pressures facing private practitioners—as repeatedly pointed to in this survey—most physicians would prefer to remain independent. A full **73%** of respondents say they would prefer *not* to sell. As previously indicated, however, almost half anticipate that they will sell their practices within the next 10 years — a clear indication that doctors are feeling pressed to seek shelter within the scale of a hospital or larger group.

Q7: Do you think the marketplace should offer new physician practice models to ensure independence and sustainability for the new healthcare economy?

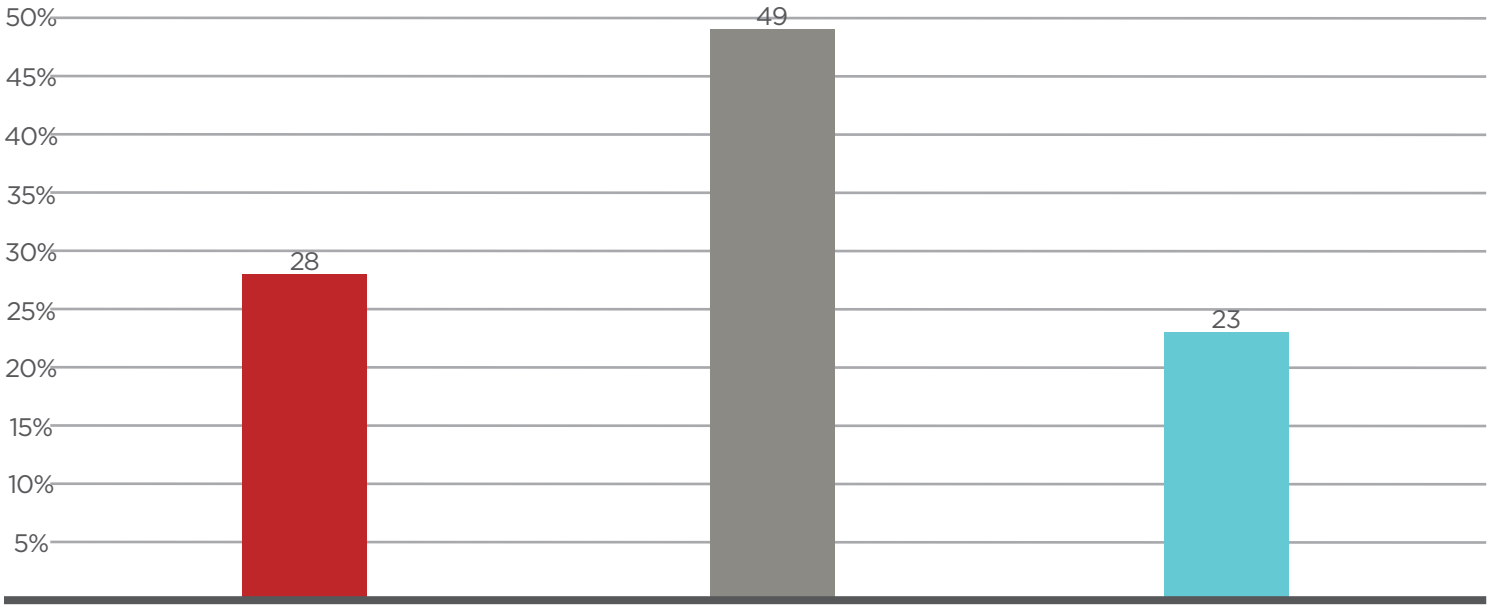


Yes
No

When considering the previous data—which shows that a high percentage of respondents would prefer to remain independent, while more than **44%** believe they won't—it comes as little surprise that such a large portion of private practitioners are anxious to see new strategies to mitigate the pressure.

The landscape of the healthcare space continues to shift as the implementation of the Affordable Care Act progresses. As is always the case, these shifts in market dynamics will bring about new strategies, and when they do, those strategies will find an eager audience.

Q8: Which of the following physician practice models and strategies are most attractive to you as an avenue for maintaining your independence and autonomy?



Practice Management/Shared Equity Model: Independent physician groups participate in a network of larger regional practices that are centrally managed with an equity element for each participant. The model emphasizes active practice management to drive scale, productivity and efficiency while retaining practice independence and upside economic potential for each member due to their equity in the management company.

