
100
One hundred years strong.
mas
Health Care Homes
GP Business models

GP business models

- About MAS
- The complex business of general practice
- Why change the business model?
- How to change from a cost sharing business model
- GP remuneration
- Success factors

MAS and **HealthyPractice**

- 100 years young – established in 1921 by a group of GPs
- Member mutual and a Charitable Trust (MAS Foundation)for the purpose of funding health initiatives in NZ
- Over 40,000 individual professional members
- We provide insurance and socially responsible investment products
- Our MAS Business Advisory team provides business advice and support to individual MAS members as part of membership, and to practices through our HealthyPractice service.

How can **MAS help** with the **HCH model?**

- Cornerstone/Foundation standards
- Benchmarking – staff/patient ratio and financial analysis
- Staff restructuring and change management
- Changing the GP ownership business model

MAS independence of PHO's and HCH Collaborative can be helpful in supporting PHO/Collaborative goals.

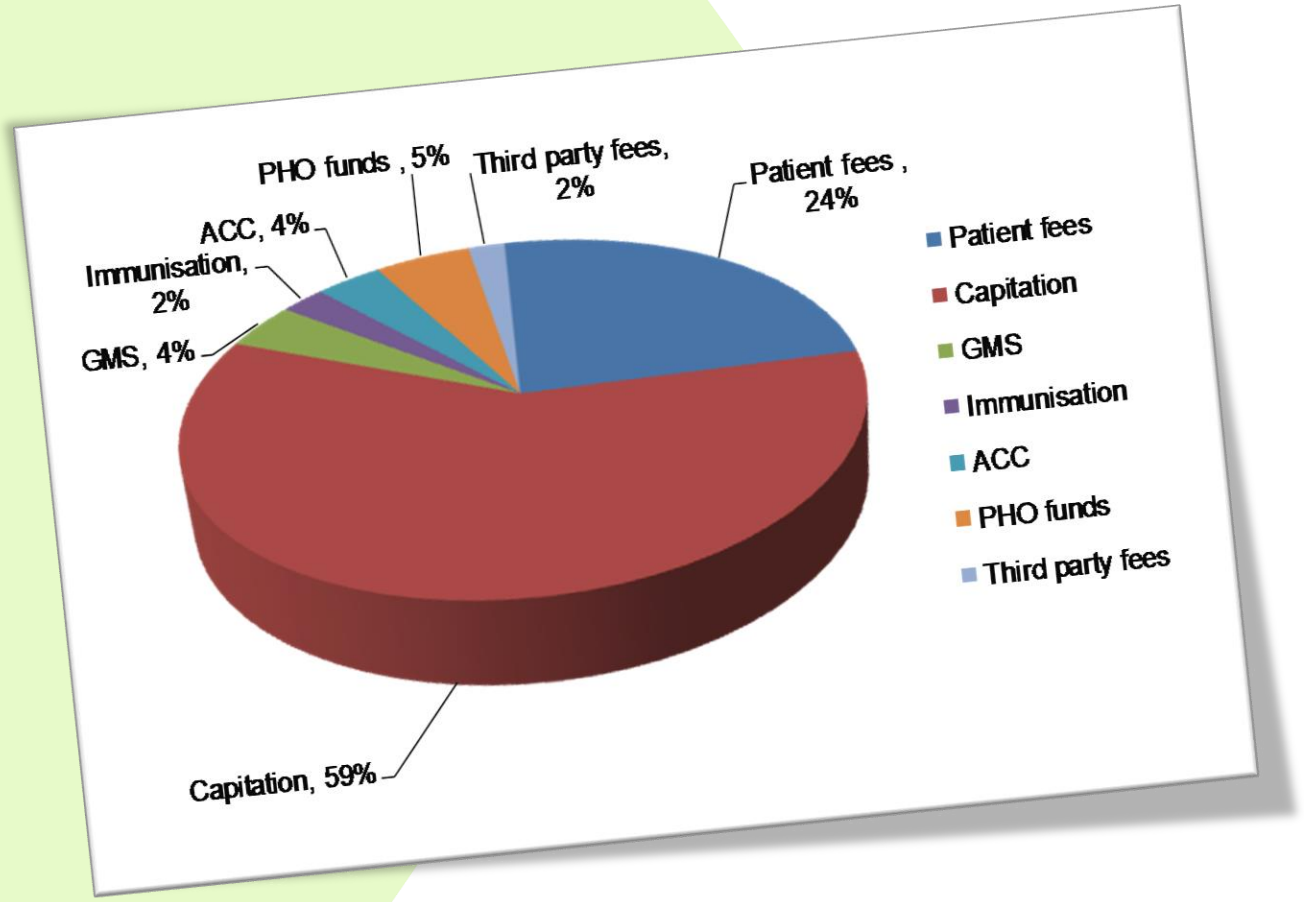
Staff and **patient ratios** - what does MAS general practice look like?

