Starting a physician practice in Michigan

Due to increasing economic pressures, frustration with bureaucratic policies, and a growing need for autonomy, many young—and not-so-young—physicians are considering starting their own medical practices in Michigan. The purpose of this article is to provide the reader with a general overview of the issues involved in opening a new physician practice in Michigan. It is by no means an exhaustive list of all of the potential issues faced by physicians establishing a new practice, but it should provide a valuable map to follow down the road to professional independence.

Does it make 'cents' for you?

While the potential financial gains often motivate physicians to consider starting their own practices, other important considerations include:

- securing financing for the initial startup costs;
- the likelihood of obtaining an initial deficit for a significant amount of time before billings are collected;
- the resources needed to handle administrative tasks, including marketing, billing, managed care and insurance issues, and employment matters;
- the additional time away from family and friends as a result of the need to build the practice; and
- the lack of colleagues available for immediate consultation.

If after considering these factors the physician wishes to proceed, it will be necessary to create a business plan.

Create a business plan

Any physician considering opening a new practice in Michigan must be cognizant of the costs involved in doing so. Michigan physicians will need financing to make the opening of a medical practice a reality. In order to assess one’s financial needs, it is helpful to devise a business plan. The best approach to developing a business plan is to put together a qualified team of advisors, including a healthcare attorney, a practice management consultant, and an accountant. Each of those advisors serves an important role in the development and implementation of a successful business plan.

A well-drafted business plan will include several components. At a minimum, a business plan should include:

- detailed description of the intended business;
- market analysis;
- marketing strategy; and
- financial projections.

The primary purpose of a business plan is to establish the financial viability of a physician practice and as a result to procure financing from third-party lenders. Without a well-drafted business plan, financial institutions will be less inclined to provide the physician with the funding necessary to open a new practice. A well-drafted business plan also serves to help the physician develop and refine business goals and objectives.

Location, location, location

As they say in real estate, the three most important factors to a successful investment are location, location, and location. Even highly skilled physicians will have difficulty achieving significant financial success in a market filled with doctors. Accordingly, physicians opening a new practice are well advised to consider:

- demographics of the community in which they intend to practice to determine whether there is community need for physician services;
- the competition in the area, and
- the demand for services in the area.

Business structure

Once a physician has chosen a location for his or her practice, the next step is to begin to implement the business plan. The initial step in this process is to decide on a corporate structure.

Several corporate structure options are available, including S corporations, C corporations, limited liability companies, and limited liability partnerships. A health care attorney, corporate attorney and an experienced accountant are best suited to advise a physician in choosing the most appropriate business structure.

In Michigan, the Limited Professions Corporation Act requires all attorneys of an allopathic or osteopathic physician practice to be licensed "physicians and surgeons" which includes doctors of medicine, osteopathy, and podiatry. (See, "Corporation and Securities Bureau Release 94-1A-C: Note that the release does not include chiropractors.")

In establishing the business structure of an organization, physicians must be cognizant that group practices providing ancillary services must comply with the Michigan and federal Stark laws. Accordingly, a physician establishing a group practice should consult the services of an experienced healthcare attorney to review the physician’s arrangements in light of these laws.

Financing

The next step in the implementation of the business plan is to secure financing to support the opening of the new practice. When seeking financing, physicians should be aware that the more information they provide to a loan officer, the more successful will be their attempt to acquire financing.

For example, a physician who approaches a loan officer with a business plan that details cash flow projections, including a detailed analysis of the time frame in which the revenue related to the practice will be repaid, and further includes a demographic analysis of community needs for physician services will be more likely to receive a loan than a physician who simply presents a blank check. A physician who seeks to borrow a sum of money without supporting documentation is likely to be less successful.