Independent Practice Associations (IPAs): Aligning with other like-minded specialists via a loose strategic alliance relationship where there is no equity participation but, rather, a focus on increased size scale for negotiating with payers and larger organized systems of care.

Mergers and Acquisitions: Structuring formal mergers and/or acquisitions with other independent single-specialty practices to create larger "mega" practices which benefit from the advantages of increased size, including greater leverage with payers and greater economics of scale.

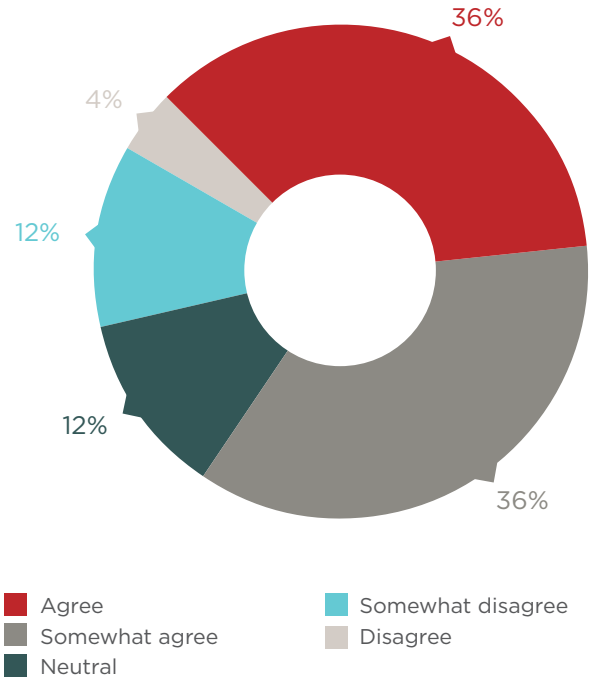
According to the results, roughly half of those surveyed said that they would be interested in Independent Practice Associations, which offer a focus on increased size scale for negotiating with payors and larger organized systems of care.

Physicians find this an attractive option when considered alongside the prior trend of moving to larger institutions to achieve those scale benefits.

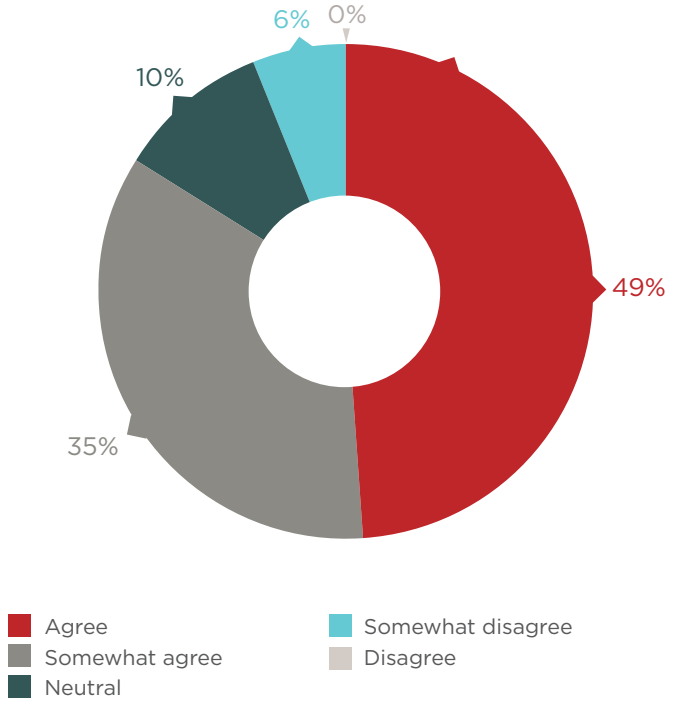
This result seems natural, as its description offered the highest level of autonomy to a group that other data shows is hoping to remain independent. The Practice Management model was the second most popular choice and included an element of equity sharing and active management to drive efficiency.

Q9: To what extent do you agree or disagree with the following statements:

9a: I envision a future in which a significant number of physicians who are employed by larger healthcare institutions will migrate back to private, independent practice settings with more progressive business models.



