



The ASC Guide to Navigating the Future of Reimbursement

**Marilyn Denegre – Rumbin, JD MBA
Director, Payer & Reimbursement Strategy
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Welcome



Marilyn Denegre-Rumbin, JD MBA
Director, Payer & Reimbursement Strategy
Cardinal Health

Welcome! My name is Marilyn Denegre-Rumbin, and I'm the Director of Payer and Reimbursement Strategy for Cardinal Health.

Objectives

- Discuss impact of healthcare and reimbursement trends
- Describe the need to focus on commercial payers
- Identify reimbursement factors in value based contract
- Explain *ASC Value Based Readiness Assessment*
- Outline rudiments for ASC success today

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Today, changes in the healthcare and reimbursement landscape are creating new opportunities for ambulatory surgery centers to improve financial performance, while supporting safety and quality of patient care. In the next few minutes, we're going to discuss how to successfully navigate this changing and challenging environment.

In particular, we'll overview the factors that are converging to create a new window of opportunity for ASCs. These factors include the rise of alternate payment models (such as value-based purchasing and shared savings), a shifting focus on payer mix and patient demographics—and the expansion of Medicaid Managed Care.

After this webinar, you'll be in a better position to:

- Discuss how industry-wide healthcare and reimbursement trends impact ASCs.
- Describe why ASCs should focus on commercial payers for contracting opportunities.
- Identify the nine factors that determine reimbursement in a value-based contract.
- Explain how the *Value-Based Readiness Assessment* for ASCs works.
- Outline the nine rudiments for ASC success today.

Let's get started by discussing why Cardinal Health is uniquely qualified to help you succeed in this challenging environment...

About Cardinal Health

Recognized leader in healthcare supply chain transformation

- Top ranking for transforming the healthcare value chain to meet new challenges around costs, revenues and outcomes



Unparalleled understanding of healthcare value chain

- Supplier and leading manufacturer of med/surg products
- Leader in providing supply chain services with 40+ years experience



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With more than 40 years of experience, Cardinal Health is a recognized leader with a top ranking for transforming the healthcare supply chain to meet new challenges around costs, revenues and outcomes.

As a supplier and leading manufacturer of medical/surgical products, we have an unparalleled understanding of the healthcare value chain.

So we're uniquely able to give you more of what you want most: a simple way to support your reputation of delivering quality care, while lowering costs—all while the healthcare industry is undergoing significant transformation. Let's take a closer look...

An industry in transition

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The healthcare industry today is in the midst of significant change that is happening right now:

- Even two years ago this was looked upon as something to prepare for in the future. And in a short time, the changes are upon us and our key customers.
- Healthcare providers are making the shift from fee-based, volume-driven care to value-based, patient-centered care.
- Providers increasingly need to put the patient (their customer) in the center of their approach to care.
- At the same time, the population is living longer—many with complex diseases.
- **In all, this propels healthcare providers into uncharted territories...**

Healthcare trends in 2020

1. **Increasing demand** driven by shifting demographics
2. **Government** coverage increases, commercial coverage declines
3. **Pricing pressure** increases as targeted therapeutics become the norm
4. **Provider consolidation** creates scaled players
5. **Integrated, risk-taking providers** lead shift from fee-for-service to new payment models
6. **Site of care shifts** to the lowest acuity setting
7. **Consumerism** comes to healthcare
8. **Technology and data** play an increasingly critical role

Source: http://government-2020.dupress.com/wp-content/uploads/2014/11/Health-care-2020--sources-11-11-14_Ramani-proofread.pdf

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So what does the near future look like? Here are eight key trends we expect to see in 2020...

1. **Increasing demand** driven by shifting demographics.
2. **Government** coverage increases, while commercial coverage declines.
3. **Pricing pressure** increases as targeted therapeutics become the norm.
4. **Provider consolidation** creates scaled players.
5. **Integrated, risk-taking providers** lead shift from fee-for-service to new payment models.
6. **Site of care shifts** to the lowest acuity setting.
7. **Consumerism** comes to healthcare.
8. **Technology and data** play an increasingly critical role.

Major trends for ASC

- **Small practice mergers and acquisitions are increasing**
 - Healthcare systems are growing through mergers and acquisitions.
- **Rise in minimally invasive surgery driving ASC market**
 - MIS surgeries are associated with low risk for complications, reduced hospital stays and lower costs.
- **Cardiac surgery large segment with a growing number of procedures becoming minimally invasive**
 - Surgeons can perform minimally invasive procedures such as arthroscopy, robotic-assisted hysterectomies, aortic valve surgeries, and endoscopic robotic cardiac surgery in the outpatient setting.
- **Reimbursement for ASCs is declining**
 - ASCs face competition from hospitals and other outpatient facilities that have more favorable reimbursement.
- **Increase in bad debt**
 - More consumers have high-deductible plans, and as a result, payments have been significantly more difficult to get – and more expensive to collect.

