Key Trends for Ambulatory Surgery Centers in 2018

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MOVING TOWARDS VALUE-BASED CARE

- **Shift to Value** – IP ORs are considered cost center and targets for reduction.

- **Reimbursement Shifts** – CMS approving new procedures and narrowing gap b/w ASC and Hospital Rates. Move toward bundled payments and risk-based contracts.

- **Outpatient Capabilities** – Technology, smaller incisions, and advances in anesthesia and pain management techniques encourage more cases to go outpatient.

- **Physician Preference** – Better alignment of incentives with Physician Ownership. Physicians have better control and material financial returns.

- **Patient Preference** – Provides lower costs for those with high deductible plans. ASCs tend to be more convenient, less crowded, and less confusing than hospitals.
ARE YOU MOVING TOWARDS VALUE-BASED CARE?
CMS is aggressively pushing to have “Value” replace “Volume”

Target percentage of Medicare FFS payments linked to quality and alternative payment models in 2016 and 2018.

- **2016**
  - All Medicare FFS: 85%
  - Value-based: 30%
  - Volume-based: 55%

- **2018**
  - All Medicare FFS: 90%
  - Value-based: 50%
  - Volume-based: 50%
20 MAJOR HEALTH SYSTEMS & PAYORS pledge to convert

75% OF BUSINESS to value-based arrangements BY 2020

According to chairman of the taskforce, CEO Richard Gilfillan, MD, of Trinity Health
HISTORY OF JOINTS IN THE OUTPATIENT SETTING

INITIAL HEADWINDS TO CHANGE

- Payors
- Surgeons
- Clinical Staff

*Strong leadership was required to overcome challenges*
PROJECTED GROWTH IN THE OUTPATIENT SPACE

• By 2030, annual total hip and knee joint replacements are expected to grow from $1M to $4M

• 45% of procedures could be outpatient by 2025
• Quick change in attitudes and volumes

• Regent: 300+% Increase in Total Joints
  from 2015 to 2016 – Similar growth
  expected for 2017 and beyond
Bundled Payments
TAILORING WHAT’S INCLUDED IN THE BUNDLE

<table>
<thead>
<tr>
<th>Types of Bundled Payment Options</th>
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<td>Day of Surgery</td>
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<table>
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<tr>
<th>Timing of When the Episode Begins/Ends</th>
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<tr>
<td>Day of first office visit</td>
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<tr>
<th>Patient Selection Criteria</th>
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<td>Only outpatient qualified</td>
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• Outpatient surgery will play an integral role in a value based healthcare system

• ASCs provide equal or better outcomes at a lower cost
  • ASCA study: ASCs = $38B in Commercial Payor Savings
  • UC Berkeley Study: ASCs = $2.5B in Medicare Savings
Where the surgery is performed will have the greatest impact on the cost of the episode

*Source: Journal of Arthroplasty*
WHO WILL PAY FOR THE BUNDLE

MEDICARE
• CMS has backed off expansion of mandatory bundles
• Have turned to a free market solution – want those willing to lead to propose solutions to CMS

COMMERCIAL INSURERS
• Have begun pilot programs in select market
• In the crawl phase, but will likely ramp up in 2018-2019

SELF-FUNDED EMPLOYERS
• Have been making strides on their own to contract for innovative solutions
• Healthcare costs continue to grow and have a material impact on businesses financial performance
• Many won’t wait for the commercial insurers to catch up, but are solving this problem on their own
BUNDLED PAYMENTS:

EARLY ADOPTERS = FUTURE MARKET LEADERS

1. Q4 2016: Regent establishes first LLC centered around managing episodes of care

2. End of 2016: CMS Targets 30% of Medicare Cases tied to an alternative payment model (85% of payments expected to be linked to value)

3. End of 2018: CMS Targets 50% of Medicare Cases tied to an alternative payment model (90% of payments expected to be linked to value)
HOPD Conversions
HOPD TO ASC JOINT VENTURE CONVERSIONS

• In support of a larger value-based care strategy
  • Hospitals now support moving cases to ASCs as they take on risk with new payer contracts
• In CON states, regulations to convert existing HOPD may be easier than building de novo
• As a growth strategy – drive volume by partnering with independent or “splitter” surgeons
• As a retention strategy – retain partnerships with key surgeons looking to partner with a competitive health system or develop their own

The key is to identify incremental case volumes through strategic physician alignment AND use the hospital’s strength to leverage rates
Employed Physician Ownership
EMPLOYED PHYSICIAN OWNERSHIP

• Number of employed physicians growing, many systems are now considering allowing employed physicians to invest as partners in ASC joint ventures
  • *employed physicians under age 40 is 65.1% - Becker’s May 2017

• Physician retention strategy
Cardiovascular Centers
## CARDIOVASCULAR LAB PROCEDURES

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<tr>
<th>Diagnostic Procedures</th>
<th>Interventional Procedures</th>
<th>Electrophysiology</th>
<th>Other Vascular Procedures</th>
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<tr>
<td>• Angiography</td>
<td>• Coronary Angioplasty</td>
<td>• Pacemaker Placement</td>
<td>• Varicose vein ablations</td>
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<tr>
<td>• Noninvasive</td>
<td>• Stenting</td>
<td>• Defibrillator (ICD) Placement</td>
<td>• Venous access for dialysis</td>
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<tr>
<td>Diagnostic Cardiology</td>
<td>• Artherectomy</td>
<td>• Implantable Loop Recorder</td>
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<td>• MRI</td>
<td>• Septal Closure Devices</td>
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<td>• Carotid Ultrasound</td>
<td>• Thrombectomy</td>
<td>• Cardiac Ablation</td>
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<td>• Exercise Stress</td>
<td>• Peripheral angioplasty</td>
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<tr>
<td>Testing</td>
<td>• Carotid angioplasty</td>
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<tr>
<td>• Non-invasive vascular imaging</td>
<td>• Renal artery angioplasty</td>
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<td>• Venous angioplasty</td>
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Interventional radiology is rapidly expanding to diagnose and treat diseases in nearly every organ system.

- **Gastrointestinal Interventions** - Oesophageal, duodenal and colonic stents
- **Oncological Interventions** - tumor ablation (liver, renal, lung)
- **Embolizations** - uterine fibroid
- **Spine interventions** - vertebroplasty / kyphoplasty

**INTERVENTIONAL RADIOLOGY – MORE THAN JUST VASCULAR**
PATH FORWARD

- Cardiologists
- Interventional Cardiologists
- Vascular Surgeons
- Interventional Radiologists

Cardiovascular Lab