9b: I envision a future in which independent medical groups will adopt more innovative business models in order to reclaim their autonomy, stave off cost pressures and successfully coexist with emerging organized systems of care.



There is a natural ebb and flow to the migratory patterns of physicians. Over the last 20 years, market pressures have compelled independent physicians and small practice groups to sell to larger industry players.

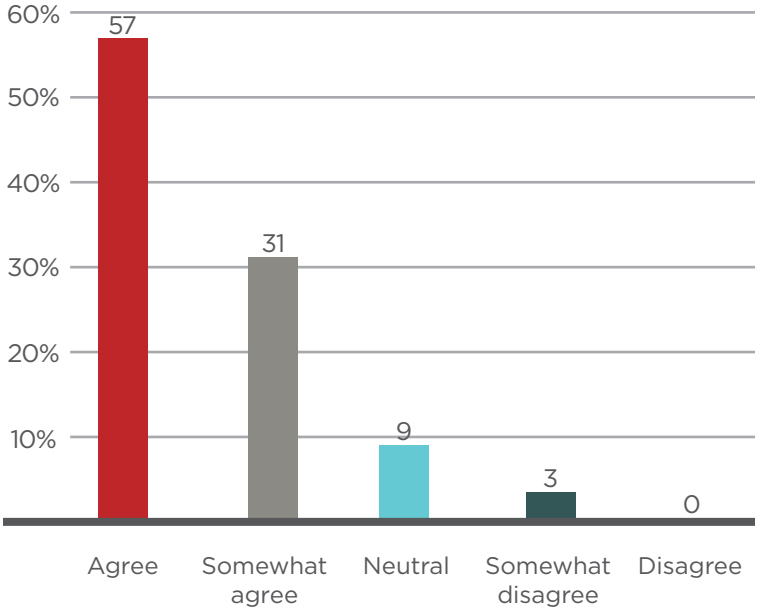
With the changing dynamics currently affecting the healthcare landscape, our survey's respondents see the tide shifting back towards an increasing level of independence. The present trend towards patient-centric and consumer-driven healthcare is fertile ground for independent practices, given their smaller scale and natural ability to provide more personal care.

As was shown in the responses to **Question #7**, the doctors surveyed are anxious to see new approaches to navigating the space as independent practitioners. Experience has taught them that as reform progresses, the dynamics will move towards equilibrium.

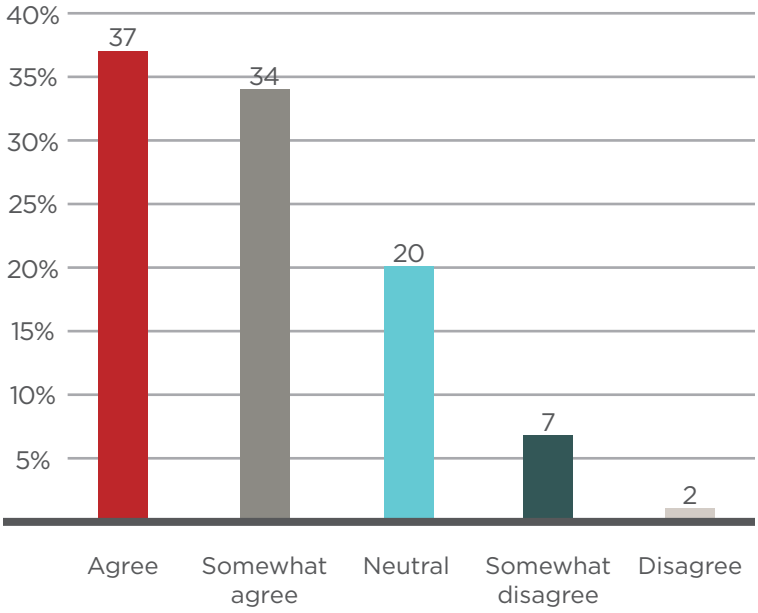
Survey respondents want to remain independent and, feeling the pressure of current market forces, they anticipate that there is a solution to their current predicament.

Q9: To what extent do you agree or disagree with the following statements:

9c: I envision a future in which reimbursement to physicians by insurance companies will require clinical outcome measures that demonstrate the quality and value of care.



