

Assessing the Profitability of Ortho & Spine Cases

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Development



The Profit Equation

$$\text{Revenues} - \text{Expenses} = \text{Profit}$$

- Revenues/Reimbursements
- Direct/Variable Expenses
- Contribution Margin
- Indirect/Fixed Expenses
- Profit



Market Factors Affecting Reimbursements

- Local Payer Landscape
 - Heavily Managed Care vs. OON Opportunity
 - Dominant Local Payer vs. Several Competing Payers
- Negotiating Power
 - Hospital/Corporate Partner vs. Stand-Alone ASC
- Local Area Demographics
 - Predominantly Younger vs. Older/Retired Population



Medicare Reimbursements

- CMS Payment Methodology Change For ASCs
 - From Grouper System to APC System
 - 4-Year "Phase-In" from 2008 to 2011
 - ASCs Have Same Basic Payment System As HOPDs
 - Inflation-Driven Increases in Payments
 - ASCs – CPI For All Urban Consumers (CPI-U)
 - HOPDs – Hospital Market Basket Index



Medicare Reimbursements

- The Bad News
 - In 2003 – ASCs Paid 86.5% of HOPDs
 - In 2008 – ASCs Paid 63.0% of HOPDs
 - In 2011 – ASCs Paid 56.0% of HOPDs
- Total HOPD Reimbursements Growing While Total ASC Reimbursements Staying Flat



Medicare Reimbursements

- The Good News
 - Significant Increase for Ortho ASC Reimbursements
 - Example (Average Medicare Payment Per Ortho Case):



- 103% Increase From 2008 to 2011



Reimbursements - Insurance Contracts

- Based on Old Grouper System
- Based on Modified Grouper System
 - Multiple Procedure Discounts
- Percentage of Charges With a Per Case Cap
- Implants
 - Carve Outs
 - Billed/Reimbursed Through 3rd Party
 - Reimbursed If Cost Greater Than Certain Amount
 - Medicare – Device Intensive Procedures
 - Not Reimbursed At All



Assessing Profitability - Reimbursements

- Know Your Contracts
- Use Tools At Hand To Determine Reimbursements
 - Load Contracts Into Billing System
 - Excel Worksheets
- Out Of Network Cases
 - Use History As Your Guide
 - What Have We Collected On Similar Cases In Past?
- For Past Cases – Use Actual Collection History

For Current Cases - Should Know What We Will Collect For Each Case Before The Bill Is Even Submitted!!



How Much Does a Frappachino Cost Starbucks to Make?



The Same Framework Can be Applied to Any Business, Including ASCs



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Accurate case costing offers invaluable insights for an ASC or Hospital

- Which cases are adding to profitability?
- Which cases are unprofitable?
- Which cases only cover fixed costs?
- Which cases cover your variable costs?
- Which insurers pay highest on a particular procedure?
- Which doctors have the highest supply costs on a specific surgery?
- What is the Profit margin per doctor?



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Why is case costing challenging?

Accurate tracking

- Who worked in this surgery and for how long?
- What materials were used?

Assumptions must be made

- How do we allocate the cost of an administrator?
- Number of cases by operating time or staff time utilized?

Confrontation of reality

- Are we really losing money on so many cases?
- Is Dr. X really using 50% of the supply budget?

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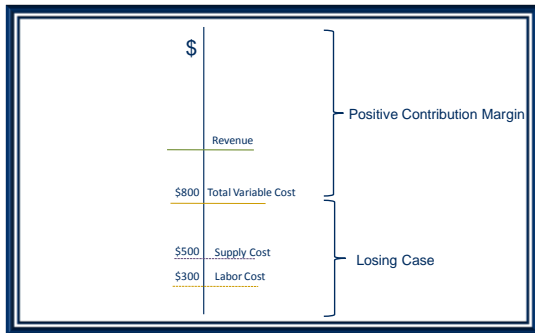
Definitions

