

The Role of ASCs in the Evolving Healthcare Environment

Becker's ASC 25th Annual Meeting: The Business and Operations of ASCs

October 18–20, 2018



Agenda



Current Environment and Trends



Medicare Implications



Hospital Ambulatory Surgery Strategy and Trends

Current Environment and Trends

Current Environment

Consolidation and Market Trends

The current environment and trends are expected to have a meaningful impact on the future of managed care and reimbursement for ASCs and hospitals.

Migration of Surgery from Hospital Inpatient to HOPD to ASC:

- » Increased Technology
- » Employer and Payor Demand
- » Physician Motivation and Alignment

Payor Trends:

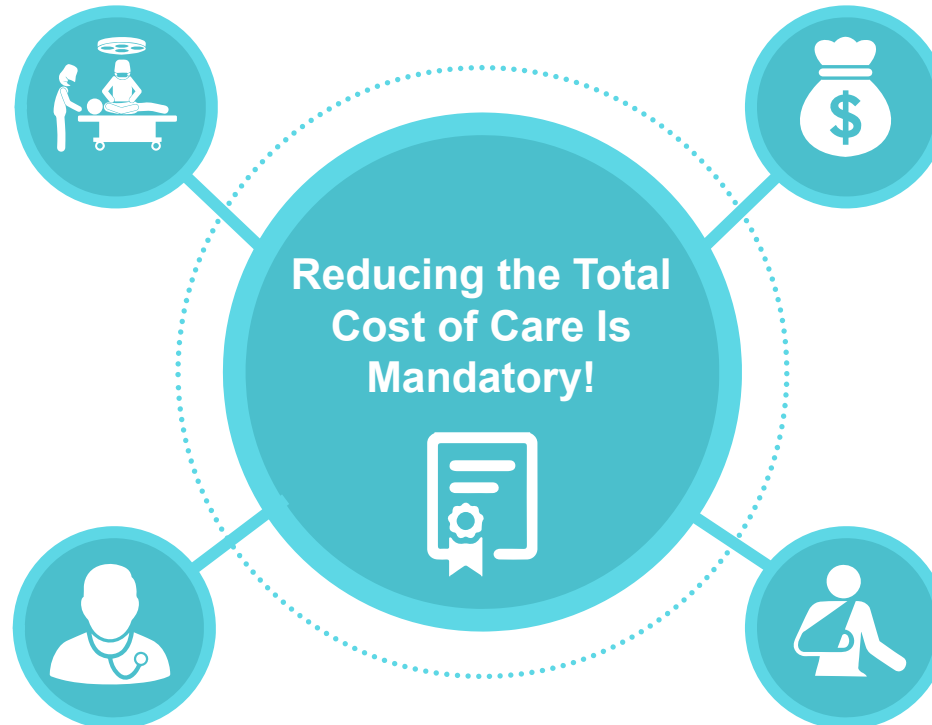
- » Narrow Networks
- » Alternative Payment Methods
- » Site-of-Service Direction and Policy Changes

Retail and Demand for Pricing Transparency:

- » Patient Education
- » Increased Out-of-Pocket Responsibility
- » Benefit Designs

Consolidation:

- » Payors
- » Hospital-Physician Alignment
- » Equity Partners
- » Mega Groups



The Payor Environment

- 1  Anthem.
BlueCross BlueShield
- 2  UnitedHealthcare
- 3  aetnaSM
- 4  HCSC
Health Care Service Corporation
- 5  Cigna[®]
- 6  Humana[®]

Six
Major
Payors in
the
United
States

The Payor Environment *(continued)*

IMPORTANT → FACTS

Traditional fee-for-service reimbursement is diminishing.

Access to reimbursement is becoming limited without a payor contract due to benefit designs targeted at changing consumer behavior.

The growing Medicare population increases the need for enhanced reimbursement rates from CPs.

Understanding cost is critical to negotiating reasonable and adequate reimbursement.

Payors are working with employers to reduce premiums by limiting access to high-dollar, out-of-network providers and encouraging price sensitivity among employees.

Payor consolidation is rampant and diminishes provider ability to negotiate rates.

