
HOPD TO ASC CONVERSION:

NOW OR LATER WITH TRANSITION TO VALUE-BASED CARE

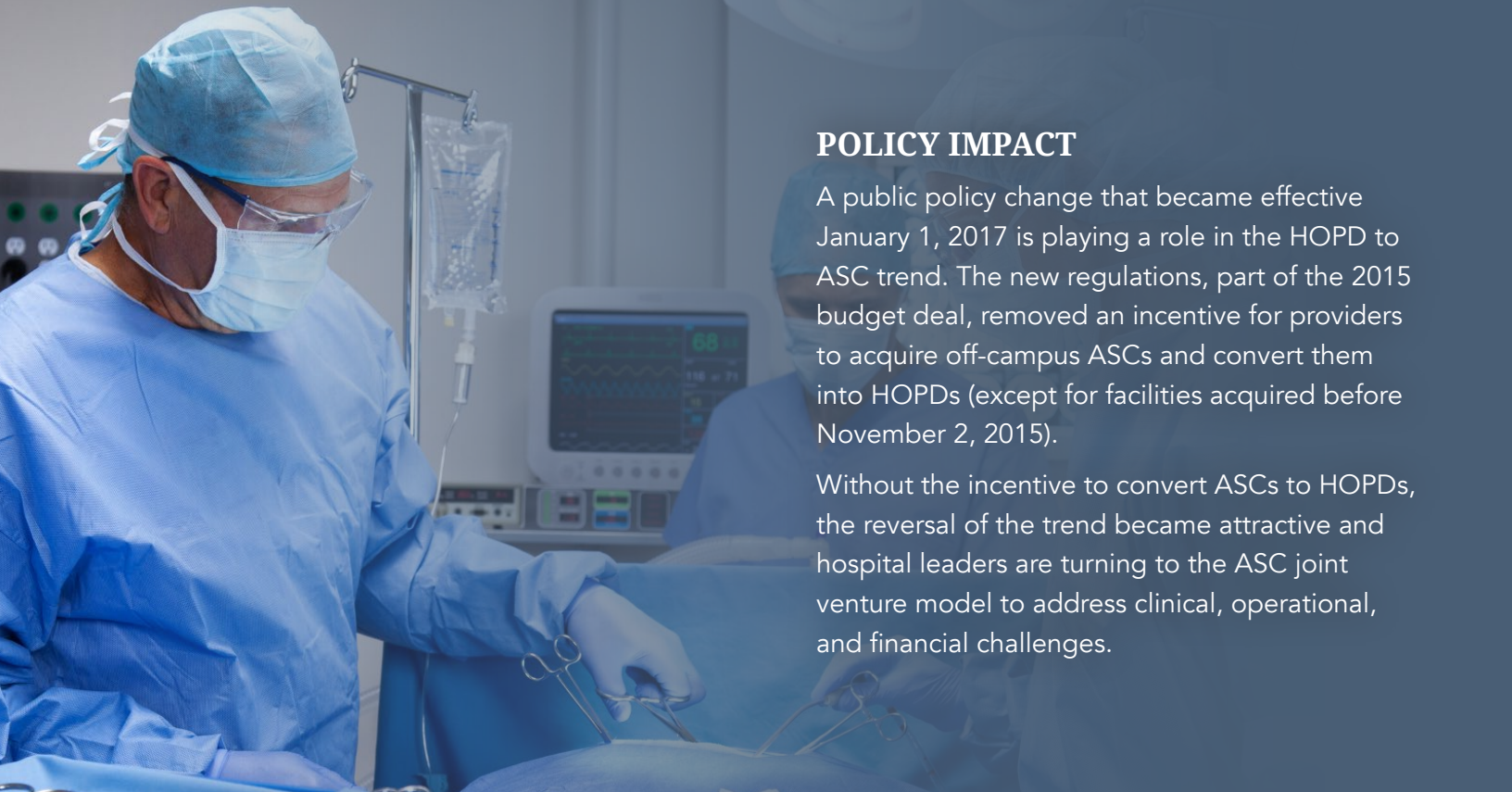


Hospital systems at the forefront of the dramatic change in healthcare are rethinking how and where care is delivered – and innovating to improve both the quality of care and the bottom line. A prime example is the reversal of a trend that, only a few years ago, saw hospitals buying ambulatory surgery centers (ASCs) outright and converting them to hospital outpatient departments (HOPDs). Today, the trend is just the opposite: hospital systems are increasingly converting HOPDs to ASCs in joint ventures with physicians in their markets.