9d: I envision a future in which the concept of disease management and "whole person care" will have a significant impact on how my practice operates.



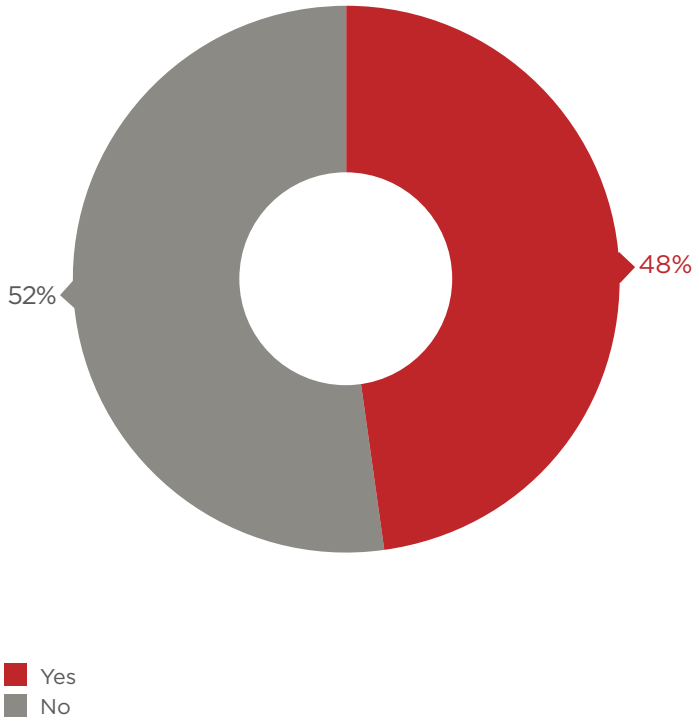
Across the healthcare sector, the shift continues toward a value- and outcomes-based delivery model, along with an increasing emphasis on patient-centric care and population health. With the focus on these outcomes as outlined in the ACA, respondents see a clear and inevitable evolution in the reimbursement structures they anticipate from the payor side of the equation.

As this focus sharpens, independent practices, with their agility and natural inclination toward innovation and efficiency, are well positioned to seize market share in an increasingly consumer-driven marketplace.

The move towards a more comprehensive notion of patient care, thanks to its prominent inclusion in the Affordable Care Act, is starting to seem inevitable. **71%** of our survey's respondents appear to feel this way, while another **20%** remain unsure. **Less than 10%** think it won't have a significant impact on their practice.

It's indisputable that in the foreseeable future, government policy will have a dramatic impact on reimbursement in the U.S. The federal push for ACOs and an increased focus on whole person care will almost certainly ensure that this factor remains top of mind for many providers.

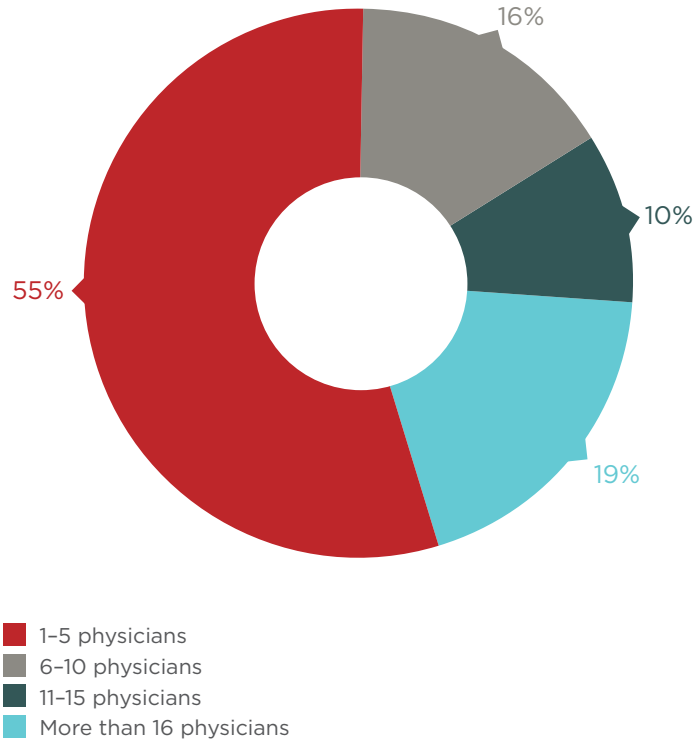
Q10: Are you encountering new reimbursement models in your market, which could involve shared risk and global payments as an alternative to fee-for-service?



