# How to Profit from Ophthalmology in ASCs

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Becker's ASC Review
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## Agenda

I. Framing the Issue

II. Increasing Profitability

III. Femtosecond Laser

IV. Retina

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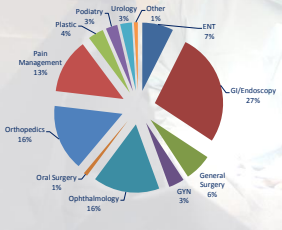
## Framing the Issue

**Case Volume Mix**

- In last 8 years, cataracts performed in an ASC has increased by 27%
- 3,000,000 performed each year; expected to double in 10 years

**Specialty**




| Specialty | All Facilities |
|---|---|
| ENT | 8% |
| GI/Endoscopy | 29% |
| General Surgery | 7% |
| GYN | 4% |
| Ophthalmology | 17% |
| Oral Surgery | 1% |
| Orthopedics | 17% |
| Pain Management | 14% |
| Plastic | 4% |
| Podiatry | 3% |
| Urology | 3% |
| Other | 1% |

Source VMG Intellimarker 2011

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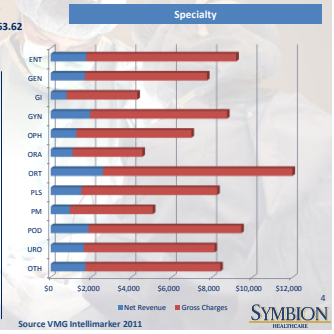
## Framing the Issue

**Revenue Per Case**

- Medicare reimbursement to increase by 1.6%
- CPT Code 66984 to increase from $951 to $963.62

| Specialty | Gross Charges | Net Revenue |
|---|---|---|
| ENT | $7,433 | $1,761 |
| GI/Endoscopy | $3,517 | $778 |
| General Surgery | $6,058 | $1,689 |
| GYN | $6,788 | $1,953 |
| Ophthalmology | $5,708 | $1,267 |
| Oral Surgery | $3,464 | $1,078 |
| Orthopedics | $9,398 | $2,585 |
| Pain Management | $4,103 | $955 |
| Plastic | $6,738 | $1,516 |
| Podiatry | $7,574 | $1,871 |
| Urology | $6,484 | $1,639 |
| Other | $6,688 | $1,718 |




Source VMG Intellimarker 2011

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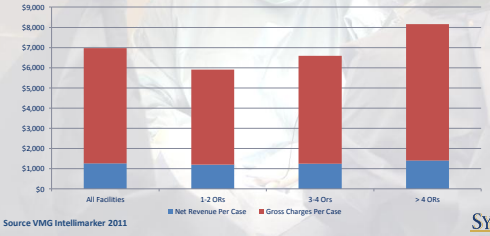
## Framing the Issue

**Ophthalmology Revenue Per Case**

| | All Facilities | 1-2 Ors | 3-4 ORs | > 4 Ors |
|---|---|---|---|---|
| Gross Charges Per Case | $5,708 | $4,708 | $5,338 | $6,745 |
| Net Revenue Per Case | $1,267 | $1,201 | $1,249 | $1,409 |
| Contractual Adjustment | 76.6% | 74.9% | 76.6% | 79.1% |




Source VMG Intellimarker 2011

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## *Outpatient Surgery* Survey

***When compared with other procedures you do at your facility, how profitable are cataracts?***

- Very Profitable 10%
- Somewhat Profitable 49%
- Not Too Profitable 25%
- Not at all Profitable 12%
- Don't Know 4%

***How concerned are you about maintaining the profitability of cataract surgery for your facility over the next 5 years?***

- Very Concerned 65%
- Somewhat Concerned 25%
- Not Too Concerned 7%
- Not At All Concerned 3%

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## *Outpatient Surgery* Survey

***What actions are you taking to improve the profitability of cataract surgery?***

- Reduce Supply Costs 68%
- Increase Volume 49%
- Streamline Patient Throughput 37%
- Reduce Capital Equipment Costs 25%
- Reduce Staff Costs 18%

