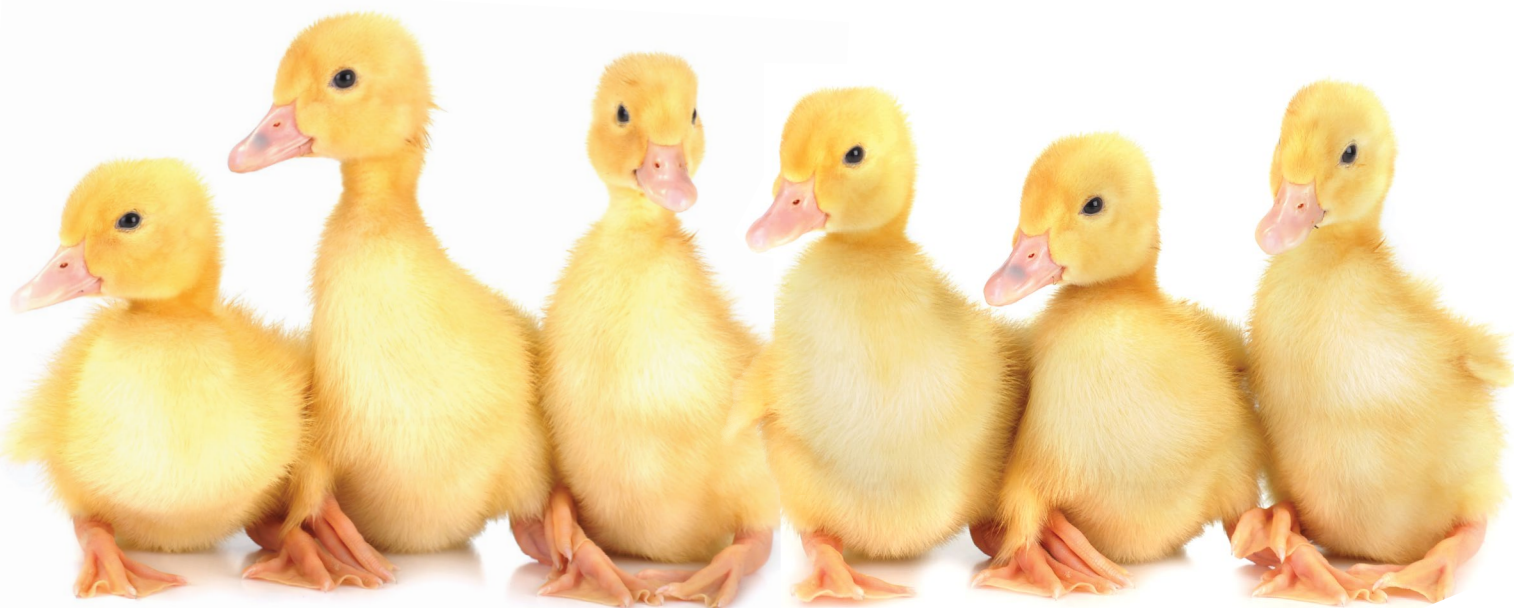


Bringing Together the PSA & the MSA

Maximizing the benefits of an oncologist–hospital alignment relationship

BY MATT COX AND
KELLEY D. SIMPSON

Many hospitals and oncology practices exploring partnerships adopt a Professional Services Agreement (PSA). In fact, the PSA has emerged as one of the most popular integration strategies across the country. One recent study found that 42 percent of the hospitals surveyed already use a PSA model, while an additional 14 percent of hospitals were contemplating a PSA with their oncologists within the next 12 months.¹ The popularity of the PSA stems largely from its ability to offer private practice oncologists a substantive alternative to hospital employment in a way that preserves the independence of the group practice, while still offering a meaningful alignment structure with the hospital.