While this graph provides a very tight view of the responses that accentuates the difference, the responses are almost evenly split. As all sides of the healthcare economy work to revamp their models of delivery and reimbursement, reimbursement models involving shared risk and global payments are popping up with increasing frequency.

The takeaway is that the old fee-for-service model may already be on its way to obsolescence.

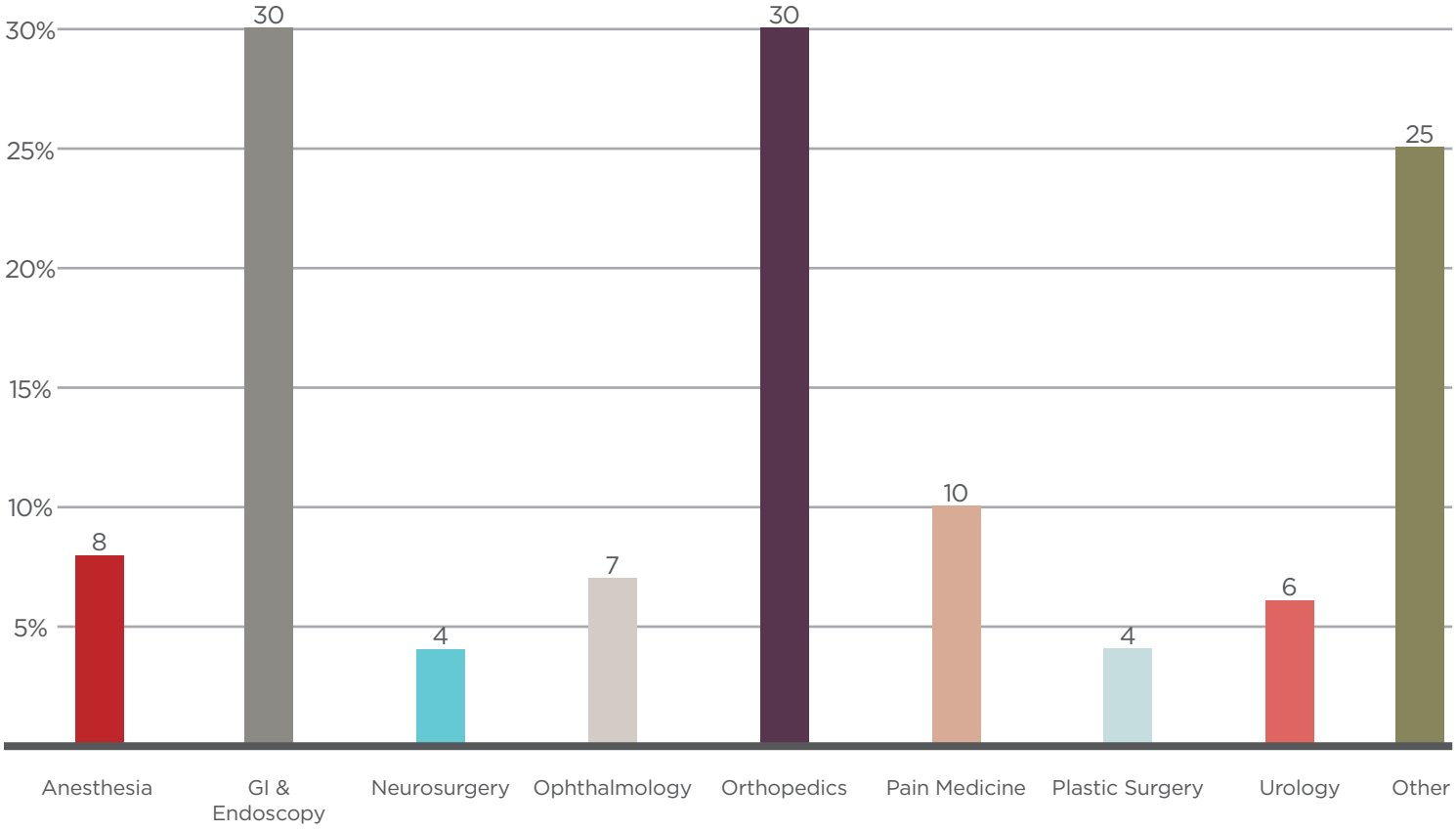
Q11: How large is your practice?