Office space

After obtaining financing, a physician should next attempt to secure office space for the practice. In diverse areas, such as a city, location, physicians must be mindful of local zoning ordinances, which may limit the type of space available for physicians to locate. While it is important that all physician offices be accessible to patients, it is most important for a generalist’s office to be located near a population center. A specialist’s office may be more appropriately located near a hospital. Physicians must also calculate the amount of space they need to practice medicine in a comfortable environment. It is a common mistake for physicians to underestimate the amount of space required for the necessary equipment to access patient records. With respect to exam rooms, physicians should keep in mind that a practice requires more than one exam room for each physician.

In order to achieve top productivity, it is suggested that a physician have several exam rooms. Each exam room should be equipped with a medical assistant and nurses’ station. Physicians and medical assistants and nurses will use the exam room to prepare patients. The exam room should be large enough to accommodate patients to be seen by the physician. With those considerations in mind, a solo practitioner may be able to practice comfortably in 1,500 square feet. However, a mid-size practice will require more than 4,000 square feet to operate comfortably. A practice management consultant may be best positioned to advise a physician regarding the amount of space he or she will require to practice comfortably.

Once office space has been located, a physician must decide whether he or she wishes to purchase or lease office space. Should the physician decide to lease office space, in most situations, the physician will need to negotiate the standard lease terms with the landlord. Standard commercial lease terms tend to be overly landlord-friendly. Accordingly, physicians require a competent attorney, real estate attorney, or a lease broker experienced in negotiating with physicians to help negotiate important terms.

Further, note that if a physician’s lease for office space is with a potential referral source, the arrangement must comply with the Federal Anti-Kickback statute.

License and registrations

Out-of-state physicians planning to move to a new medical practice in Michigan must start the licensing process as soon as possible, as the licensing process may take at least 12 months. Physicians must provide documentation to the Bureau of Health Professionals website (BHP) and the Michigan Occupational Licensing Board. For specific requirements, contact the Bureau of Health Professionals website (BHP) at (800) 848-5689 or Michigan.gov/ghp.

In addition to obtaining a Michigan medical license, a physician must also obtain each of the following licenses. The physician must apply for these licenses prior to beginning practice:

- Drug Enforcement Administration registration to prescribe controlled substances;
- Michigan Drug Control license (required if the physician plans to dispense drugs from the physician’s office);
- Michigan Controlled Substance License;
- Michigan Hazardous Waste License;
- Clinical Laboratory Improvement Amendments (CLIA) certificate, which intends to perform in-office lab work;
- Michigan health provider identification number (HIPIN);
- medical identification number;
- Medicare provider number and Universal Provider Identifier Number (UPIN) (if the physician plans to accept Medicare patients); and
- Medicaid provider number (if the physician plans to accept Medicaid patients).

Furthermore, pursuant to the Michigan Health Care Portability and Accountability Act of 1996 (MICH. COMP. LAWS ANN. § 333.330001),
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As an employee, in addition to mandatory workers' compensation insurance, a physician should acquire several other insurance policies, including, but not limited to, the following:
- malpractice;
- business owners;
- business continuation;
- employment dishonesty (employees fidelity bond);
- health;
- disability; and
-umbrella coverage.

Of these types of discretionary insurance, malpractice insurance may be the most beneficial to any physician practice. Most third-party payers and hospitals require a physician to obtain malpractice insurance prior to granting payer contracts or hospital privileges. It is imperative that a physician's malpractice insurance covers all functions in which the physician engages or intends to engage. Prior to the opening of his or her practice, a physician was employed by a physician corporation entity and he or she was required, under a claims-made policy, the physician should determine whether his or her current insurance policy covers the employer status. The employer will pay for necessary "tail" coverage upon his or her departure.

Tail coverage will insurce the physician against lawsuits filed in the future arising from the physician's work as an employee of that separate entity. If the employer will not provide tail coverage to the physician, and the physician must provide for his or her own tail coverage, he or she should be aware that the cost of tail coverage is often twice the cost of a traditional malpractice premium.

Further, physicians-employers should consider purchasing commercial general insurance, which covers the practices of the practice office building in the event of vandalism, theft, or fire. In addition, this type of insurance protects the practice's assets from any damage that arises from accidents that occur on the premises.