Structurally, the PSA model establishes an independent contractor relationship between the physician or physician practice and the hospital. The existing physician practice typically converts to a hospital-based outpatient department and becomes an independent contractor of oncology professional services to the hospital under a provider-based billing model. The hospital pays the oncology group a fair market value (FMV) fee per work-related relative value unit (wRVU). Usually, these FMV fees represent the total revenue received by the oncology practice for the provision of all wRVU clinical services, including drug administration oversight and evaluation and management (E&M) services.

In reality, establishing the PSA is only half the battle. The transition from an office-based practice to a provider-based department presents many inherent challenges. The hospital is charged with running a new, multi-million dollar service line and must meet stringent regulatory and compliance standards. Oncologists, on the other hand, often worry that integrating with the hospital means sacrificing control and day-to-day decision-making previously enjoyed in the private practice setting. In addition, these types of transactions pose several operational challenges, e.g., an upsurge in cash flow, patient flow, and inventory that requires close supervision. An equally important component of the practice-hospital partnership is a complementary agreement—the Management Services Agreement (MSA). The MSA is a vehicle to address integration challenges without creating major disturbances in the practice’s operations. The term “Management Services Agreement” may be used broadly to describe an overall arrangement or it may be used more narrowly to describe the specific operational and day-to-day management and program development services provided by the oncology practice.

