

CALIFORNIA ORTHOPAEDIC ASSOCIATION APRIL 16, 2010



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*Anticipated National
Economic Trends and
the Impact on the
Orthopedic Practice*



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TODAY'S ENVIRONMENT

- Specialty Shortages
- Hospitals Aggressively Recruiting and Hiring Specialty Physicians and Acquiring/Consolidating Specialty Practices
 - But have had capital issues lately
- Physician Merger Activities are on the Rise (at least they were prior to the 4th quarter of 2008)



TODAY'S ENVIRONMENT

- Increase in Unemployment = Increase in Uninsured
- Employment Risk + Financial Markets = Drop in Elective Procedures
- Financial Markets + Increase in Uninsured = Reduced Capital/Access for Hospitals



TODAY'S ENVIRONMENT

- The Capital Crunch is Making it Difficult and Expensive for Hospitals to Finance Facility and Technology Needs
- Many Hospitals are Seeing the Impact of the Economic Downturn on the Number and Mix of Patients Seeking Care
- More Physicians are Seeking Financial Support From Hospitals



TODAY'S ENVIRONMENT

- State Income Tax Collections
Drastically Reduced
- State Sales Tax Payments
Drastically Reduced
- Hospitals and Health Care are a
Critical Part of the Economy



IMPACT ON HOSPITALS & HEALTH SYSTEMS

- More Difficulty in Borrowing
- Bond Issues are Being Deferred or Cancelled Altogether
- Freeze on Construction (including projects in process)
- Freeze on Expenditures for Capital and Technology Items
- Forced Staff Reductions and Executive Pay Reductions



IMPACT ON HOSPITALS & HEALTH SYSTEMS

- Non-operating Income is Diminished
- There are Market Losses on Investments
- Foundations have Market Losses
- Contributions are Slowing Down
- There May be More Mergers in Order for Lower Credit-rated Hospitals to have Access to Capital
- More Funds Needed for Pensions



IMPACT ON HOSPITALS & HEALTH SYSTEMS

Due to Global Economics,
We May Never See a Full
Economic Recovery



HEALTH CARE REFORM



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ECONOMIC STAKEHOLDERS

- Uninsured
- Workers with Good Employer-Sponsored Coverage
- Seniors on Medicare
- Those with Disabilities & Other Special Needs
- Employers
- Doctors, Hospitals & Other Providers
- Insurers & Health Plans
- Pharmaceutical Manufacturers
- Medical Device Manufacturers
- Others...



HEALTH CARE REFORM

- Total Lack of Accountability
- Changes are Many Years Away. Will They ever be Implemented?



HOSPITAL ECONOMICS

- Top Two Service Lines
 - Cardiology
 - Orthopaedics



SOME MARKETPLACE REALITIES

- Cardiology Groups (all around the Country) Are in Some Stage of Being Acquired by the Hospital



SOME MARKETPLACE REALITIES

- The Multi-Specialty Group is Again at Risk and is Back at the “Integrated Delivery System” Table with Hospitals



SOME MARKETPLACE REALITIES

- While There has been Some Movement in Orthopaedics, Great Resiliency in Remaining Independent



SOME MARKETPLACE REALITIES

➤ In Orthopaedics

- Surgeons being hired by Hospitals starting salaries \$450,000 - \$500,000
- Small groups being acquired by Hospitals
- Purchase price nominal
- Compensation at 50th or 75th % tile of MGMA on an WRVU basis
- Other incentive payments available (retention, quality initiatives, performance to budget, etc.)



SOME MARKETPLACE TRENDS

- Physician Utilization of and Needs From Hospitals Changing
 - Hospital not the “Hub” of Physician World any More
 - Many Proceduralists Gravitating Out of Hospital



SOME MARKETPLACE TRENDS

- Generational Differences Are Impacting All Areas of Health Care
- Physician to Physician Relationship/ Expectations Changing



SOME MARKETPLACE TRENDS

- Needs/Demands from Physicians
 - Going Up-Standardization of Practice
 - Compromises Traditional Independence
 - Quality/Patient Safety
 - Productivity/Throughput
 - Customer Service (patients and employees)



IMPLICATIONS – PHYSICIAN MARKETPLACE TRENDS

- Next Generation of Physicians Want a New Model:
 - Income
 - Lifestyle
- Solo, Small Private Practice Groups in Jeopardy
- Future for Private Practice requires large(r) groups – leverage essential:
 - Physician extenders
 - Access to ancillary revenue



IMPLICATIONS – PHYSICIAN MARKETPLACE TRENDS

- Mid to Late Career Physicians
Frustrated and Furious
- Hospitals Caught in the Middle –
Something Needs to Change
- Traditional Medical Staff Structures
and Processes Unable to Tackle New
Challenges



MARKETPLACE

Payment Reform is a Certainty

- CMS
- MEDPAC



MARKETPLACE

- Bundled Payment
- Accountable Care Organizations
- Medical Home
- Shared Savings Model



MARKETPLACE

- Impact on Orthopaedic Practices
 - Professional Fees
 - MRI
 - PT
 - DME
 - ASCs



CONCLUSION

**How are You
Preparing for
these Changes?**



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