

# Selling your Practice to a Hospital

## *Weighing the pros and cons*

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In light of recent health care reform and reductions in reimbursement, more and more physicians are entertaining the sale of their practices to a hospital. Particularly with the development of accountable care organizations (ACOs), organizations of health care providers that share in the responsibility and reimbursement for the overall care of patients, physicians face uncertainty as to how health care will be delivered and reimbursed in the future.

The sale of physician practices to hospitals has become an increasingly popular trend. Although such transactions have become more common among cardiologists, other specialties are beginning to be coveted by hospitals to capture referrals and “loyalty.” More than ever, hospitals are looking to integrate their services and secure additional revenue streams. By reconfiguring a practice and utilizing its higher reimbursement rates, a hospital can do just that.

But whether the deal is right for the physician is an entirely different question. This decision should not be made lightly. Physicians that are contemplating selling their practice need to understand the benefits and disadvantages of this transaction and how their personal and professional lives may be impacted as a result.

### **Employment with the hospital**

In most cases, the purchase of a physician practice will be contingent upon the main partners of the practice remaining in practice under the umbrella of the hospital for a period of time. Although the length of

the term is negotiable, a selling physician may expect to remain with the practice for at least one year after the sale. This ensures a smooth transition, without any negative effect on the continuity of care or patient volume. This is particularly true when a practice’s reputation is closely linked to one or two well-regarded physicians.

A selling physician must also understand that as an employee of the hospital, the physician may not be able to generate the same level of compensation that he or she earned in his or her own private practice. Because the hospital bears the risk of the investment, it also reaps the rewards. Such physicians must accept that they will no longer be compensated as partners of the practice, but instead will be retained by the hospital as fixed salaried employees for a certain period of time or based upon a work RVU basis.

At the same time, these physicians no longer need to worry about slow years and fluctuating revenue. This stability and security is often welcomed by risk-averse and risk-seeking physicians alike, particularly in an economic climate where reimbursement rates are continually reduced by private and government payors.

Another benefit is that as an employee of the hospital, a physician is no longer responsible for the overhead associated with running a private practice. Such physicians do not need to allocate resources towards rent, payroll, supplies, marketing, etc. Their only concern is to maintain their patient relationships and



providing high quality, cost-effective care. By reallocating their focus, selling physicians may be better positioned to improve patient care.

### **Quality of life**

A sale of a practice may mean a lifestyle change for a physician. The benefit is clear – fewer hours and a generally better quality of life. While perhaps not all physicians are willing to sacrifice compensation in exchange for improved quality of life, such considerations can be very important for physicians that are looking for more time with the family or are simply tired of the headaches associated with the administrative aspects of running a practice.

But while it certainly means fewer headaches, it also means reduced autonomy in the management and day-to-day affairs of the practice. Physicians that once controlled every aspect of their practice soon learn that as employees of a hospital they have very little say over management decision-making. Prior to entering into such a transaction, a physician may need to give up control of the decision-making power. While some aspects of control are negotiable terms in

the transaction, selling one's practice may still require an adjustment period for those physicians who have grown their practices from the ground up. It is not always an easy transition from owner to employee.

### Benefits

An important benefit of selling a practice to a hospital is the increased resources that a hospital is in a position to provide to a physician's patients. With health care shifting from reactionary medicine to improved preventative care, access to a wide range of resources can significantly improve patient care. For example, instead of shipping out specimens to private laboratories, physicians are able to provide faster, cost-effective pathology services to their patients since most hospitals maintain their own pathology department.

For the physician personally, a hospital fully subsidizes certain employee benefits. For example, as an employee of the hospital, a physician is not required to purchase his or her own medical malpractice coverage. Depending on a physician's specialty, such savings can be quite substantial. A hospital similarly provides all of its employees with various benefits such as health care coverage and retirement benefits. Of course, just as with the management of a practice, physicians should remember that as employees of a hospital, they have very little influence over the type of benefits they are afforded.

### Valuation

In making the decision to sell one's practice, an important consideration for both the physician and the hospital is the valuation of the practice. The valuation is usually closely tied to the goodwill of the practice, which, in turn, is heavily dependent upon patient volume and a practice's reputation in the community. This explains why a hospital is so adamant about employing the core physicians of a practice for a period of time after its sale. A physician joining a hospital's staff can expect his or her employment agreement with the hospital to contain

a restrictive covenant that prevents the physician from competing with the hospital upon termination of the employment. If the selling physician desires to retire or otherwise not join the hospital staff, a hospital will look for a restrictive covenant immediately effective as of the date of the sale. In either case, a hospital will look to protect its investment in the goodwill of the practice.

In order to facilitate a sale, it makes sense to hire an independent consultant to appraise the value of the goodwill. It is important to understand, however, that a hospital may not always offer a physician the fair market value of his or her practice. Because of the importance of retaining practice physicians as employees of the hospital, a hospital will often seek ways to offset this increase in expenses. At the same time, everything is negotiable. Once a benchmark dollar amount is attributed to the goodwill, the parties may use it as a starting point to further negotiate the terms of the sale. While the

price a hospital pays for the practice itself may not be ideal, selling physicians may be able to receive concessions elsewhere – like in their employment agreements.

The starting point for any physician contemplating the sale of his or her practice to a hospital is to evaluate what the physician wants in his or her professional and personal life today and in the future. Those physicians that are looking to sacrifice autonomy and greater compensation in exchange for security and quality of life – a trend that is more and more popular in today's reimbursement environment – should explore potential hospital purchasers that fit their practice's culture and offer a wide-range of benefits and services.

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