Alternative Payment Methodologies

Value-Based Pricing: Common Themes

- » The payor provides incentives for quality outcomes and measured reduced cost.
- » Hospitals and physicians share risk for cost.
- » ASCs can present an opportunity for shared savings to hospitals and payors.
- » What about physician incentives and penalties for volume migration?

Risk Sharing

- » Payors are working with ASCs on bundled payment methodologies.
- » ASCs are aligning with physicians, hospitals, and payors to provide the continuum of ASC surgical care.
- » ASCs in hospital JVs present an opportunity for upside to the hospital on a bundled payment for a surgical episode of care.

Bundled Payment

- » Case rates incorporate a global payment for surgical experience and include the ASC, surgeon, anesthesiologist, and implant.
- » Case rates are often interchanged with bundled payments for ASCs.

Case Rates

Medicare Implications

2019 Medicare OPPS Proposed Rule Changes

Overview and Implications

Rate Calculation



- » CMS is proposing to replace the CPI-U with the Hospital Market Basket as the annual update for the ASC conversion factor.
- » This rule change is expected to have a favorable impact on the ASC conversion factor but will be highly dependent upon removing the secondary rescaler.

Device-Intensive Codes



- » CMS is proposing to reduce the device-intensive threshold from 40% to 30% and to allow for single-use devices that meet the device offset threshold to be eligible as a device-intensive procedure.
- » Reducing the device-intensive threshold will have a favorable impact on reimbursement for surgeries that utilize high-cost devices and implants attributed to the 10% cost reduction on the threshold.

Payment for Non-Opioid Pain Management



- » CMS has proposed to unpackage and pay separately for non-opioid pain management drugs provided in an ASC.
- » Currently this applies to the drug EXPAREL® and is only proposed for ASCs and not for hospital outpatient departments (HOPDs).
- » This enables ASCs to have access to additional reimbursement for use of the drug and to provide a non-opioid alternative to patients.

Definition of Surgery



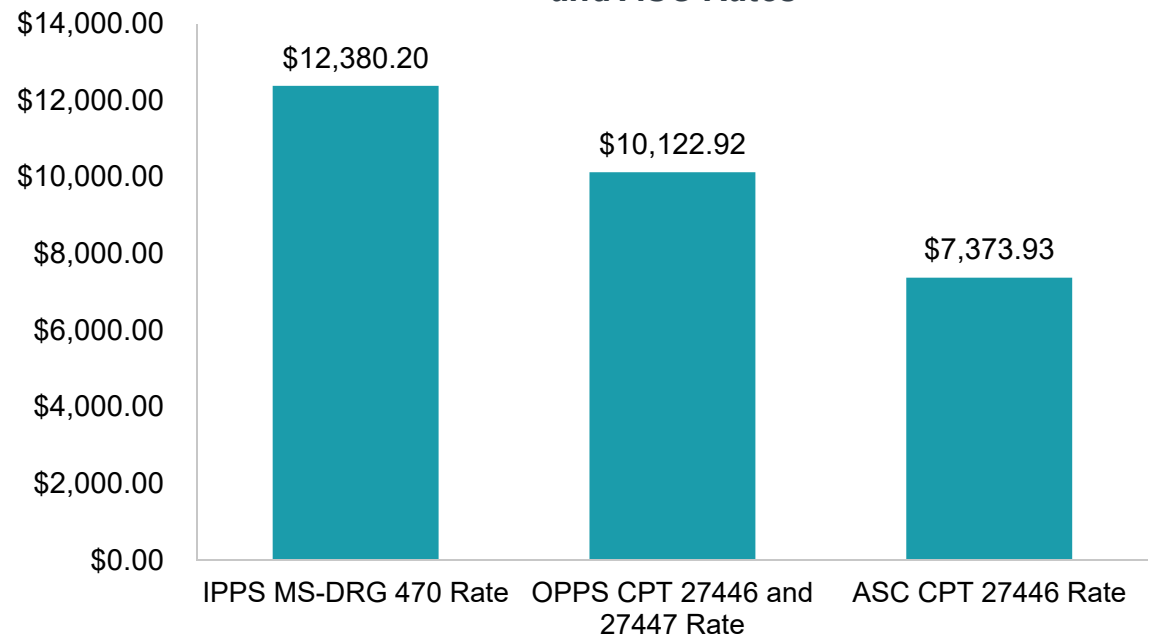
- » CMS is proposing to expand the definition of surgery, to include “surgery-like” procedures.
- » This proposed rule change offers ASCs the opportunity for codes such as cardiac catheterizations to be payable in the ASC setting.

