Managing Implant Costs

A Joint Venture

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Presentation Objectives

• To provide a defined structured process for the implementation of a successful “CAP” implant program.
• Define roles in the “CAP” program process
• Provide pricing intelligence through concrete examples of reimbursement and implant costs
Steps in formulating a successful Joint Venture Implant Program

• Pre Implementation
  – Identify opportunities
  – Educate Physicians, Materials Management and OR Personnel
  – Gain Pricing Intelligence
  – Walk through Joint Venture Plan
  – Learn and practice roles
Education

• Demonstrate what’s in it for all

– Physicians – staff, capital equipment, efficiencies
– Staff – security, annual salary increases, equipment to assist them do their jobs better and easier, staff efficiencies
Opportunities

• Look at current invoices and determine:
  – What are you purchasing?
  – How much are you paying for major implants?
  – From whom are you purchasing, look at % of business?
  – Are you paying rental fees and freight?
  – Are sales reps in the room, what else are they selling?
Comparisons

• Look at hips, knees and spine cases and compare actual Medicare reimbursement with actual cost of each procedure.

• This exercise is very telling – the implant companies get paid first and have no risk!
MCR Payment  Laminectomy
DRG 491

$5,593.00

2007-2008 data
Case Cost Analysis

Laminectomy

- OR salary $471
- In-patient nursing $423
- Supplies $430
- Implants $0
- Total case cost $1,324
- Medicare average reimbursement DRG 491 $5,593

Results in a (+) margin of $4,269
MCR payment for Lumbar Laminectomy with fusion DRG 460

$19,377.00
Case Cost Analysis
2 Level Lumbar Fusion

- OR salary $501
- In-patient nursing $1269
- Supplies $169
- Implants (6 screws, 2 rods, 2 cages) $12,900
- Total case cost $14,839
- Add on large BMP $5,000
- Potential total cost $19,839
- Medicare average payment $19,377

- Results in a (-) margin of ($462)
## Case Cost Analysis

### 3 Level Lumbar Fusion

- OR salary $913
- In-patient nursing $1,692
- Supplies $761
- Implants $20,177
- **Total case cost** $23,543
- Add on large BMP $5,000
- **Potential total cost** $28,543

- **Medicare average payment** $19,377

- **Results in a (-) margin of** $(9,166)
MCR payment for Total Knee without MCC
DRG 470

$11,042.00
Case Cost Analysis
Total Knee Replacement

- OR salary $552
- In-patient nursing $1,692
- Supplies $727
- Implants (CAP) $4,300
- Physical Therapy $858
- Total cost $8,129

- Medicare average payment DRG 470 $11,042

- Results in a (+) margin of $2,913
Case Cost Analysis
Total Hip Replacement

- OR salary $552
- In-patient nursing $1,692
- Supplies $727
- Implants (CAP) $4,700
- Physical therapy $858
- Total case cost $8,529

- Medicare average payment DRG 470
  $11,042

- Results in a (+) margin of $2,513
Gain Pricing Intelligence

• Network with other Hospitals
• Information should not be confidential!
• Try to get confidential language out of your contracts
• Use services for national average pricing such as ECRI & Aspen as a starting point
• Get educated
2007 vs. 2008 Comparison
Manufacturers list price Jan 1, 2008

Example Metal on Metal hip implant
Shell and Stem

– **Biomet** Taperloc/38/M2a $12,800 up 6 %

– **DePuy** Summit/36/Pinnacle/Ultamet $12,423 up 6 %

– **Zimmer** Natural/Metasul/Inter-Op $11,718 up 5 %

Source: Orthopedic Network News
2007 vs. 2008 Comparison
Coated Knee Implants
femur/tibia

- **Zimmer**  NexGen Flex/TM tib/pat $13,686 up 6%
- **DePuy**  LCS/MBT/por patella $13,000 up 7.4%
- **Biomet**  Vanguard CR/Maxim $10,855 up 15.8%

Source: Orthopedic Network News
Walk through Joint Venture Plan

• Practice roles
• Present a united front
• Conquer and divide mentality
• Script vendor response – everyone is on the same page
• Stay the course
RFP Process

- Aggressive pricing
- Level of transparency
- Ensures quality of care
- Price is “capitated” per component to allow for physician product choice and flexibility
- All participating vendors are welcome at facility
- CAP program addresses new technology
- Eliminate freight & courier overhead cost to facility
- Eliminate loaner fees
- Formulate Physician committee to deal with Vendor requested “Carve Outs”
Living with CAP Pricing

• CAP pricing is a life style
• It is an everyday job!
• Daily activities include
  – Monitoring scheduling board for implant use
  – NO PO is issued until pricing is verified
  – DO Not issue POs on items brought in and used without prior pricing approval, i.e. new technology
  – Develop a reputation, be consistent
Physicians Role

- Support “CAP”itated pricing with all vendors.
- Let vendors know that you have worked on the pricing together, feel it is fair, and will do what it takes to implement the program and maintain it.
- Tell vendors you will not discuss pricing, but that you support the hospital and the program.
- STAY THE COURSE!!!
Living with CAP Pricing Long Term

- Know that CAP pricing is a way of life
- Be aggressive
- Maintain integrity of the program
- Remain UNITED
OUR SUCCESS

• The first year of our CAP program we saved $847,490.64

Over the previous year
OUR SUCCESS

• The second year of our CAP program we saved $906,623.21

Prior to implementation of the program