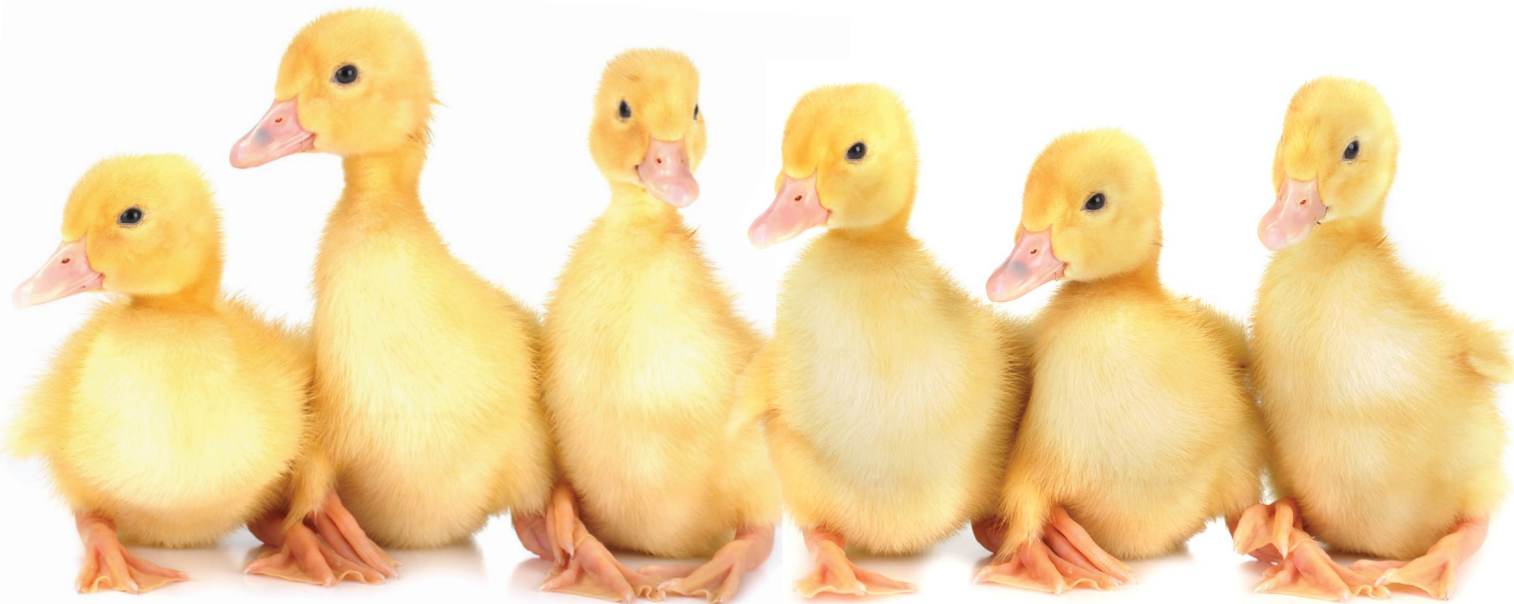
The MSA: A Closer Look

In the majority of community settings, chemotherapy and infusion services are provided by oncology physician practices. Therefore, oncology practices tend to have the necessary infrastructure in place to operate and manage a successful medical oncology business. Alternatively, most hospitals do not have experience managing large medical oncology practices. For this reason, it often makes sense to retain the current management and revenue cycle expertise of the medical oncology practice when planning an alignment strategy. Through an MSA, the hospital contracts with the practice to provide management services once integration is complete.

The MSA is designed to provide the hospital with access to trained support staff experienced in the operations and management of a medical oncology service line. Under the MSA, the hospital may either lease or employ the non-clinical support staff from the oncology practice. Under this arrangement, the practice performs an array of services related to the day-to-day operations of the hospital’s outpatient oncology service line. Management services may include, but are not limited to:

- Billing and collection services
- Day-to-day operations management
- Program development
- Strategic direction
- Operational leadership
- Clinical quality improvement
- Medical directorships.

Structuring an MSA in combination with the PSA can also provide physicians with additional incentives and recognition for their efforts in developing, managing, and improving the quality and efficiency of the hospital’s oncology service line, while



bringing together the independent strengths of the hospital and the oncology practice.¹ The hospital benefits from this arrangement by establishing a business relationship with an experienced medical oncology practice that will help manage and operate their oncology outpatient service line.

MSA Compensation Structure

A hospital may compensate the oncology practice separately for the provision of specific management services. In fact, oncology practices entering into a PSA relationship with a hospital often enter into an umbrella MSA or separate contractual arrangement for services such as billing, non-medical management and administration, medical directorships, or clinical quality achievement. Examples of the types of services provided under each of these arrangements can be found in Table 1, page 21. The most common types of purchased services and corresponding compensation models are outlined below.

- **Billing Services.** An oncology practice that provides oncology-specific billing services for the hospital using the practice's billing staff will most frequently be compensated for these services based on a percent of collections or a fixed fee model. The FMV rate for oncology billing services ranges from four to six percent of service line collections, according to an independent survey of medical billing companies in 2009.² This percentage is often structured via a separate agreement (e.g., a billing services agreement), in addition to the PSA and other contract arrangements.
- **Management Services.** Similar to the compensation structure for billing services, management services provided by the oncology practice also receive reimbursement based on percent of revenues or a fixed fee model. These services may include day-to-day operations management (i.e., drug and supply management, patient scheduling, human resources management), program development, and administrative oversight. The standard FMV rate for oncology management services ranges from two to four percent of collections, depending on the size of the oncology practice. This percentage is often structured via a separate agreement (e.g., a management services agreement), in addition to the PSA and other contract arrangements.
- **Medical Directorship Services.** In structuring an alignment strategy between the hospital and the practice, both parties will mutually agree to appoint one or more medical directors from the practice to develop and oversee the activities of the outpatient oncology service line. Compensation for medical directorships is usually time-based and hours spent providing these services must be explicitly documented by the physician. For example, the FMV rate for medical directorships may be \$180-\$200 per hour for up to 1,000 hours per year. However, certain valuation firms opine that the value of this pool could increase if the physician commitment to administrative and leadership services exceeded 1,000 hours. Medical directorships are often structured via a separate agreement (e.g., a medical directorship agreement), in addition to the PSA and other contract arrangements.

- **Clinical Quality.** Oncologists and hospitals may also structure an agreement that provides physicians with a bonus for achieving pre-defined clinical quality metrics. Typically, the involved parties agree to track between five to seven measures as the basis for quality bonus payment. The FMV rate for total clinical quality bonus compensation can be as high as 10 to 15 percent of the physician's total wRVU clinical compensation pool. Commonly, physicians must achieve a certain percentage of the goals to be eligible for full bonus payment at the end of each contract year. This percentage is often laid out in a separate agreement (e.g., a clinical quality agreement), in addition to the PSA and other contract arrangements.