HealthyPractice subscriber analysis – 494 practices	**< 2 GP FTE**	**2-4 GP FTE**	**> 4 GP FTE**	**All practice sizes**
% of total practices	30%	45%	25%	**100%**
Actual numbers	151	221	122	**494**
Medians:				
Patients per FTE GP	*1,714*	*1,682*	*1,644*	***1,681***
Patients per FTE Nurse	*1,720*	*1,810*	*1,829*	***1,789***
Patients per FTE Support	*1,214*	*1,528*	*1,612*	***1,486***
Nurse/GP FTE Ratio	*1.00*	*0.87*	*0.88*	***0.89***
Admin/GP FTE Ratio	*1.33*	*1.04*	*0.99*	***1.09***

*Source – MAS Healthy Practice Subscriber Analysis Report, June 2019.

General practice – a complex business model

- Patient fees now often less than 30% of total practice revenue.
- Various revenue streams and services add complexity to the GP business model.
- Several income streams no longer dependent on GP/patient consult
- Many and varied complex business ownership models and methods of payments for GP's



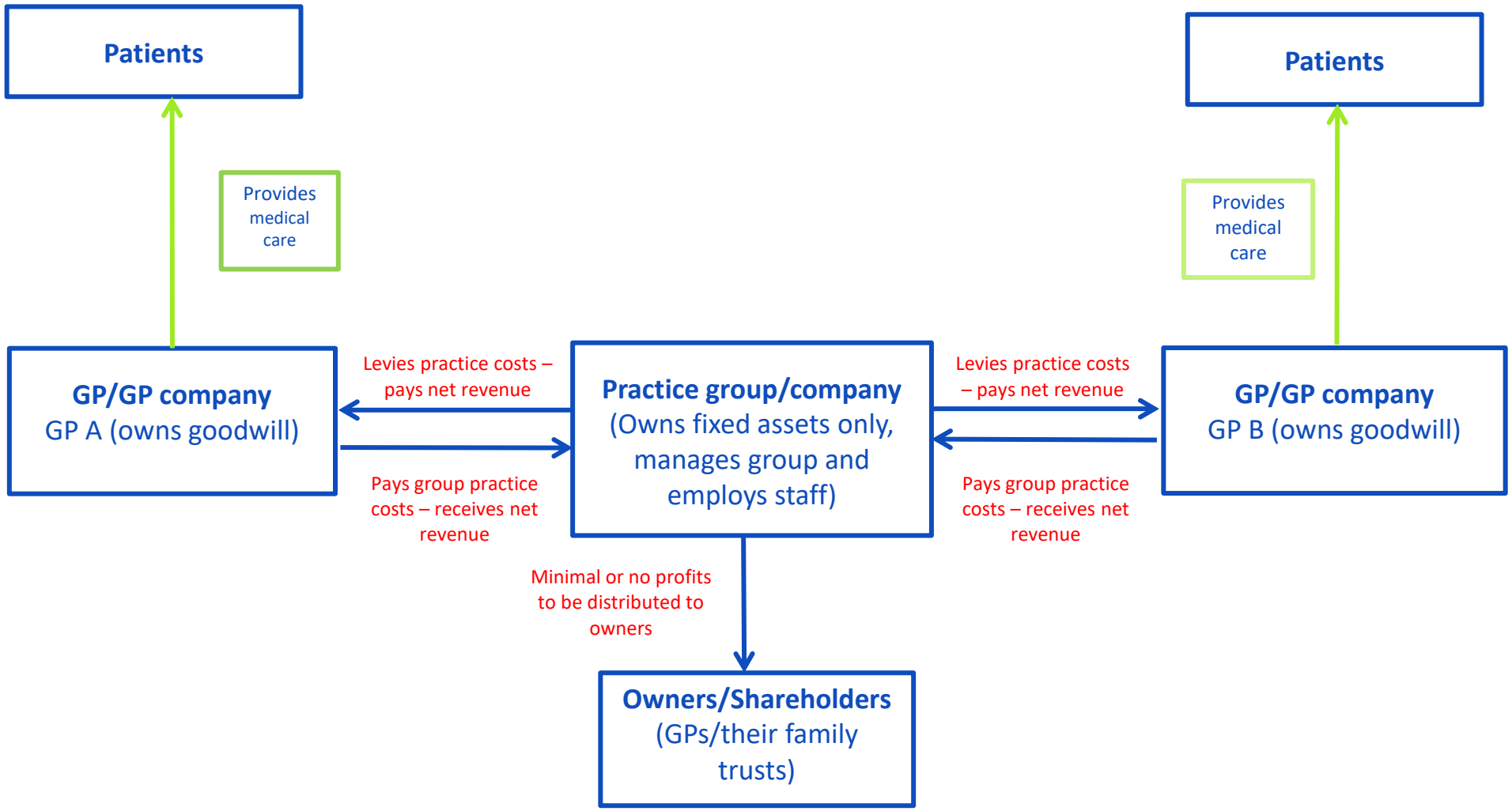
What's **changing** in primary care?