Uni-Knee and TKA

TKA CPT code 27447 was removed from the inpatient-only list in 2018 and affects the pace for surgery migration.

- » TKA was added to the outpatient prospective payment system (OPPS) in 2018, but it remains excluded from payment in ASCs.
- » The OPPS TKA rate represents an 18% discount from the IPPS rate.
- » Unicompartmental knee arthroplasty (uni-knee) (CPT code 27446) has the same OPPS rate as TKA in 2018 and is ASC eligible. In 2018, the ASC rate for uni-knee represents a 27% discount from the OPPS rate.

Uni-Knee and TKA Acute Inpatient, Hospital Outpatient, and ASC Rates



Sources: Acute inpatient, hospital outpatient, and ASC payment, 2018, from the following websites:
<https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/index.html>
<https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/index.html>
<https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/ASCPayment/index.html>

TKA is expected to migrate to the outpatient setting, which will have a significant impact on hospitals; however, it is not included in the 2019 proposed ASC rules.

Medicare Implications

Total Joint ASC Rate Trends Compared to HOPDs

This approved ASC total joint list shows the total joint procedures that are closing the gap in reimbursement from HOPD to ASC.

CPT	2018 Descriptions	ASC 2017 Rate	ASC 2018 Rate	ASC Dollar Change	ASC Percentage Change	HOPD 2018 Rate	HOPD Rate Premium over ASC Rate
24366	Reconstruct head of radius	\$7,465	\$7,800	\$335	4%	\$10,123	30%
24370	Revise reconst elbow joint	\$6,887	\$7,092	\$205	3%	\$10,123	43%
25441	Reconstruct wrist joint	\$7,721	\$8,270	\$548	7%	\$10,123	22%
25443	Reconstruct wrist joint	\$3,817	\$4,333	\$516	14%	\$5,606	29%
25444	Reconstruct wrist joint	\$7,575	\$8,790	\$1,214	16%	\$10,123	15%
25446	Wrist replacement	\$12,313	\$12,501	\$189	2%	\$15,371	23%
26531	Revise knuckle with implant	\$3,684	\$3,812	\$128	3%	\$5,606	47%
27442	Revision of knee joint	\$7,117	\$7,344	\$227	3%	\$10,123	38%
27446	Revision of knee joint	\$7,157	\$7,374	\$217	3%	\$10,123	37%

Source: ASC payment, 2017 and 2018, <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/ASCPayment/index.html>.

The favorable total joint rate trends can provide momentum for expansion of the ASC-approved total joint list and increased opportunities for ASCs.

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Facts about Ambulatory Surgery Centers