Revenue – Variable Costs = Contribution Margin

Variable Costs = Costs Incurred in Performing a Surgery



A Glance at Case Profitability



Supply Cost Considerations

	Quarter to Date	ANTHROPOMY, KNEE, SURGICAL, WITH MENISCUS	Units	Cost
Net Revenue				
Outpatient Surgical Case	9,298,436.22			
Implant Reimbursement	338,021.63			
Contractual Discounts	-6,581,002.07			
Total Net Revenue:	3,055,055.78			
Variable Expenses				
Direct Supplies				
Medical Supplies	251,996.27			
Drugs/Pharmaceuticals	45,737.74			
Instruments & Minor Equip	5,523.91			
Implants - Reimbursable	338,021.63			
Other Reimbursable Expenses	0.00			
Freight	3,670.96			
Sales Taxes	18,198.15			
Total Direct Supplies:	653,748.26			
		Commentary		
		• Inventory purchases		
		• Startup-supply expense		
		• Consignment purchases		



Labor Cost Considerations

Professional Liability Insurance	3,806.01
Computer Services & Supplies	17,192.11
Total Non-Direct Supplies & Services:	111,528.96
Labor	
Wages	387,651.17
Salaries - Incentives	33,463.32
Employee Benefits	37,340.82
Payroll Tax	31,533.67
Work Comp Insurance	3,363.14
Accrued PTO Expense	-398.75
Payroll Service/HR Admin Fee	3,481.64
Agency Staffing	0.00
Consulting	531.25
Total Labor:	496,068.28
Mgmt/Billing/Collecting Fees	
Legal Fees	4,491.00
Accounting Services	4,033.50

Commentary

- What is fixed vs. variable labor?
- What is semi-variable?
- Allocate the labor cost by OR minutes



Calculate Clinical Cost per Patient Care Minute

Patient 1: 95 Minutes
 Patient 2: 80 Minutes
Patient 3: 75 minutes
 Total : 250 Minutes



Cost: \$2,000
 $\div 250 \text{ minutes}$
 \$8.00 per OR Minute



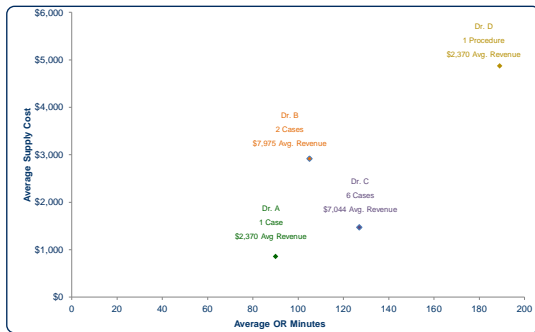
Labor Costs per Case

Patient 1: 95 Minutes * (\$8.00 / minute) = \$760
 Patient 2: 80 Minutes * (\$8.00 / minute) = \$640
 Patient 3: 75 minutes * (\$8.00 / minute) = \$600

Total: \$2000



Arthroscopically Aided ACL Repair



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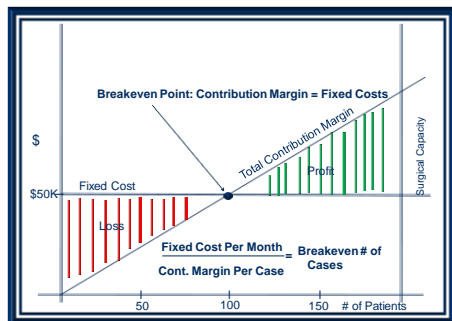
Overnight Cases

Code Procedure	Payer	Revenue	Supplies	Labor Cost	Overnight		Anesthesiologist	Labor Cost	Est. Total	Cont. Margin
					Operative Patients	Overnight				
42020 TONSILLECTOMY	CIGNA	\$2,891	\$545	1,094	3	1	\$780	\$1,200	\$1,074	100%
86075 ORGECSTOMY	ANTNA	\$20,774	\$5,700	14,249	1	1	\$780	\$1,200	\$1,004	\$11,461
28027 ARTHROSCOPY, SHOULDER, ROTATOR CUFF	HUMANA	\$5,505	\$780	969	1	1	\$780	\$1,200	\$2,049	\$3,776
03042 LAMINOTOMY	BLUE CROSS OPEN CASE	\$2,303	1,195	2	2	2	\$390	\$600	\$2,189	Open Case
86024 LAPAROSCOPIC VAGINAL HYSTERECTOMY	SELF PAY	\$1,000	\$1,200	2,389	2	2	\$390	\$600	\$3,979	100,200

Seek to maximize number of overnight cases scheduled on an individual night

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Breakeven Analysis



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Thank You

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