Source: Technavio Research, Global Ambulatory Surgical Centers Market 2016-2020. Dec. 2016 report

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For ASCs in particular, we see five strong trends:

1. Small practice mergers and acquisitions are increasing: Healthcare systems are growing through mergers and acquisitions.

2. Rise in minimally invasive surgery driving ASC market: MIS surgeries are associated with low risk for complications, reduced hospital stays and lower costs.

3. Cardiac surgery—large segment with a growing number of procedures becoming minimally invasive: Surgeons can perform minimally invasive procedures such as arthroscopy, robotic-assisted hysterectomies, aortic valve surgeries and endoscopic robotic cardiac surgery in the outpatient setting.

4. Reimbursement for ASCs is declining: ASCs face competition from hospitals and other outpatient facilities that have more favorable reimbursement.

5. Increase in bad debt: More consumers have high-deductible plans, and as a result, payments have been significantly more difficult to get — and more expensive to collect.

5 most attractive ASC specialties through 2020

1. **Orthopedics** — total joint replacements
2. **Neurosurgery** — spinal fusions/disc replacements
3. **Urology** — vaginal sling procedures
4. **Ophthalmology** — retina surgery
5. **General surgery/ENT** — partial thyroidectomies, parathyroidectomies

Ambulatory surgery centers are now able to bring **higher acuity cases** than ever before. It's easiest for multispecialty centers already performing similar procedures to add in a new specialty, or for single-specialty centers to capture higher acuity cases within the same specialty.

The multispecialty centers are better equipped to take on these new cases, especially if they are doing the specialty already.

Centers that think progressively and ahead of the times, who maintain **high quality standards and a great staff**, will be the most successful.

Source: <https://innovation.cms.gov/initiatives/cjr>

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Another major trend is the five most attractive ASC specialties through 2020, as you see here:

1. Orthopedics
2. Neurosurgery
3. Urology
4. Ophthalmology
5. General surgery/ENT

Ambulatory surgery centers are now able to bring higher acuity cases than ever before. It's easiest for multispecialty centers already performing similar procedures to add in a new specialty, or for single-specialty centers to capture higher acuity cases within the same specialty.

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Statistics on ASC payer mix 2016 – 2017

Payer mix as a percentage of gross charges

Medicare: 29%
Medicaid: 7%
Commercial: 59%
Worker's compensation: 9%
Self-pay: 4%
Other pay: 5%

Payer mix as a percentage of collections

Medicare: 19%
Medicaid: 7%
Commercial: 65%
Worker's compensation: 5%
Self-pay: 10%
Other pay: 9%

Payer mix as a percentage of cases

Medicare: 33%
Medicaid: 10%
Commercial: 51%
Worker's compensation: 4%
Self-pay: 5%
Other pay: 9%

Source: Becker's ASC Review, <http://www.beckersasc.com/asc-coding-billing-and-collections/18-statistics-on-asc-payer-mix-2016.html>

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While understanding the most attractive ASC specialties is important, so too is the payer mix landscape.

Commercial payers lead the way and should be a prime focus of ASCs for contracting opportunities.

These payers lead in all categories, including:

- Percentage of gross charges
- Percentage of collections
- And percentage of cases

Now let's shift our attention to another area of major change in healthcare...

The Next Era of Health Care Reform

Four Key Principles

Likely to Guide GOP Reform Efforts

1. Reduce Federal Entitlement Spending

Focus more aggressively on reducing federal health care spending

2. Devolve Health Policy Control to States

Reduce federal role in health care, provide states more autonomy to make decisions, cut spending

3. Embrace Free Markets and Consumer Choice

Use free markets to promote private sector competition in payer, provider markets

4. Promote Transparency of Cost and Quality

Mandate greater consumer choice and shopping at the point-of-care and point-of-coverage through improved transparency

Source: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects_of_ACA_Repeal.pdf

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We are entering the next era of healthcare reform—and there are four key principles that are likely to guide the GOP’s efforts:

- 1. Reduce federal entitlement spending:** Focus more aggressively on reducing federal health care spending.
- 2. Devolve health policy control to states:** Reduce federal role in healthcare; provide states more autonomy to make decisions and cut spending.
- 3. Embrace free markets and consumer choice:** Use free markets to promote private sector competition in payer and provider markets.
- 4. Promote transparency of cost and quality:** Mandate greater consumer choice and shopping at the point-of-care and point-of-coverage through improved transparency.