Checklist

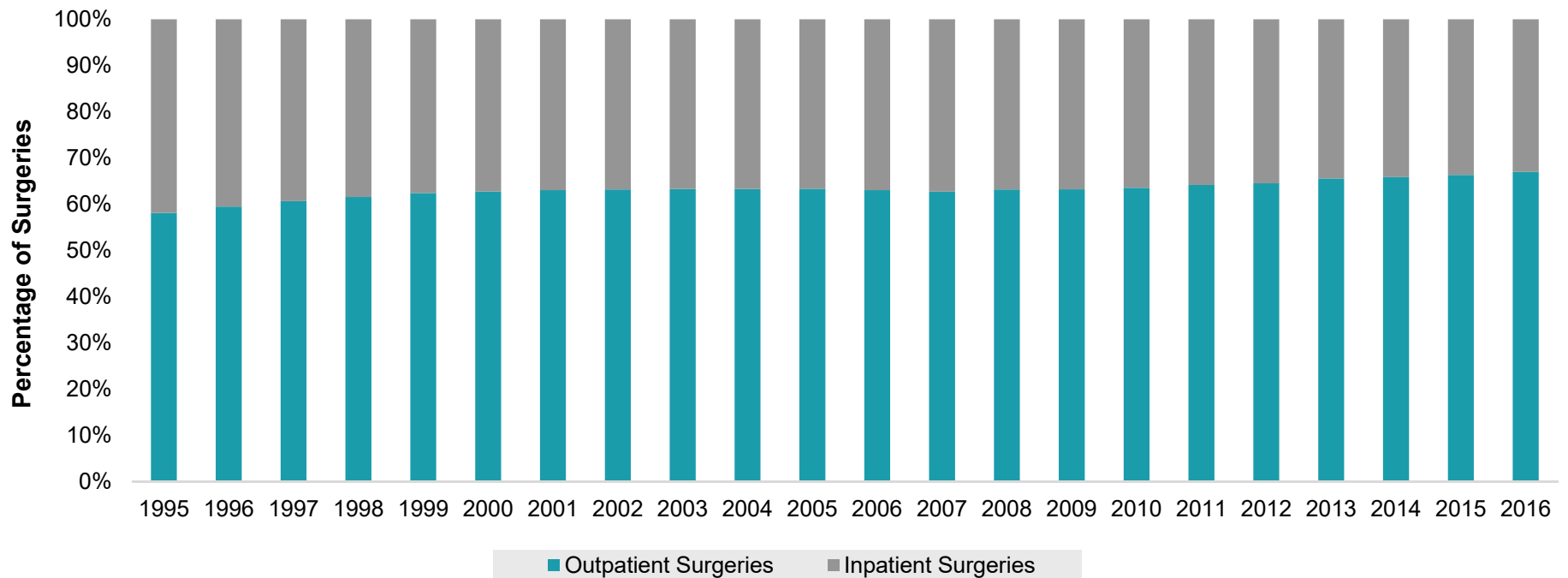
- ✓ Ambulatory surgery centers (ASCs) provide high-quality and cost-effective surgical care in an outpatient environment.
- ✓ ASCs represent continued opportunity for being responsive to the demands of the current environment to reduce the total cost of care.
- ✓ The ASC's role in the healthcare delivery system is evolving due to continued surgery migration.
- ✓ Hospitals and health systems that do not include ASCs in their ambulatory surgery strategy will be presented with increased risk for financial losses.
- ✓ Payors desire to have a comprehensive ASC network to offer lower-cost alternatives to their members.
- ✓ ASCs are part of the solution in healthcare delivery and total cost of care.

Hospital Ambulatory Surgery Strategy and Trends

Shift from Inpatient to Outpatient

The transition of inpatient surgeries to the outpatient setting continues to grow.