***Primary reasons cited for poor or lack of profitability***

- Low Reimbursement
- High Supply Costs
- Low Volume
- Slow Surgeons

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## Increasing Profitability

**Two Key Points**

- **Volume is essential for profitability**
- **Goal is to constantly improve efficiencies while containing costs**

**Ways to Improve Efficiency, Quality, and Profitability**

- **Creating Staff Efficiencies**
  - **Hire, train, and retrain dedicated staff**
  - **Employees must buy into culture of Teamwork**
  - **Cross train nurses and staff to reduce labor cost with "pitch in" attitude**
  - **Improve turnover time with adequate staffing**
  - **Coordination between pre-op/post-op and OR staff is essential during times of peak volume**
  - **Staff to case volume; when cases are completed employees go home**

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## Increasing Profitability

**Ways to Improve Efficiency, Quality, and Profitability**

- Physician efficiency can be created with 1 surgeon working in 2 ORs
  - Typically only makes economic sense with fast, high volume surgeons (i.e. performs at least 5 cases per hour)
- Schedule efficiently
  - Employ energetic scheduler who is constantly in contact with physician offices
  - Use block time release policy to provide opportunity to fill open blocks
  - Know when your physicians are planning vacations or conference attendance
- Monitor Supply Costs
  - Maximize use of GPO but consider direct negotiation with large vendors
  - Standardize surgical products (i.e. instrument trays, supply packs, equipment)
  - Review supply pack contents on regular basis
  - Understand the fine line between volume discounts through utilization of one vendor versus competitive bidding of multiple vendors

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## Increasing Profitability

**Ways to Improve Efficiency, Quality, and Profitability**

- Take case costing seriously
  - Perform regular analysis on all physicians

| Physician | Supply Cost Standard Phaco Case | |
|---|---|---|
| Doctor A | $ 414.34 | |
| Doctor B | $ 316.04 | |
| Doctor C | $ 588.95 | |
| Doctor D | $ 369.14 | |
| Doctor E | $ 465.04 | |
| Doctor F | $ 409.25 | |
| Doctor G | $ 399.75 | |
| Doctor H | $ 496.62 | |
| Doctor I | $ 305.04 | Low |
| Doctor J | $ 394.10 | |
| Doctor K | $ 452.67 | |
| Doctor L | $ 594.54 | High |
| Doctor M | $ 404.07 | |
| Average Supply Cost | $ 431.50 | |

Source: Review of Preference Cards and Operative Reports

- Also include full case costing based on OR usage, overhead costs, staffing costs and reimbursement to determine case profitability

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## Increasing Profitability

**Ways to Improve Efficiency, Quality, and Profitability**

- Renegotiate managed care contracts regularly
- Collect co-pays, deductibles and premium IOLs on day of surgery
- Drive growth in volume by expanding scope of ophthalmology procedures such as oculoplastics, glaucoma procedures, LASIK, and retina
- Embrace and evaluate new technologies and equipment

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## Femtosecond Laser

*Advantages of Femtosecond Laser*

- Makes surgery more precise
- Patients frequently achieve full clarity of vision
- Enables less experienced surgeon to deliver uniformly high quality results

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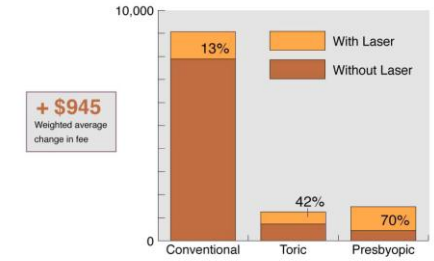
## Percent of All Cataract Procedures Using Laser

Q1 2012 – By IOL Type




| | Conventional | Toric | Presbyopic |
|---|---|---|---|
| Laser Cataract Procedures | 1,210 | 524 | 1,030 |
| Total Cataract Procedures | 9,069 | 1,252 | 1,477 |