Structuring the MSA: FMV Considerations

Adhering to FMV requirements is critical to achieving regulatory compliance within the scope of the MSA. An important step in structuring an MSA is obtaining an opinion letter from an independent third party valuation firm that includes a recommendation of the FMV payment from the hospital to the physician group for the services rendered.³ Typically, the hospital selects the third party valuation firm based on references from an outside party, which can include references from the practice, or from previous experience working with the valuation firm. Oncologists and hospitals pursuing an MSA in conjunction with a PSA should obtain an FMV compensation opinion from the valuation firm for the MSA, which is separate and distinct from the FMV opinion for PSA compensation.

For an MSA, key determinants of the FMV compensation to the physician managers include, but are not limited to:¹

- Size of the service line being managed (e.g., net revenue)
- Complexity of the service line being managed
- Extent and scope of services being provided
- Service line maturity and opportunities
- Unique attributes and considerations
- Valuator's judgment and experience.

As mentioned previously, the FMV basis for services provided by the oncology practice under an MSA is often determined by a percent of service line collections or may be based on a fixed fee model. Choosing the best compensation model (i.e., percent of revenues versus fixed fee model) for the partnership should be done collectively with legal representatives from each party before entering into a contract.

Structuring the MSA: A Complex Implementation Process

The complex, often laborious task of developing a joint PSA/MSA requires a significant level of commitment, time, and cooperation from both the oncology practice and the hospital to ensure a successful transaction. In planning and implementing a turnkey type transaction like a PSA/MSA, it is critical to ensure all aspects and functions of the transaction are coordinated and managed properly prior to the launch date.

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Table 1. Types of Services Provided Under an MSA

Billing Services

- Uses a practice's billing staff who are already well-versed in the intricacies of billing for infusion services and drugs
- Provides oncology-specific coding, patient registration, data entry, claim submission, and collection, as appropriate
- Identifies a process for billing technical vs. professional services in conjunction with the PSA
- Provides a "clean claim" in conjunction with the PSA
- Provides compensation for oncology billing services ranging from 4 to 6 percent of collections²
- Is often structured as a separate agreement from the PSA and MSA (e.g., a billing services agreement).

Operational Leadership

- Assists in developing and implementing management and administrative policies and procedures for the operation of the oncology service line
- Assists and provides guidance in developing operating and capital budgets
- Provides advisement and recommendations related to patient and work flow processes
- Assists in developing and implementing clinical pathways and protocols.

Oncology Program & Service Line Development

- Assists in developing overall strategic clinical and operational objectives
- Participates in hospital's Cancer Committee
- Provides leadership and guidance for goal setting, planning, implementing, evaluating, and improving all cancer-related activities
- Provides leadership and guidance regarding strategic objectives of the oncology service line
- Advises on marketing materials
- Reviews operations components including: budgets, clinical results, quality metrics, and more
- Provides advisement and recommendations related to oncology research and data mining
- Provides IT recommendations
- Develops and implements quality assurance program.

Day-to-Day Operations

- Assists in implementing hospital policies and processes, including HR, payroll, purchasing, accounting and finance, and more
- Provides management and oversight for day-to-day operations of the following areas:
 - + Clinical staff
 - + Patient scheduling
 - + Laboratory services
 - + Pharmacy services
 - + Office clerical functions
 - + Supply management
 - + Medical equipment maintenance
 - + Imaging
 - + Medical records
 - + Information systems.

Medical Directorship

- Often structured as a separate agreement from the PSA and MSA (e.g., a medical leadership agreement)
- Services typically compensated at FMV hourly rate up to a maximum number of documented hours per year
- Responsible for developing and overseeing the activities of the outpatient oncology service line
- Advises and collaborates with hospital regarding service line initiatives, enhancements, and development activities, as well as increasing the overall quality of the oncology program
- May also include:
 - + American Society of Clinical Oncology (ASCO) and National Comprehensive Cancer Network (NCCN) guidelines are followed
 - + Appropriate staging guidelines are followed (e.g., American Joint Committee on Cancer (AJCC))
 - + Physicians participate in Quality Oncology Practice Initiative (QOPI)
 - + Development and implementation of a patient navigation program
 - + Development of clinical practices to comply with The National Quality Forum (NQF)-endorsed Commission on Cancer (CoC) Measures.



