PREFERRED PHYSICIANS MEDICAL GROUP
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To: Gail Kursch
Chief, Health Care Task Force, Anti-Trust Division

RE: Proposal to Department of Justice for business review letter on Preferred Physicians Medical Group Clinical Integration Model.

Please consider this proposal of Preferred Physicians Medical Group for a business review letter on our compliance with your Clinical Integration Model. I believe this document explains how we read and interpret your standards, as well as how we expect to comply. I have had general conversation with Steve Brodsky in your division in this regard. Please confer with him or contact me personally for any needed clarification.

Background Information

Preferred Physicians Medical Group is a multispecialty network model which has just formed for the primary purpose of negotiating and managing risk contracts with multiple payors in our community. Our group hopes to create an independent provider organization to enhance a pro-competitive marketplace in an area which has been undergoing considerable recent change.

Geographical Market Share and Providership

The geographical coverage area of Preferred Physicians Medical Group is Southside Hampton Roads Virginia, including the cities of Virginia Beach, Chesapeake, Portsmouth and Norfolk.

PPMG currently has less than 100 members, 54 of whom are primary care physicians, the remainder belong to multiple subspecialties. Our membership currently represents less than ten percent of the providers in any given specialty in our coverage area. Even with expected growth, we do not anticipate representing more than fifteen percent of the providers in any given specialty, nor more than ten percent of all the physicians in Hampton Roads.

Our physician network was selected primarily based upon three criteria:

- demonstrated ability to manage risk and improve utilization of health care resources
- above average quality of care parameters demonstrable where feasible
- like minded attitude showing an understanding of what is needed to succeed in the managed care marketplace

Ownership Model

Preferred Physicians Medical Group will be a PLLC, owned entirely by its physician members. It will be linked contractually to a management services organization which will provide the systems and support to enable providers to develop, implement and monitor quality and utilization improvement programs.

Risk Sharing Arrangements

Individual Risk

Risk contracts will constitute the overwhelming majority of PPMG revenues. Individual members will share risk based upon group performance.

Risk sharing arrangements between physicians and physician reimbursement mechanisms, will vary according to the risk contracts negotiated. However, certain basic principles will likely apply in all risk models. In general, both primary and specialty care physicians will have substantial financial risk under negotiated risk contracts. Primary care physicians will probably receive discounted fee for service under a capitated budget sharing fixed pools. Bonuses will be based upon individual, specialty and total group quality and utilization performance parameters. Specialist reimbursement will preferentially be contact or direct capitation with similar bonus mechanisms.

Group Risk

Risk contracts will constitute the overwhelming majority of PPMG revenues. We will approach payors with a flexible attitude about risk agreements. Individual members will share risk based upon group performance. The contractual risk arrangements we seek will include, but not be limited to:

Case rates

Total professional capitation with hospital, pharmacy and ancillary risk.

Direct percent of premium with delegated medical and administrative services.

PSO with premium directly from HCFA.

Non Risk Contracts

In the course of business, some non-risk contracts will be negotiated. However, this will largely be incidental to the risk contracts with these same payors. Even for these lines of business, physician reimbursement mechanisms within the group will be established where a portion of reimbursement will be rewarded based participation and performance in the group quality and utilization review programs. Group and individual bonus pools, leakage pools and reserve pools will still be needed and will be reimbursed to physicians according to performance in a fashion similar to those described above under risk contracts. PPO products may offer the opportunity to establish risk through case rates.

Clinical Integration

PPMG will be very tightly integrated through multiple strategies. In formulating its Clinical Integration Model, PPMG looks to the following indicators:

- engagement in utilization review and quality assurance programs to improve the quality and cost effectiveness of medical care in our community
- selective choice and review our panel of providers
- maintenance of a system to link and cement provider clinical and financial incentives

Furthermore, we consider implementation of these measures the minimum requirements for clinical integration of our network. We also consider important our resolve to meet and exceed the FTC criteria for clinical integration. We will address each of these points specifically.

1. Implementation of systems to establish goals relating to quality and appropriate utilization of services by network providers.

Preferred Physicians Medical Group has developed and purchased systems to establish quality and utilization parameters for the group. Examples include but are not limited to the following:

- active physician committees (attachment a) which will meet regularly with management support to innovate and adopt appropriateness criteria, monitor adherance to protocols and guidelines and engage in concurrent and retrospective review in a multidisciplinary fashion
- long term contractual linkage with a medical management services organization, Tidewater Physicians Services, which will provide support staff and information systems to assist in this process
- a remedial action program designed to motivate and help physician members adhere to the quality and utilization standards approved by the group
- an administrative mechanism to effectively resolve situations involving recalcitrant physicians

2. Regular evaluation of both individual participants' and the network's aggregate performance with respect to quality and cost effectiveness goals.
In addition to an ongoing program, quarterly reviews are formally scheduled to evaluate individual and group clinical and financial performance, as well as administrative performance, with respect to quality, utilization and financial parameters.

