

New Transparency Initiatives & Their Impact on ASCs

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New laws recently passed in Texas and Oregon have the potential to bolster already strong growth in the ambulatory surgery center (ASC) business and fundamentally alter the market for outpatient surgical care. The new laws mandate transparency in the cost of and reimbursement for surgical care through the creation of standardized online databases, available to the public. The idea is to give any and all healthcare stakeholders – consumers, patient advocates, care providers, administrators, regulators, payers, employers and investors – the ability to access, compare and understand, at a glance, the true quality and costs of care in different types of environments.

This article will highlight the potential impact of the new laws on the ASC industry (both for existing centers and those in development), and offer a few tips for surgeon-owners looking to take advantage of the increasing transparency and unstoppable trend toward greater consumer control.

Specifically, Oregon will capture the commercial averages for inpatient hospital services, while the Consumer Access to Health Care Information law in Texas will gather actual commercial payment averages for all hospital and ASC services. Health plans must report annual reimbursement rates, HMO-PPO comparisons and in-network vs. out-of-network data, and give consumers, upon request, estimates of their personal financial liability for care.

These new state laws are only the tip of the transparency iceberg. At the national level, Medicare is actively working toward the submission of more hospital inpatient charges, payment and quality information and creating tools like its Hospital Compare Web site and Health Information Exchanges. It also has an initiative to collect data on the charges and payments made to outpatient surgery centers. Further, all 50 states have some type of transparency legislation pending, with most initiatives focused on hospital charges.

While data about charges has long been available, the information has been essentially meaningless, since payments usually do not match charge rates, thanks to negotiated agreements between payers and providers, hospital hardship policies, patient ability to pay and other factors. The drive toward transparency – fueled by the growth in consumer-driven healthcare – will change that, and provide much clearer insight into the true costs of care in various environments.

Hospitals will feel the biggest immediate impact, but there's little doubt that outpatient facilities will soon be affected. In general, we believe more transparency represents an opportunity for ASC ownership groups, provided they understand the market charges and shape the right plan.

A New Era in Healthcare

Transparency has become more important in healthcare because of the increased influence and rapid adoption of consumer-driven healthcare plans, or CDHPs. These plans have long been viewed as the next big thing in the industry. But “next” has become “now.” Consider that in 2006, there were 4.5 million enrollees in CDHPs; in 2008, it was 6.1 million. Consider that in 2006, there were 4.5 million enrollees in CDHPs; in 2008, it was 18 million, with 40+% growth projected for 2009 by industry analysts and observers.

The most popular CDHPs, representing 46% of the market today, are health savings accounts (HSAs), which come with high deductibles (e.g., \$5,000). The appeal of CDHPs is that they offer more choice in provider selection, encourage consumers to take more responsibility for their own care and promote timely, preventative care. Lastly, and most importantly, they give consumers more incentives to watch the quality and cost of care – and that's where transparency comes in.

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Information Is Power

As CDHPs proliferate, consumers will demand the information required for “comparison shopping.” To make meaningful comparisons in their decision-making, consumers need to know the real costs. That’s true whether they’re evaluating dermatologists or choosing to have an operative procedure at an outpatient surgery center or inpatient hospital. To meet consumer demand, state and federal government entities are requiring more detailed information be made available.

Private health plans and insurers, like Anthem, Aetna and Humana, are also pushing toward more transparency. These companies have a huge interest in serving the growing CDHP market. In the past, they have provided some charge and payment data (typically limited to the top 30 procedures) through their web sites. More recently, however, they have developed robust online tools for CDHP members to compare in-network and out-of-network costs and payment averages. More empowered consumers will evaluate health plans based on the accuracy of this data and the ease of accessing it. In that light, transparency is a tool by which payers can attract and retain more consumer-driven business and re-negotiate contracts with employers, hospitals and ASCs.

Similarly, healthcare entrepreneurs like WebMD and Healthgrades are moving aggressively to profit from rapid growth in CDHPs. They are augmenting their current sites with whatever cost and payment information they can get. These firms are vying to become the “Google of healthcare” – that is, the starting point for consumers seeking data. It’s a huge potential business.