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The role of a facilitator—either external, such as an oncology or other healthcare consultant, or internal, such as a cancer program administrator or other manager—to help guide the PSA/MSA implementation process and manage the relationship between the independent parties can be very valuable. Ultimately, the primary responsibility of the facilitator is to keep the project on task and help to smoothly transition the oncology practice from an office-based environment to the hospital outpatient setting. In addition, the facilitator plays a central role in negotiations, discussions, and follow-through between the hospital, physician practice, and other third parties. An ideal facilitator will be detail oriented and adept at proactively managing the intricacies that go hand-in-hand with hospital-physician integration.

Structuring the MSA: Establishing Performance Metrics

From the hospital's perspective, the MSA offers an opportunity to enter into a business partnership with experienced physician managers to help drive the business decisions, strategic planning and, ultimately, the success of the oncology service line. Too often, performance expectations for the physician practice are downplayed during the negotiation process to placate the physicians and finalize the deal. For the alignment to be successful, the hospital needs to rely on the physician managers to perform management duties effectively and competently. Performing these services requires active participation by the physician group; physicians should be expected to devote the required time and resources to fulfill their management obligation.

Hospitals and oncology groups will often agree to incorporate performance metrics into the MSA as a means of measuring and assessing the overall performance of the management services being provided. For example, the contract language may stipulate that the managing entity must perform management duties in compliance with the agreed-upon performance metrics. If the oncology practice fails to meet the specified performance metrics, an evaluation of the FMV management fee may be triggered, potentially resulting in a reduced FMV management services fee to the practice.


Often under a PSA, several adjustments must be made to prepare for the transition to a provider-based environment. For example, the hospital and oncology practice may need to meet provider-based pharmacy and laboratory oversight requirements, as well as hospital accreditation standards. The use of performance metrics effectively ensures that the oncology practice, as the hospital's management partner, meets baseline performance standards in a manner compatible with the provider-based environment. Table 2, right, provides examples of such performance metrics.

Going Forward

Given the intrinsic cultural differences between private practice oncologists and hospitals, it can be challenging to achieve a successful oncologist-hospital alignment. While the PSA is often an attractive model in oncology for clinically and financially integrating an oncology practice with a hospital, it does not necessarily provide a framework for the management and

Table 2. Potential Performance Metrics in a PSA

EXAMPLE PERFORMANCE MEASURE	EXAMPLE TARGET
Adherence to annual budgets (e.g., operating and capital budgets)	Less than 5% variance
Employee satisfaction and retention	Meets or exceeds hospital average
Patient satisfaction	Meets or exceeds hospital average
Adherence to hospital policies and procedures	100% compliance
Maintenance of hours of operation	Same as current at each outpatient location
Ongoing assessment of clinical environment and work flow processes	100% compliance
Maintenance of staffing levels and FTEs	Maintain at same staffing levels as of closing date
Coordination with the reporting to the hospital	To be negotiated between hospital and practice
Materials management	To be negotiated between hospital and practice
Human resources management	To be negotiated between hospital and practice
Staff scheduling and supervision	To be negotiated between hospital and practice

oversight of the operational processes that drive the transaction. Thus, an MSA can help align the parties from an operational standpoint and also allow the oncology practice to continue managing and overseeing the operations of the business. If organized and managed appropriately, the PSA and MSA together can offer a mutually beneficial opportunity for oncologists and hospitals alike. 

Matt Cox is a senior associate and Kelley D. Simpson is a senior partner at Oncology Solutions, LLC, Decatur, Ga. Learn more about this oncology-specific consulting firm at www.oncologysolutions.com.

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