Health policy outlook

- **Repeal** and **replace** the ACA
- **Interoperability** and **inter-portability**
- **Medicaid** expansion
- **Drug pricing** policies
- **Re-distribution – re-funding** Medicare/Medicaid
- **MACRA** requirements to be eased by 2018+
- **Mandated programs** under review and on hold (CCJR)

Repeal of:

- > Medical Device
- > "Cadillac" tax
- > Health insurance tax

Source: <https://www.cbo.gov/publication/50252>

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The impact on health policy will be far reaching and may include:

- Repealing and replacing the ACA.
- Interoperability and inter-portability.
- Medicaid expansion.
- Drug pricing policies.
- Re-distribution – re-funding Medicare/Medicaid.
- MACRA requirements to be eased by 2018+.
- Mandated programs under review and on hold (CCJR).

Next, let's take a look at the impact on hospital revenue cycle infrastructure...

Finding and Fixing the Leakages

- For insured patients, management consulting firm McKinsey & Company estimated the rate of bad debt is increasing at well **over 30 percent** each year in some hospitals.
- Consumers with **high-deductible plans** pay more in healthcare costs than employers and payers, and as a result, hospitals and health systems are faced with a critical payer group from which payment has proven significantly *more difficult — and more expensive — to collect*.
- **The Rise of Higher Premiums and High Deductible Health Plans** are projected to increase from 13% to 51% in 2017.

Source: <http://www.beckershospitalreview.com/finance/25-things-to-know-about-revenue-cycle-management-2017.html>

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As healthcare costs outpace commercial and government reimbursement rates, and as high-deductible health plans become the norm rather than the exception, many hospitals have found their revenue cycle infrastructures have sprung unexpected leaks.

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- Consumers with high-deductible plans pay more in healthcare costs than employers and payers, and as a result, hospitals and health systems are faced with a critical payer group from which payment has proven significantly *more difficult — and more expensive — to collect*.
- The rise of higher premiums and high deductible health plans are projected to increase from 13% to 51% in 2017.
- The proportion of total uncompensated care associated with the insured population increased sharply from 2013 to 2016, with bad debt and charity rates rising 22% and 130%, respectively, in Medicaid expansion states.
- The cost of patient collections: The Consumer Financial Protection Bureau found medical debts accounted for 52% of debt collection actions that appeared on consumer credit reports in 2016.

- Self pay patients = more hospital bad debt: 1-5% of the accounts are written off for uncompensated care.