2012 Laser Cataract Survey

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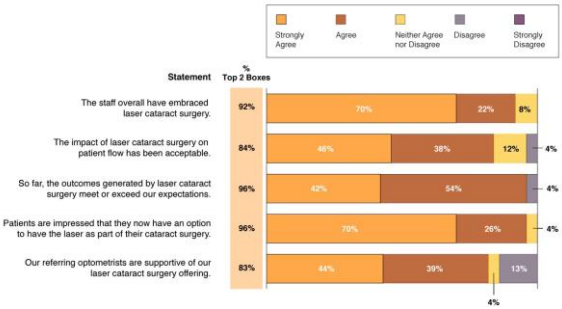
## Surgeon Perspective on Laser Cataract Surgery




2012 Laser Cataract Survey

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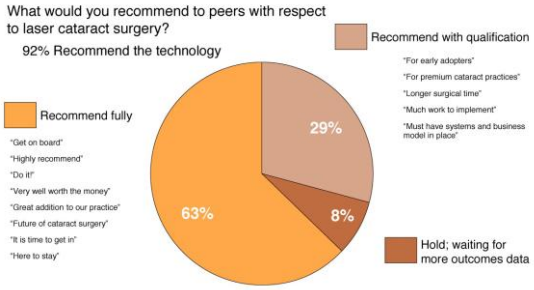
## Peer Recommendations: Laser Cataract Surgery




2012 Laser Cataract Survey

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## Femtosecond Laser

*Equipment Cost*

- Cost of Equipment will range from $350,000 to $450,000
- Warranty of $40,000 required annually for years 2-5
- Additional costs possible for air conditioning
- Monthly debt service can be $8,000-$9,000 per month requiring 50-70 procedures for cash flow

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## Femtosecond Laser

*Key Points*

- **Physician Training/Certification** – With Alcon, 10 cases are required before physician is certified
- **Location of Femtosecond** – In separate room; not in OR
- **Patient Flow** – Impact on physician/case timing
- **Staffing** – For femtosecond procedure/Cataract procedure
- **Case Scheduling** – Must allow for additional time

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## Femtosecond Laser

- **Not reimbursable by Medicare**
- **Can bill patient for astigmatic condition correction**
- **Billing Physician eliminates collection issues with patient**
  - **Physicians Offices required to sell to patient**

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## Femtosecond Laser

*Additional Revenue*

- **Creates competitive advantage**
- **Marketing program developed for reaching out to other Physicians in community**
- **Increases cataract volume**

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## Femtosecond Laser

***Hypothetical Case Assumptions***

| | | | |
|---|---|---|---|
| Patient Interface Per Case | $ 304 | | |
| SWB | $ 50,000 | | |
| Annual Loan Payment for Femto | $ 90,000 | | |
| Annual Service Contract | $ 40,000 | | |
| Rates Per Usage | | | Cataract Rate |
| Charge for Case | $ 750 | $ 750 | $ 1,447 |

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## Femtosecond Laser

***Hypothetical Case***

| Year 1 | | Additional Femto Volume | Additional Case Volume | Totals |
|---|---|---|---|---|
| Number of Cases | 500 | 100 | 100 | |
| Revenue | $ 375,000 | $ 75,000 | $ 144,700 | $ 594,700 |
| SWB | $ 50,000 | $ 10,000 | $ 32,300 | $ 92,300 |
| Patient Interface/Medical Supplies | $ 152,000 | $ 30,400 | $ 50,200 | $ 232,600 |
| Service Contract | $ 40,000 | $ - | $ - | $ 40,000 |
| Other Variable | $ 34,165 | $ 6,833 | $ 17,800 | $ 58,798 |
| Bad Debt Expense | $ 3,750 | $ 750 | $ 1,447 | $ 5,947 |
| Total Expenses | $ 279,915 | $ 47,983 | $ 101,747 | $ 429,645 |
| EBITDA | $ 95,085 | $ 27,017 | $ 42,953 | $ 165,055 |
| *EBITDA %* | *25.36%* | *36.02%* | *29.68%* | *27.75%* |
| Annual Debt Service On Equipment | $ 90,000 | | | $ 90,000 |
| Net Cash Flow | $ 5,085 | $ 27,017 | $ 42,953 | $ 75,055 |