Percentage Share of Inpatient versus Outpatient Surgeries, 1995–2016

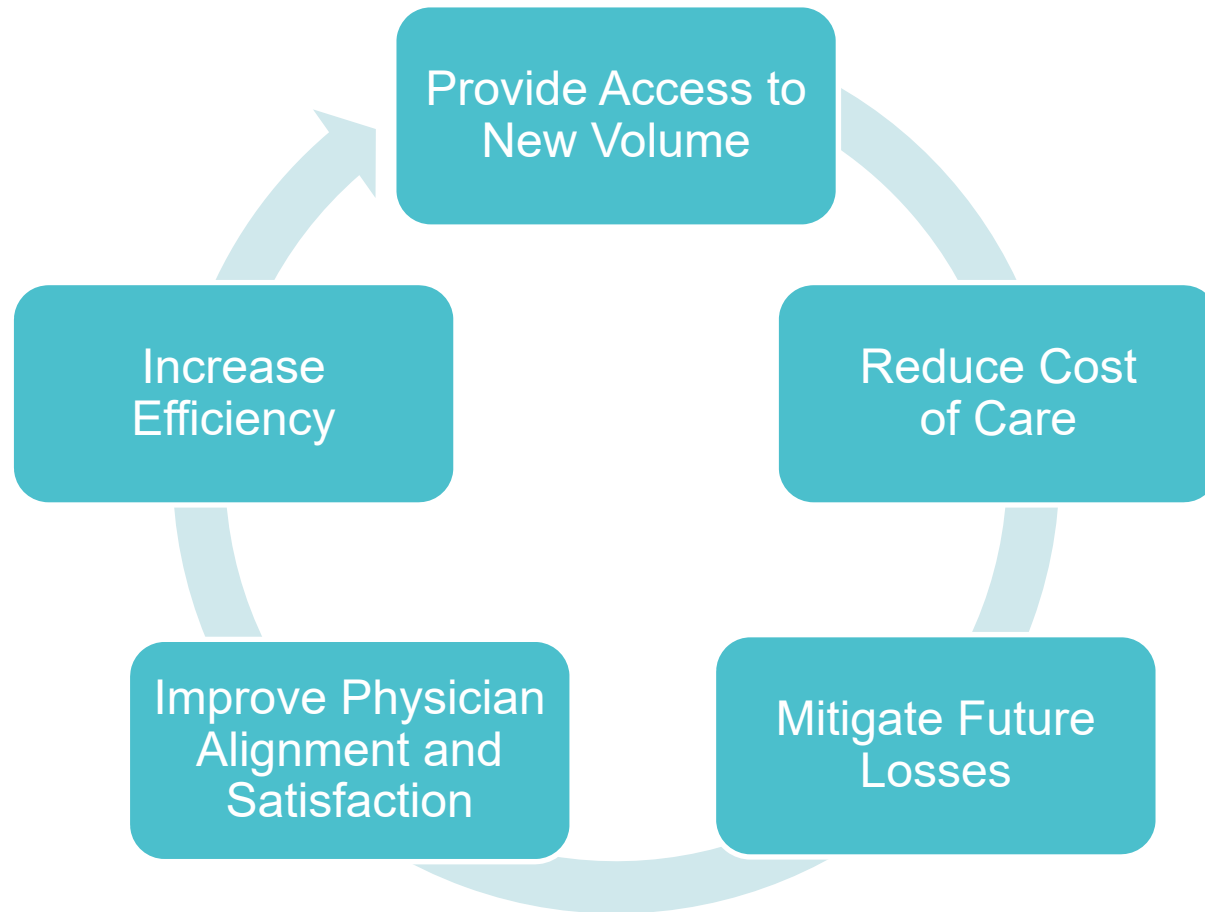


Source: Analysis of American Hospital Association Annual Survey data, 2016, for community hospitals.
Chart 3.14 in 2013 and earlier years' Chartbooks.

As this trend continues, hospitals will continue to seek opportunities to align with physicians to transition surgeries from inpatient to outpatient settings.

ASC Value to a Hospital System Network

ASCs provide hospitals with a vehicle to reduce the total cost of care.



Hospital ASC-Eligible Volume Review

Case Study One

ECG recently discovered that between 80% and 95% of the inpatient and outpatient surgical volume within a large, multihospital health system could be performed in an ambulatory surgery setting.

Specialty	Trailing 12-Month System-Wide Surgical Volume ¹	Percentage of Total on Medicare ASC Approved Procedure List	Percentage of Total on All-Payor ASC Approved Procedure List
GI/Colorectal	16,800	99.2%	99.4%
Ophthalmology	11,000	96.3%	100.0%
General Surgery	10,900	72.6%	98.8%
Orthopedics	10,400	94.6%	98.6%
ENT	5,900	95.1%	98.8%
Urology	4,200	81.0%	87.9%
Joint Replacement	3,400	6.8%	99.5%
Spine	3,300	61.7%	100.0%
Gynecology	3,200	85.3%	99.3%
Pain Management	1,400	94.0%	99.9%
Dental	400	1.0%	1.0%
Other Surgery	<u>5,800</u>	46.7%	90.1%
Total	76,700	82.2%	97.4%
Percentage Not on an ASC Approved Procedure List		17.8%	2.6%

¹ Volumes have been rounded to protect client confidentiality.