Finding and Fixing the Leakages

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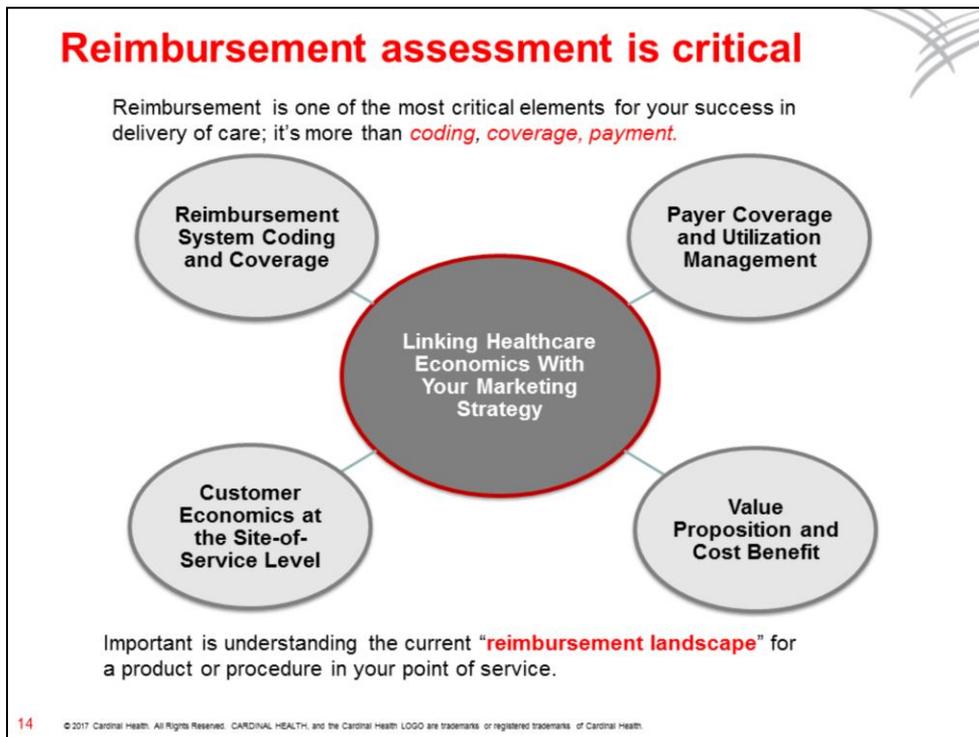
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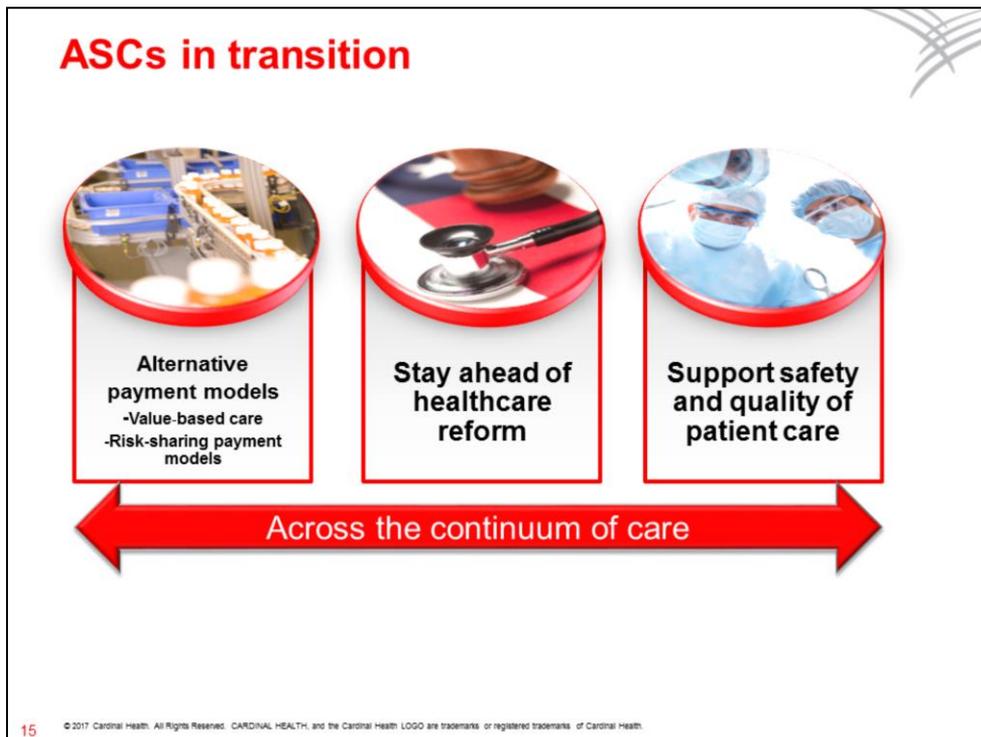
Now let's turn our attention to ASC reimbursement in this changing environment.

Reimbursement is one of the most critical elements for your success in delivery of care. And it's more than coding, coverage and payment alone.

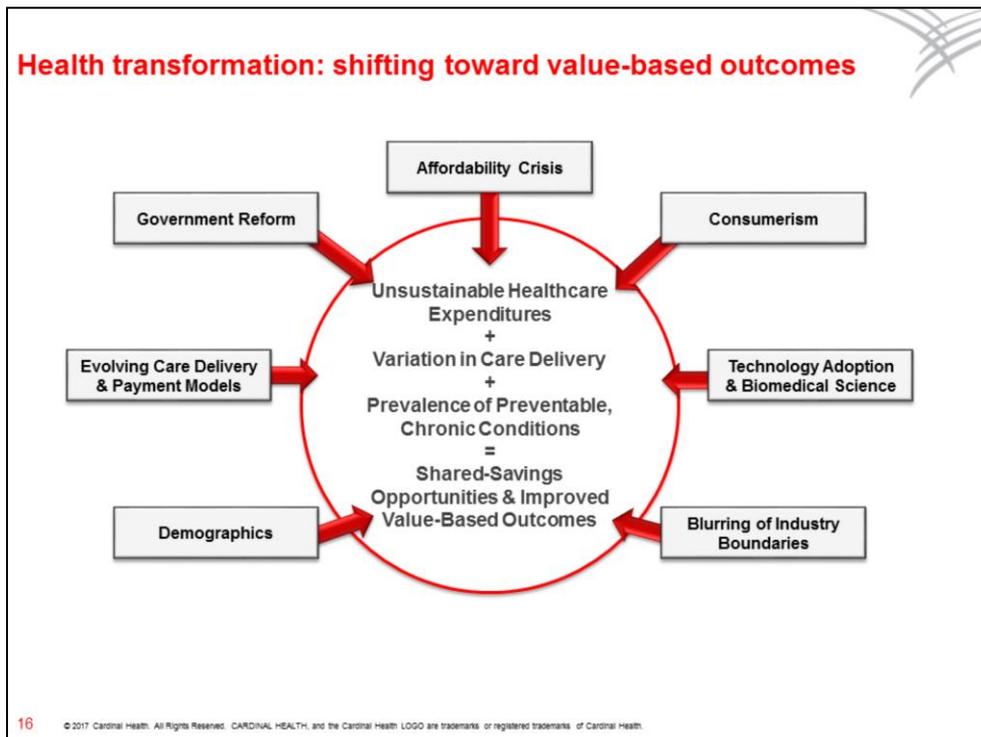
This is about linking healthcare economics with your marketing strategy and focusing on four key elements:

1. Reimbursement system coding and coverage;
2. Payer coverage and utilization management;
3. Value proposition and cost benefit;
4. And customer economics at the site-of-service level.