- The new **health system** will include:
  - Health NZ and the Maori Health Authority to commission and provide secondary and primary healthcare services
  - Health NZ will have four regional divisions (3 North Island and 1 South Island) who will commission services from hospitals and Tier 1(Primary and Community) providers
  - Primary and community will be organized in a yet to be defined number of locality networks
  - a greater focus on population health – factors that affect the wellbeing of everybody and greater integration between community care and hospital/specialist services.

- New technology and models of care like the **healthcare home** service model require additional investment and changes to the way practices work.
- Increased business complexity, standards, audit requirements, accountability and compliance.
- Our GP workforce is ageing – over 30% of GP owners intend to retire in the next 5 years. *

* RNZCGP Workforce survey – 2020

The ‘old’ GP cost share business model



Drivers for **change** to the business model

- Capitated funding and proactive health management
- Less direct revenue from GP/patient consult
- Group practice quality standards
- Increased compliance and administration
- Complexity of cost-share accounting
- GP stress/work-life balance requirements
- Group governance, business planning and management needs
- **Healthcare home** service model
- **Succession planning**

Succession planning – what will **buyers** look at?

- What does the existing ownership, business model & governance structure look like?
- Are the remaining owners like-minded & 'functional' as a leadership group?
- What are the responsibilities & obligations as a working owner? Practice agreement?
- Does the practice have good business management capability?
- Does the practice have good management systems – Cornerstone or Foundation accredited?
- Are the premises appropriate or in need of redevelopment or refurbishment?

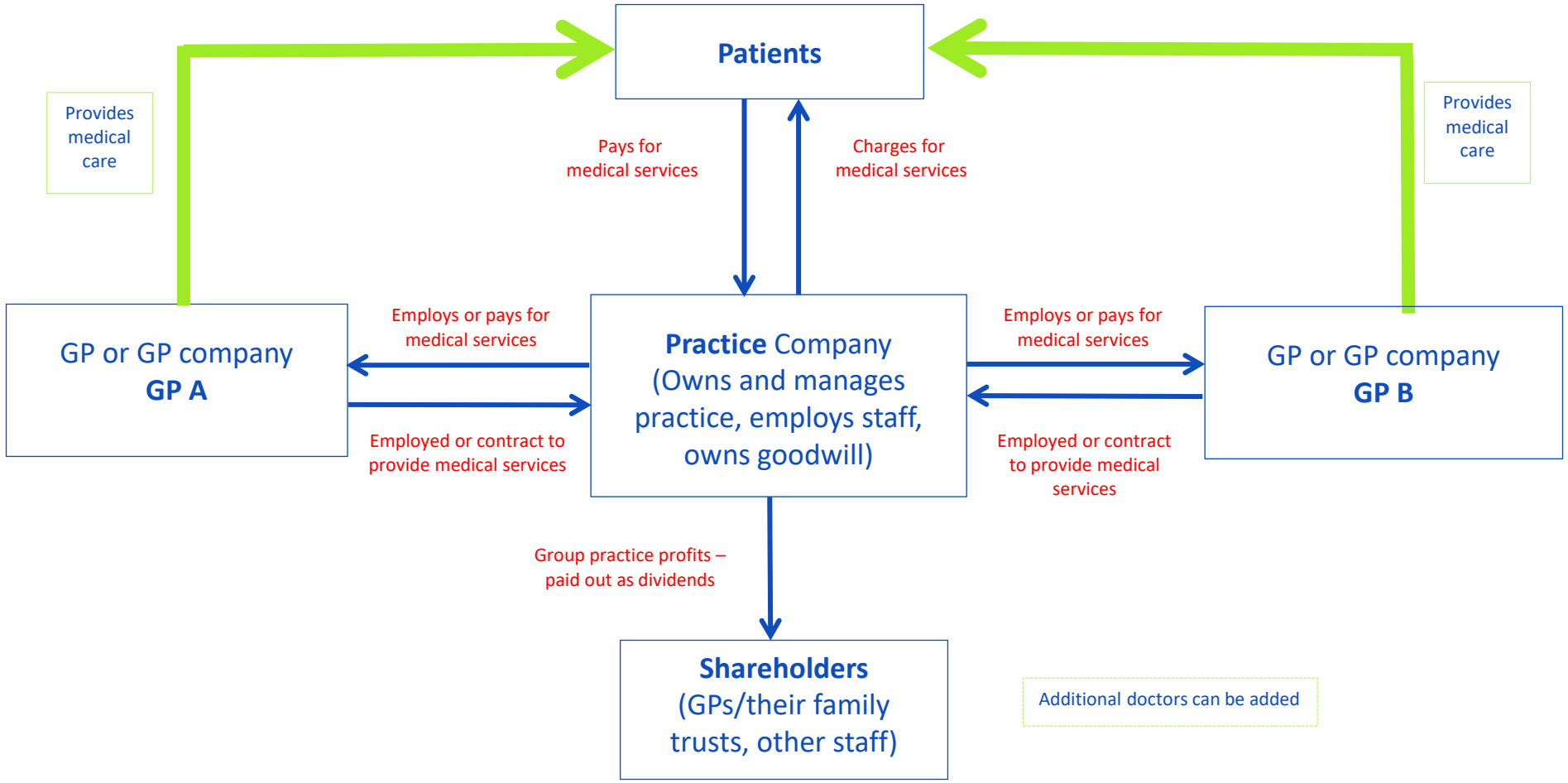
What are **younger GP's** looking for?