The majority of our respondents come from the practices most likely to feel the impact of changes in the healthcare marketplace—those with five or fewer physicians. Smaller practices are quite naturally subject to the pressures that have led so many others to seek refuge in large-scale institutions.

As previously discussed, however, the move towards a more individualized and outcomes-based system of care and reimbursement bodes well for these smaller players, whose scale gives them more personal touch with each patient.

Q12: Which specialty do you practice? Select all that apply.



For reference, we asked our respondents to identify their practice areas. Many of the independent physicians we heard from focus their practices in Gastroenterology and Endoscopy, or Orthopedics.

As **Question #5** showed, the specialized nature of the practices we surveyed was the chief factor in allowing them to remain independent. The pressures outlined in the complete survey results, however, cut across all segments of the marketplace.

CONCLUSION

Perhaps no sector of the economy has been so thoroughly upended as health care these last several years, and the results of our survey show that most independent specialty physicians are feeling disoriented. The prevailing pressures of rising costs, tumbling reimbursement rates and increasing regulations have put them at odds with the autonomous manner in which most of them would like to practice.

But given their training, it's hardly surprising that these doctors are eager to find ways to cure what ails them. The very same problem-solving qualities that make for a good physician have produced a mindset that's oriented toward innovation and creativity. For example, almost everyone we spoke with recognized the emphasis the Affordable Care Act has placed on preventative care and wellness management—and a great many understand the need to reorganize elements of their practice to deliver on this new paradigm.

Where there are gaps between the ways doctors want to practice and the current environment, there are opportunities. The rapidly increasing organizational complexities associated with running an independent practice have shoehorned many doctors into an unwanted administrative role. In the coming years, expect independent doctors to seek out organizational and management resources that will free them from paperwork and allow them to focus on patient care.

Finally, our results show that independent specialists' self-reliant nature and optimistic outlook remains intact. Most of those surveyed enjoy owning their practice, and the majority understand that innovative business models will enable them and their peers to reassert the autonomy they're currently losing. This will require independent specialists to adopt new clinical and administrative systems that allow for seamless integration with emerging organized systems of care. And three in four think that those who do leave for hospital employment will eventually be able to return to a form of independent practice.

METHODOLOGY

ProCare Systems conducted a quantitative analysis of responses from independent physicians practicing in a wide variety of specialties via an online survey. Of the 82 respondents to the survey, the most represented specialties were GI & Endoscopy (24%) and Orthopedics (24%), followed by Pain Medicine (8%), Anesthesia (7%), Ophthalmology (6%), Urology (5%), Plastic Surgery (3%) and Neurosurgery (3%). Twenty percent of respondents identified as "other."

Fifty-five percent of respondents were part of practices with 1-5 physicians; 16 percent were part of practices with 6-10 physicians; 10 percent were part of practices with 10-15 physicians; and 19 percent were part of practices with 16 or more physicians. The most represented states in the survey were Washington (13%), Texas (9%), New York (7%) and Florida (7%).

ABOUT PROCARE SYSTEMS

An innovator in today's rapidly changing healthcare environment, ProCare Systems provides healthcare institutions and physician practices with the strategies, systems and tools they need to increase productivity, reduce expenses and maximize organizational value. The company has been involved in practice development, practice management and medical research for 20 years. ProCare is also responsible for the creation of the PRISM™ Care Management System, a unique digital toolbox that gathers clinical data from patients, and uses it to assess disease risk, inform clinical decision making and track outcomes through the course of treatment. The PRISM™ system is the outgrowth of ProCare's clinical outcomes research which has been underway since 1996. For more information, visit **http://www.procaresystems.com**