It's important to understand the current "reimbursement landscape" for an ASC product or procedure.



- **It's also important to understand how ASCs are in transition to meet the challenges of the new healthcare world.**
- The transition from the fee-for-service (FFS) reimbursement system to one based on value is one of the greatest financial challenges ASCs currently face. Providers are not only shifting to shared value; they're shifting to shared risk.
- Those who can't achieve the required scores will face financial penalties and lower reimbursements. This is why providers are focused on broad-ranging clinical, financial and operational improvements.
- In particular, there's a heightened focus on succeeding with alternate payment models, such as value-based purchasing and risk-sharing payment models.
- At the same time that ASCs are striving to stay ahead of healthcare reform, there's the ever-present need to support safety and the quality of patient care.

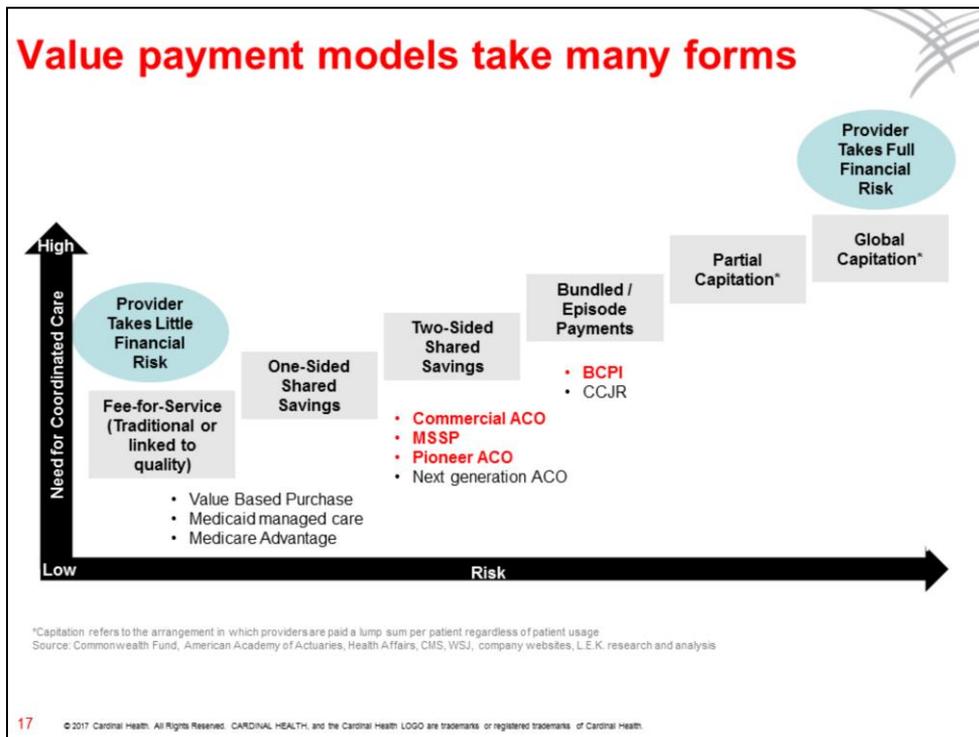


Within the current healthcare environment there are several forces that are impacting providers, changing the way they operate and deliver care.

These forces combine to create:

- Unsustainable healthcare expenditures;
- A variation in care delivery;
- And the prevalence of preventable and chronic conditions.