3. Modification of individual participants' actual practices where necessary.
The Remedial Action Program (attachment b) is in place to effectively counsel, educate or otherwise motivate individual participants' practices where necessary. Recalcitrant physicians who do not respond to peer pressure and the above mechanisms will be subject to review by the Clinical Effectiveness Committee (attachment c) which is a joint arm of governance and medical administration.

4. Engagement in case management.
Initially PPMG will engage telephonic case management staff through the management services partner, Tidewater Physician Services. When fully delegated at risk lives approach an appropriate number, a local staff of case managers will be hired. The immediate supervision of case management will be carried out by a full time nurse administrator who will support the Quality Improvement and Utilization Management Committees. Case management, as well as all other protocols for QI and UM will be under direct community physician and medical administration supervision.

5. Provision of preauthorization of some services.
In the initial stages, PPMG will rely upon telephonic preauthorization for medically necessary services and benefits covered by our various contracted payors. These services and the protocols and criteria upon which they are based will be approved and supervised by experienced physician members so designated.

6. Engagement in concurrent and retrospecitve review of inpatient stays.
The concurrent review committee will be staffed by our members specializing in inpatient care, for services delivered throughout the entire continuum of inpatient care. These Hospitalists will meet at least weekly with the Medical Director, support staff, facility representatives and other physicians involved in inpatient management. This same group will have input into the Utilization Management committees assigned to developing and monitoring guidelines and best practices.

Retrospective review will initially be a medical administrative function. Results of such reviews will go to the appropriate QI and UM groups for further consideration.
The ultimate responsibility for the success of these activities rests with the Medical Director.

7. Development of practice standards and protocols.
PPMG already has an extensive set of protocols and guidelines developed by the primary and specialty care physicians in our community. Further concentration on select standards of care to meet our specific utilization and quality objectives will take place on a regular and rotating basis. Each specialty or group of similar specialties will develop and monitor performance standards. Furthermore, a portion of physician compensation will be tied to compliance with these standards of care and to participation in the development and monitoring process.

8. Actual review of care in light of standards and protocols.
See item #7. All physician members can expect an assignment on the utilization management committees.

9. Make a significant investment in information systems to gather data, measure performance against cost and quality benchmarks, and monitor patient satisfaction.
A significant financial investment has and will continue to be made by PPMG physician members on such information systems and support staff. All physicians will be linked via a state of the art, web enabled information system (QMACS*). Standard report cards, financial and clinical targets as well as performance to date by individual physicians, specialties and group wide will be disseminated. Benchmarks and comparisons will be total group performance, best practices standards and nationally recognized targets adapted to the local market.

All payor customized reports are contemporaneously available through management. This information will be available to provide timely, accurate and actionable information to our physicians to assist them in clinical and financial management of their patient populations.

10. Provide payors with detailed reports on cost and utilization, and success in meeting network goals.

PPMG has ultimate confidance in its ability to add value to the medical marketplace. We recognize this requires documentation of our efforts and results from a quality and a cost effectiveness approach. This information will be available in written materials and on our internet site. It will be provided to marketing staff when working with payors, employer groups and the public at large.

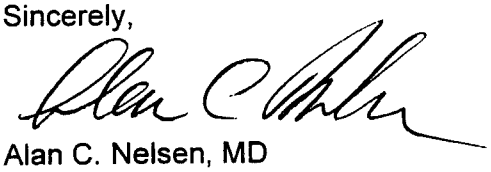
11. Hire a Medical Director and support staff.
This document is prepared by the full time Medical Director of Preferred Physicians Medical Group. Distance and local support staff will be brought on board as the organization grows in market share and providers.

12. Investment by doctors of appreciable time in developing standards and protocols and active monitoring of care rendered through the network.
See items #7 and #8. All physician members will at some time rotate through the utilization management committee structure. Physician leadership will be expected to make a considerable contribution to this effort. As membership grows, physician managers wil be given

an appropriate stipend for their contribution of time and intellectual capital.
It is anticipated that specialty budgets will grow out of the demonstrated care management needs of our patients and physicians. Thus physician reimbursement will be tied to the modeling and execution of the care management strategies.

In conclusion, we thank you in advance for your willingness to help us work through this request process and to consider granting a business review letter. As you can tell, we are intensely and fundamentally committed to adding value to the community, by truly integrating our group on a clinical level to improve quality and cost effectiveness of care. This will allow us to pass on to the community the benefits of a consumer focused, physician driven model. Any comments or questions you might have will be much appreciated.

Sincerely,



Alan C. Nelsen, MD
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