This analysis led the system to embark upon a rapid process to develop a greater ambulatory surgery presence with employed and aligned surgeons.

Hospital ASC-Eligible Volume Review

Case Study Two

As part of a recent ASC acquisition and integration engagement, ECG identified a potential 12,900 cases and \$51.350 million in receipts that could exit the system and move to an ambulatory surgery facility.

ASC-Eligible Volume and Net Revenue by Hospital Location				
Hospital Location	OR Cases	GI Cases	Total Case Volume	Total Receipts
North	1,800	3,900	5,700	\$20,650,000
Central	1,600	1,000	2,600	9,900,000
South	<u>4,400</u>	<u>200</u>	<u>4,600</u>	<u>20,800,000</u>
Total	7,800	5,100	12,900	\$51,350,000

The system is currently developing a plan to transition volume from on campus to the ASC, thereby providing additional capacity to the system for higher-acuity surgical procedures.

The Value of Alignment

ASC Implications for Health Systems: Future Considerations

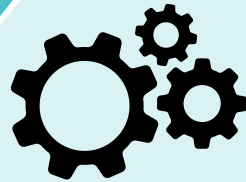
Health system ASC strategies are mandatory and critical to success!



Health systems and hospitals are feeling pressure from payors and their communities to reduce costs. In addition, changes in government regulations and CPs reward providers for migrating high-acuity surgery to the ASC setting, which poses a financial threat to health systems due to the significance of surgical revenue. This motivates the demand for ASCs and the need for an ASC strategy. Retention of equity for hospital partners is expected to grow as higher-valued surgery shifts to a lower-cost setting. Health systems are expected to capitalize on their value relative to their equity position and increase alignment with physicians via ASC JVs.

Increased Demand for Hospital ASC JVs

Operations and CMS Changes



- » Efficiency equals reduced cost.
- » Physicians want access to incremental income.
- » There is desire for physician management control.
- » ASCs must know their cost!
- » Payors see the opportunity for savings.
- » There is increased CP acceptance of approval of codes beyond the Medicare list.
- » CMS has closed the gap on HOPD- and ASC-approved CPT codes on the APC list.
- » There are implications of APC bundling logic and device-intensive procedures.

Surgery Pricing and Transparency



- » ASCs typically represent 30% or more in savings to payors.
- » ASC pricing can be 50% less than hospital pricing.
- » Charge transparency is trending toward mandatory.
- » Payor, employer, and consumer perspective is important for competitive pricing of outpatient surgery.
- » Value-based pricing/gainsharing arrangements exist.
- » Will there be bundled payments in ASCs?

Disruptive Forces Already Taking Hold

Several blockbuster healthcare merger and acquisition and affiliation announcements hold significant disruptive potential.



“CVS Health to Acquire Aetna; Combination to Provide Consumers with a **Better Experience, Reduced Costs, and Improved Access** to Healthcare Services”



“DaVita Medical Group to Join Optum; Combination Designed to **Improve Care Quality and Patient Experience** through Multiple Payor Relationships across Physician Platform.”



“Three Giant Employers, Amazon, Berkshire Hathaway, and JP Morgan Chase, Announced They Were Partnering to Create an Independent **Company Aimed at Reining in Healthcare Costs** for Their US Employees.”

These organizations, with their stated purpose of reducing costs, will eventually focus on surgeries.

Implications for Future ASCs



Checklist

- Hospitals that are not developing or implementing an ambulatory surgery strategy are at risk to lose volume to future ASCs.
- Future ASCs provide a way to decant hospital volumes, thereby allowing hospitals to focus on higher-acuity cases.
- As regulatory and payor reimbursement changes emerge, nimble ASCs will be able to evolve and optimize performance.
- New entrants will demand a different, nonhospital-centric patient experience—lower cost, higher touch.
- Overall, proposed Medicare changes for 2019 are favorable for ASCs and may accelerate migration and rate increases for high-cost surgery.
- ASCs are becoming a key driver in hospitals' strategic plans and a driving force for comprehensive ambulatory care centers that offer opportunity for enhanced physician-hospital alignment.

Questions & Discussion



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