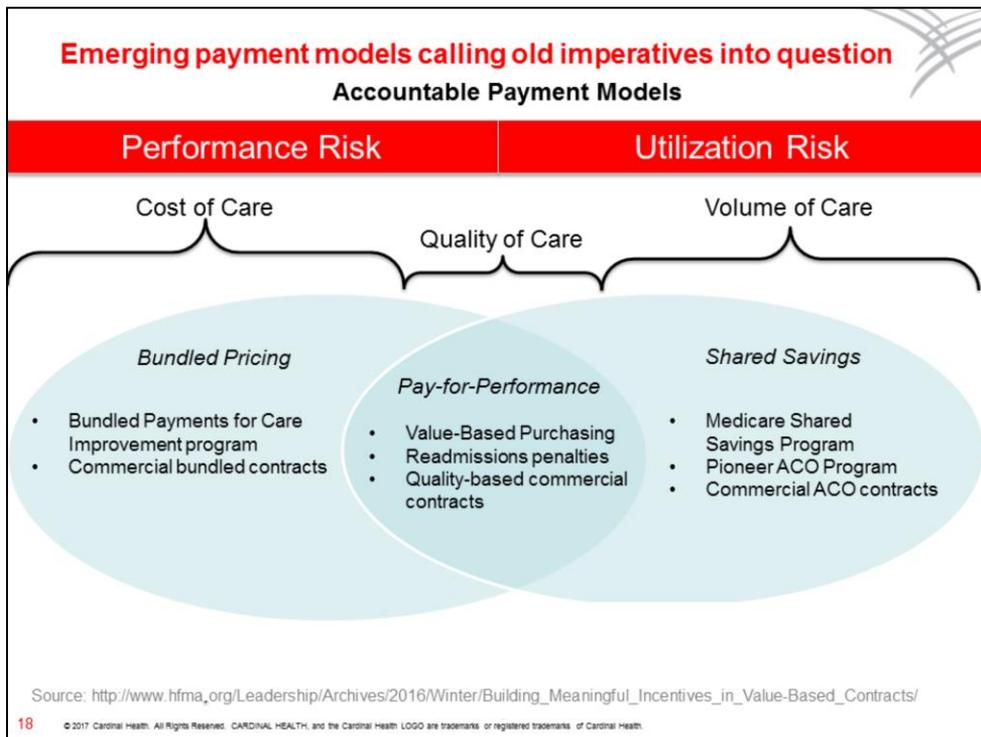
These forces also create new opportunities for shared savings and improved, value-based outcomes.



These value-based payment models take many forms, as you can see here:

- In the lower left of this illustration, the traditional fee-for-service model requires little need for coordinated care—and the provider takes little financial risk.
- In the upper right, you see the exact opposite: a global capitation model in which the need for care coordination is high and the provider takes full financial risk.
- In between, you can see a number of variations, including shared savings and bundled payment models.

Indeed, the shift from fee-for-service to value-based contracting is real and is happening right now. Let's take a closer look...



The emerging payment models that we have been discussing truly do call old imperatives into question:

One way to evaluate these accountable payment models is to view them through three lenses:

- 1. Cost of care:** bundled pricing model.
- 2. Quality of care:** pay-for-performance model.
- 3. And volume of care:** shared savings model.

As you can see here, the risk is weighed toward performance with the bundled pricing model and more toward utilization in the shared savings model.

The pay-for-performance model is more equally weighted between performance and utilization risk.

Now let's take a closer look at the contracting models available today...

Contracting Models

- **Performance-based:** targets specific quality metrics
- **Patient-centered medical homes:** partnerships between patients and providers
- **Bundled and episodic payment:** single payment for single episode of care
- **Risk-based compensation:** population care, based on achieving targets
- **Defined networks:** Payers place providers in tiered and/or narrow networks, based on compliance with objectives
- **Centers of Excellence:** Higher quality and cost efficient providers contract with payers

Source: http://www.hfma.org/Leadership/Archives/2016/Winter/Building_Meaningful_Incentives_in_Value-Based_Contracts/

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Now let's talk about ASC contracting models in particular:

- **Performance based:** targets specific quality metrics.
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- **Centers of Excellence:** Higher quality and cost efficient providers contract with payers,

Shift from fee-for-service to value-based contracting

- “Value” is generally understood to be defined as the result of quality divided by cost, or the health outcomes achieved per dollar spent.

$$\text{Quality} \div \text{Cost} = \$\$$$

- The goal is to shift from CMS payment arrangements and shared risk arrangements to alternative payment models with a focus on **value-based payment and contracting** arrangements.
- National payers have begun to take a position that shared-risk arrangements are the only way to drive results, improve delivery and quality, lower cost of care.
- In developing a contracting strategy and plan, each entity must have meaningful and collaborative dialogue with the desired payers.

*A **win-win** approach.*

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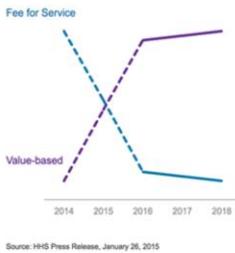
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- **National payers have begun to take a position that shared-risk arrangements are the only way to drive results, improve delivery and quality, lower cost of care.**
- In developing a contracting strategy and plan, each ASC must have meaningful and collaborative dialogue with the desired payers.

It's truly a “win-win” approach.