Transparency reinforces the competitive advantages of ASCs.

The Impact on ASCs

So what does it all mean for outpatient surgery centers? Generally, transparency mandates are good news for ASCs, but it will take some strategic thinking and effort to realize the benefits. First and foremost, ASCs must be able to objectively demonstrate the cost-effectiveness of their services. Greater transparency will expose facilities not delivering care efficiently today. Such ASCs will struggle to negotiate favorable contracts with payers or attract more consumers.

Secondly, it’s important to know if the costs of common procedures at your center match publicly available data, and how they compare to inpatient costs. If your charge master isn’t competitive, it must be changed. ASC management must also form plans to align charge masters and payment structures more thoughtfully than simply “8X Medicare.” Watchful consumers and other healthcare stakeholders will be watching those fees, and outpatient surgical centers must be prepared to protect their price and value leadership, and competitive advantage.

Further, ASCs must ensure they are capable of capturing and submitting the data state, federal regulators and health plans will ultimately require. That will take a bit of process design and likely an evaluation of the tools and technology necessary to efficiently capture accurate data. Automating data collection is the big idea here, as it helps prevent transparency from becoming a massive and time-consuming paper chase.

Lastly, public availability of the data means that staff must be ready to handle more questions from patients. We encourage our Blue Chip-affiliated outpatient surgery centers to provide written materials to patients that clarify where they can find healthcare cost and quality information. Again, we believe transparency equals opportunity for ASCs. In fact, Blue Chip considers transparency to be a best practice in all aspects of outpatient surgery center operations – in setting up the business plan and financial model, recruiting surgeon-owners, contract negotiation, and in dealing with patients and staff.

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Growth & Competition

Another important effect – perhaps the most significant of all – is the increased motivation of hospital executives to invest in outpatient surgical centers. Increased transparency will likely alter the competitive landscape, because true cost and payment transparency plays to the strength of ASCs relative to hospitals. As high-deductible CDHPs become more popular, consumers, health plans and regulators alike will be looking for lower-cost, higher-quality alternatives for surgical care – which is exactly the “sweet spot” for ASCs. Their relative cost advantages, superior patient experience and outcome parity will become clearer. It’s no surprise, then, that many industry observers expect large-scale negotiation of rates among payers and hospitals.

As a result, physician groups seeking to develop new outpatient surgery centers can expect more calls and attention from hospital administrators. So can owners of existing facilities seeking to boost utilization and performance through new investment or restructured ownership models.

We have long maintained that hospitals can be good partners in outpatient surgery centers, provided the unique risks and challenges are addressed. For instance, the relationship between surgeon-investors and hospital leadership must be thoughtfully managed. The right operating model (with properly balanced ownership stakes and shared risk and reward) must be identified. And ongoing management responsibilities must be clearly defined. It’s a lot of work, but, again, in our experience, joint ventures between hospitals and doctor groups make sense.

For more information, see *Getting to Win-Win: Best Practices for Physician-Hospital Partnerships*, by George Trajtenberg, M.D. Also, please visit: www.bluechipsurgical.com/hospitaljvs.html

The Bottom Line: The Value of Transparency

When government regulators and private sector players in the healthcare industry all start moving in the same direction – as they’re doing with CDHP and transparency – you know large-scale change is afoot. And that’s where we are today. Though our industry has lagged other sectors in the use of online technology, there’s every reason to believe the Web will change healthcare just as profoundly as it changed the retail, travel and banking industries.

Efficient and effectively-managed outpatient surgery centers are well positioned for the future. Their particular advantages in cost, patient comfort and convenience align nicely with the power shift toward consumers. And with more information comes more power. Reliable information about payment has not been widely available until now. The potential impact on the outpatient surgery center business is huge.



Blue Chip Partners creates and manages highly profitable, physician-led ambulatory surgery centers. Our businesses help physicians gain more control of their practice and their life in environments where they can do their best work.

**Find out more about our people, passion and many successful partnerships.
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