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## Retina

Reasons for retina migration to an ASC setting

- Increased reimbursement with ASC payment system in 2008
- Expansion of CMS eligible procedure list
- Technological advancements with high speed vitrectomy cutters and 23 and 25 gauge surgery techniques
- Case times have been reduced to 30 – 45 minutes
- Increased patient satisfaction and comfront
  - Average patient spends over 3 hours longer with hospital retina procedure than one in an ASC setting



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## Retina

Limitations

- Cases are more difficult and require staff expertise
- Capital cost can exceed $200,000
- Case scheduling can be challenging
- Typically requires carve outs from managed care payors



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## Retina

| DIRECT LABOR COSTS DETAIL | |
|---|---|
| $30.00 | 45 Minutes pre op for eye drops, ekg, IV, paperwork consent etc $40 per hour |
| $13.33 | 20 minutes for eye blocks to numb eye for every procedure, IV sedation $40 per hr |
| $70.42 | 1 hour 5 minutes OR average, includes one nurse and one tech (nurse at $40, tech at $25) |
| $40.00 | 1 hour recovery (in bed for 30 mins, out of bed for 30 mins) two nurses $40 hr |
| **$132.84** | **TOTAL DIRECT LABOR COST PER CASE** |

| INDIRECT LABOR COSTS DETAIL | |
|---|---|
| $10.00 | 30 minutes scheduling and verification at $20 per case |
| $6.60 | 20 minutes ck in at $20.00 hr per case |
| $6.60 | 20 minutes billing at $20.00 hr per case |
| **$23.20** | **TOTAL INDIRECT LABOR COSTS PER CASE** |

**Standard Items: Procedure 67040 (Vit w/ laser)**

| Quantity: | Description: | Estimated Cost: | | Total cost: |
|---|---|---|---|---|
| 1 | Constellation 23ga Total Plus Pak (25+ add $25) | $450.00 | | $450.00 |
| 1 | BSS Plus | $40.00 | | $40.00 |
| 1 | Custom Pak (Drapes, Gowns, Prep Kit, etc) | $50.00 | | $50.00 |
| 1 | Viscoelastics | $13.00 | | $13.00 |
| 0 | * C3F8 or SF6 gas | $10.00 | | $0.00 |
| 1 | * Laser Endo probe | $150.00 | | $150.00 |
| 0 | * Perfluoron/Silicone Oil | $375.00 | | $0.00 |
| 0 | * DSP disposable scissors/forcep | $130.00 | | $0.00 |
| | | | | $703.00 |
| | | | **Total Cost Per Procedure** | **$703.00** |

* Indicates optional component

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## Retina

***Hypothetical Case- Incremental Cost Analysis Only***

| | | |
|---|---|---|
| **Number of Estimated Cases** | **175** | **110** |
| **Net Revenue** | **$ 307,300** | **$ 193,160** |
| **Net Revenue Per Case** | ***$ 1,756*** | ***$ 1,756*** |
| **Expenses** | | |
| **Salaries, Wages, Benefits** | **$ 35,499** | **$ 22,314** |
| **Medical Supplies** | **$ 123,025** | **$ 77,330** |
| **Other Variable Expenses** | **$ 13,125** | **$ 8,250** |
| **Bad Debt Expense** | **$ 6,146** | **$ 3,863** |
| **Total Expenses** | **$ 177,795** | **$ 111,757** |
| **EBITDA** | **$ 129,505** | **$ 81,403** |
| ***EBITDA %*** | ***42.14%*** | ***42.14%*** |
| **Debt Service** | **$ 50,000** | **$ 50,000** |
| ***Cash Flow*** | **$ 79,505** | **$ 31,403** |

**Does Not Consider Fixed Costs**

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## Thank You and Questions

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