Opportunities for ASCs: value-based contracting

Value-based contracting involves reimbursement based on indicators of **value**, such as patient health outcomes, efficiency and quality. With an alternate payment methodology, generally a portion of the provider's potential is tied to:



Source: HHS Press Release, January 26, 2015

HHS Value-Based Payment Goals

2016
30% of contracts will have alternative payment models (such as ACOs or bundled payments). 85% will be tied to quality or value through programs such as VBP or readmission reduction.

2018
50% of contracts to be tied to alternative payment models and 90% to quality or value overall.

Source: HHS Press Release, January 26, 2015

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A provider's performance on cost-efficiency

Quality performance standards

Pay fee-for-service with a bonus for reaching targets

Some kind of clinical integration requirement, including adopting technology

Processes that change the way care is delivered

Quality measurement

Efficiency standards

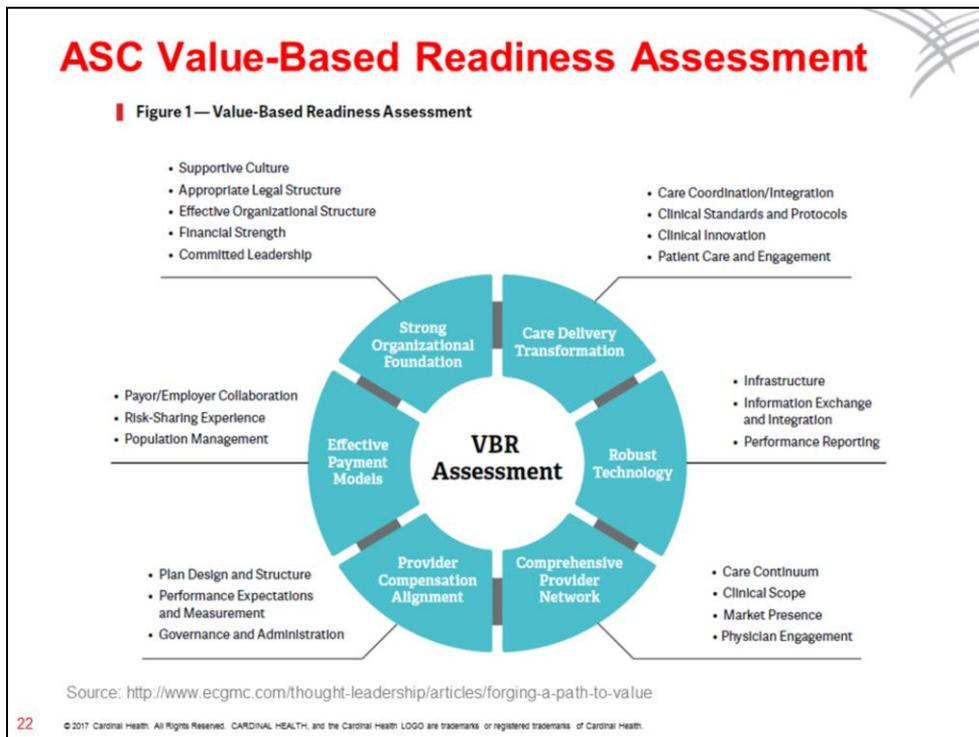
Patient accountability

Satisfaction component

Value-based contracting involves reimbursement based on indicators of value, such as patient health outcomes, efficiency and quality. With an alternate payment methodology, generally a portion of the provider's potential is tied to:

- A provider's performance on cost-efficiency.
- Quality performance standards.
- Pay fee for service with a bonus for reaching targets.
- Some kind of clinical integration requirement, including adopting technology.
- Processes that change the way care is delivered.
- Quality measurement.
- Efficiency standards.
- Patient accountability.
- Satisfaction component.

Is your ASC ready for value-based contracting? Let's discuss how to assess where your current capabilities are...



This is an illustration of the Value-Based Readiness Assessment for ASCs.

The Assessment includes six main components:

1. **Care delivery transformation:** including strong coordination and patient engagement.
2. **Robust technology:** from infrastructure to performance reporting.
3. **Comprehensive provider network:** across the care continuum.
4. **Provider compensation alignment:** such as performance expectations and measurement.
5. **Effective payment models:** including risk-sharing and population management.
6. **Strong organizational foundation:** with a supportive culture and strong leadership.