- Being an equal shareholder/director in a GP owned group practice with good governance and business management ticks most of the boxes.
- Having an equal say in how services are provided, flexible working arrangements, work/life balance and collegial support are important.
- A team-based approach with a simple business model is preferred – GP working owner remuneration based on hours/sessions worked and profits based on shareholding.

Cost sharing and **personal goodwill**

- Makes succession planning and valuation more difficult
- High income need not mean high value. Practice value is mostly determined by a multiple of the earnings to the owner **after GP remuneration** cost at 'market'
- MAS 2019 GP remuneration had average GP FTE cost at ~ $240,000. e.g. GP earns $300,000 = profit (earnings to the owner) of $60,000 but **maybe not……**
- If market GP remuneration is based on 12/13 consults in a 4-hour session but owner does 18+ consults per session this can increase remuneration cost by 1/3rd meaning no profit and little practice value because of the personal goodwill factor.

Remove personal goodwill with **profit share** model



'Why bother **restructuring** – I am close to retirement?'

- Can enhance practice value and simplify sale process
- Makes practice more attractive to next generation
- Takes value off the table now – reducing risk for those close to retirement
- Debt restructure benefits for existing younger partners/shareholders with other non business debt
- Lowers entry costs for young buyers saddled with other debt already
- Can enhance ability of practice to borrow externally
- Business is able to be better managed financially with less potential for conflict between owners e.g. no financial barrier to GP triaging if salary, sessional rate GP payments rather than traditional "fee for service".

How to get **from cost share** model **to profit share** model?

- Practice valuation
- Agree remuneration model
- Source funding for Newco to acquire practices – shareholder or external or both?
- Sell practices to Newco
- Equalise practice values
- Employment or consulting agreements/contracts
- Agree dividend policy

GP **remuneration**

MAS survey – December 2020:

- Trend is away from % commission (FFS) based payments towards hourly, sessional rates or salaries.

- 70% of practices paying hourly or sessional rates
  - Hourly median range of $96-$100 for employees and $116-$120 for contractors
  - Session median range of $401-$425 for employees and $476-$500 for contractors.

- Increasing number of employees but majority still contractors in GP owned practices

- Median salary range for FTE GP was $171,000 to $180,000 (3-5 years experience) and $201,000 to $210,000 (more than 5 years experience)

Success factors and **issues** to resolve

- Clear governance and management structure needed with ‘single voice’ from owners and management.
- All income and goodwill is owned by the business for best financial management – remuneration models need to be developed for higher value services e.g. minor surgery clinics.
- Should encourage more proactive health management, better use of lower cost nurse providers, clinics, education and self-management of some health conditions.
- Should encourage better teamwork, consistency, group standards and group practice compliance e.g. all patients invoiced per fee policy.
- Is everyone on the journey? A ‘culture survey’ for all staff and partners may help to uncover issues to be resolved.

Resources and contacts

MAS HealthyPractice®
healthypractice.co.nz

MAS risk and investments
mas.co.nz

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