In Michigan, a medical practice must have workers' compensation insurance to protect its employees. Workers' compensation insurance provides for the medical and lost wages for employees who are hurt or become ill on the job. Michigan law requires that every employer subject to the act provide workers' compensation insurance a way of assuring that the injured employees can be sure to receive the payments for which the employees are entitled. The statute further provides that the compensation is payable for all injuries arising in the course of employment or for all diseases arising out of and in the course of employment.

In Michigan, both businesses and employees may have a choice from more than 20 insurance companies to provide workers' compensation insurance. Accordingly, a physician should consult with an insurance broker to identify the most competitive insurance coverage that will meet the needs of the practice.

For more information on Michigan workers' compensation insurance, visit the Bureau of Workers Compensation and the Michigan Economic Development Corporation at www.bwc.michigan.gov and www.michigan.gov/mi1dco/services/workerscompensation.

Hiring administrative and medical staff
Prior to the opening of a physician's practice, the physician should begin to hire his or her staff.

The first question a physician must consider is how many employees are necessary to serve the practice. While a physician practice ultimately may require several managers, one or more receptionists, a checkout clerk, a billing clerk and one or more medical assistants (depending on the specialty and practice volumes), initially physicians should start out hiring the minimum necessary staff.

A single physician who is beginning a new practice, without any patients, may want to hire one administrative support staff, and increase personnel as needed. A physician opening a new medical practice should carefully consider whether he or she would like to hire a billing clerk to work within the practice or whether the physician would prefer to contract with an independent medical billing company. In either situation, the physician must be aware that he or she will remain liable for any billing errors that are committed.

Additionally, prior to hiring medical staff, a physician must understand the supervision and reimbursement requirements of the third-party payers who will pay for the physician's services. For physicians who are independent contractors, third-party payers will reimburse the physician for services provided, whereas certain health care practitioners, in accordance with their Medicare and Medicaid requirements, must be reimbursed by the payer in a timely manner.

In writing job descriptions and offer manuals, professional organizations, such as the Medical Group Management Association, offer descriptions of job duties and specifications for sale. -www.mgmag.org.

However, physicians should be cautioned that those documents should be reviewed as a starting point for developing specific job descriptions applicable to the requirements of the physician's practice. An experienced health care attorney also can assist in developing comprehensive office manuals.

In determining the starting salary for administrative and support staff, physicians should consult with local health care providers within a particular community should be able to estimate the going rate for medical support services, taking into consideration the cost of the protected health information of the patient's practice should be included in the physician's practice. An experienced health care attorney also can assist in developing comprehensive office manuals.

Compliance program
Once the support staff has been hired, it is essential that a physician practice have a compliance program in place. The compliance program should include policies and procedures related to compliance with the HIPAA privacy regulations. The HIPAA regulations are, in essence, a Federal law that governs how health care providers and their employees handle the protected health information of patients. The legislation is designed to give patients control over their health information and to ensure that it is used only for medically necessary treatments.

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It should also be noted that the recent trend toward electronic medical records will soon become a requirement for third-party payers. As such, it is advised that a physician opening a new practice should consult with a practice management consultant in the beginning to assist the physician in selecting the appropriate software to meet his or her needs.

Additionally, all physician practices in Michigan will perform medical procedures resulting in exposure to infectious material, hazardous waste materials, and radioactive waste materials. Worker exposure controls are available from the State of Michigan website at 1-1160-71146-84707-00.htm (8450).

Physicians must be aware of the laws and regulations regarding the storage and disposal of medical waste developed by the Michigan Department of Environmental Quality (1-1185-7:135-3312, 4119—00.htm).

Systems
One of the final steps in opening a physician's practice is to implement effective office systems. For example, physicians must consult with practice management consultants to assess the needs of their practices. Physicians should consult with the appropriate software to meet his or her needs.

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