Negotiating Value-Based Contracting

- The Relationship: Is it “long or short term”?
- Look Beyond the Rates: “Out-of-network versus in-network strategy”
- Health Care Reform implications
- Review outdated reimbursement methodology
- Alternative Payment Models - Risk Sharing
- Managing risk while reducing cost of care and maintaining high quality

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The single most important thing a ASC center should do on managed care contracting today is to partner with the payer to identify opportunities to provide surgical services on high-cost cases, where the ASC can prove to the payer via data and a solid business case that it can offer a savings to both the payer and the patient,"

Payer fee schedules are often tied to the outdated grouper methodology, rather than the updated outpatient prospective payment system. Grouper rates are often below Medicare

Payer reduction in reimbursement with changing payment methodologies;

The impact of ACA : Traditional commercial business may start to move toward exchange products. Payer reimbursement under the exchange products is being offered, in many instances below commercial rates, with some offering rates comparable to Medicare or Medicaid as a result of healthcare reform, despite the fact that premiums will be paid to the insurance carriers for participation by the member.

Keep In Mind these “ Imperatives”...

- Demonstrate **Quality**, Cost Savings, Patient outcomes.
- Consider alignment with ACO's
- Single Case versus Carve Out arrangements
- “Evidence-based negotiations”, the root of which is, **data**.
- Exhibit indispensable **value**...
the true key to successful rate negotiation.

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- Declining out-of-network access;
- Hospitals/health systems and payers collaborating on accountable care organizations

Data is King: Fixed costs

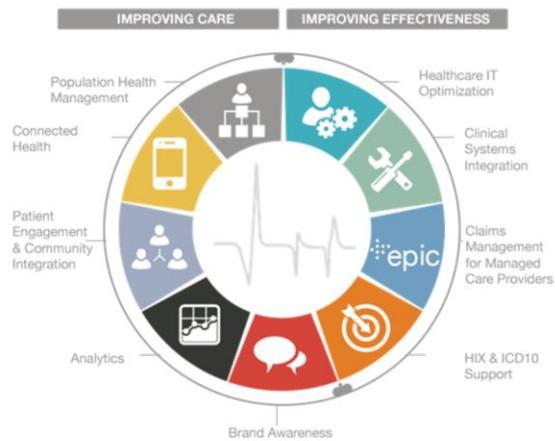
- Variable costs
- Implant costs
- ASC's current reimbursement rates vs. market rates and hospital rates
- Patient needs
- Surgeon outcomes
- Infection rates

Although the reimbursement level is the most significant area of a contract, procedural requirements can be onerous and even deal breakers. Following contractual elements as areas to which Hospitals, Physician's should pay attention:

- Authorization process for treatment.
- Period specified for submitting claims.
- Period allowed to appeal a denied claim.
- Requirements regarding use of oral or injectable drugs.
- Time specified for timely payment, and interest paid for late payment.
- Process for adding new service lines or adding new physicians to the plan.
- Period required for providing notice of modification proposals.
- Cancellation clause, including the advance notice required.

Rudiments for Success

- **Contract Strategies** for Alternate Payment Models
- Prepare for **population health** by reducing inappropriate utilization
- Pursue **consumers** by investing in patients' experience improvements
- **Consolidate** system assets to improve interoperability
- **Distribute** your ambulatory portfolio to widen access
- **Standardize** care delivery to reduce costly variation
- **Personalize** care to retain patients
- Strong **IT infrastructure and analytics**
- Keep a **pulse** on healthcare reform



Source: <https://www.prokarma.com/industries/healthcare>

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Put it all together, and what are the rudiments of success for ASCs in this changing and challenging environment?

- Contract strategies for alternate payment models.
- Prepare for population health by reducing inappropriate utilization.
- Pursue consumers by investing in patients' experience improvements.
- Consolidate system assets to improve interoperability.
- Distribute your ambulatory portfolio to widen access.
- Standardize care delivery to reduce costly variation.
- Personalize care to retain patients.
- Strong IT infrastructure and analytics.
- Keep a pulse on healthcare reform.

Scalable solutions for ASCs



Improve financial performance

- Reduce expenses
- Realize revenue
- APMs
- Value in healthcare spending
- Consumerism
- Collaboration



Stay ahead of healthcare reform

- Ensure continuity of care
- Opportunities with services
- Alternate payment models
- Value-based healthcare
- Reduce readmissions
- Inform strategic decisions with comparative analytics



Support safety and quality of patient care

- Quality performance and measures
- Promote good outcomes and solutions through continuum of care to home

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As you focus on developing scalable solutions for your own ASC, here are three opportunities to focus on:

- **Seek ways to improve financial performance** by reducing expenses, realizing revenue and other strategies.
- **Stay ahead of healthcare reform.** One way is to explore your alternate payment model opportunities.
- **Support safety and quality of patient care.** Quality performance and measures can help promote good outcomes at your ASC and across the continuum of care.

Q&A

Marilyn Denegre-Rumbin, JD, MBA
Director, Payer & Reimbursement Strategy
Cardinal Health
(614) 553-4737
marilyn.denegrerumbin@cardinalhealth.com

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Thank you very much for your time and attention today.

I'll be happy now to answer your questions.