As advances in technology, shifting public policy, and an industry-wide move toward value-based care change the game, HOPD to ASC conversion is one way leading health systems can adapt and thrive.

According to Chris Bishop, CEO of Regent Surgical Health, the trend reversal is driven by a convergence of market pressures within the changing healthcare landscape. *“In a fee-for-services world, hospitals received an 81% higher reimbursement rate on services performed in the HOPD over those in an ASC,”* says Bishop. *“But those days are going fast. As health systems move toward deriving greater percentages of revenue from value-based care, the potential for higher reimbursement in an HOPD is outweighed by the advantages of leveraging a broader ambulatory platform. Mathematically, moving in the opposite direction doesn’t make sense anymore.”*

As the nation’s leading surgery center management and development company, and the most experienced company offering hospital/physician ASC joint venture partnerships, Regent understands the challenges associated with the math and can grow the surgeon utilization to bridge the gap. Bishop maintains that improved operational efficiency is the primary need underlying the trend. *“The profit opportunity is selecting the most cost effective care setting, and that’s where ambulatory care options drive value. That’s why we’re seeing the HOPD trend now go toward conversion to ASCs. We see more willingness among health systems today to take actions that will strengthen their ambulatory care platforms; and most, but not all, are working with an increasing sense of urgency.”*



POLICY IMPACT

A public policy change that became effective January 1, 2017 is playing a role in the HOPD to ASC trend. The new regulations, part of the 2015 budget deal, removed an incentive for providers to acquire off-campus ASCs and convert them into HOPDs (except for facilities acquired before November 2, 2015).

Without the incentive to convert ASCs to HOPDs, the reversal of the trend became attractive and hospital leaders are turning to the ASC joint venture model to address clinical, operational, and financial challenges.

STRATEGIC ADVANTAGES

HOPD conversion shifts care to a lower cost setting, supporting two key strategies that drive hospital system success: improved operational efficiency and physician alignment. In addition, HOPD to ASC conversions can drive advantage in terms of payer cost sharing and marketplace reputation and relevance.

OPERATIONAL EFFICIENCY

Financially successful ASCs operate more efficiently than HOPDs due to a more narrowly defined scope of work. Surgeries appropriate for ASC patients can be scheduled throughout the day to fill OR block time. Patients are in and out of the facility as fast as possible, without any sacrifice in quality or safety.

In addition, the two most expensive budget line items for surgery – supplies and staffing – also can be managed more efficiently in an ASC. Due to predictable scope, supply closets are stocked with exactly the devices and supplies the ASC needs, and no more. And, because the day's schedule can be planned without risk of interruption for trauma/emergencies, ASC personnel can assume multiple responsibilities, work part-time schedules, and/or be sent home to decrease overall staffing costs.

“Hospitals are striving to reduce operational costs, and in doing so, we recognize that ASCs allow for efficiencies we could never achieve,” says Mark Murphy, Chief Strategy Officer at St. Joseph’s Health, a member of Trinity Health. *“From faster turnover times to flexible staffing, there are a number of key benefits including physician alignment and satisfaction.”*

PHYSICIAN ALIGNMENT

For hospitals, joint venture partnerships with ASCs provide a long-term physician alignment solution and many systems are now considering allowing employed physicians to invest as partners. A joint venture is a strategic hybrid that minimizes hospitals’ financial investment and risk – and offers physicians management resources, entrepreneurial opportunities, and the control they seek over clinically-related operating policies and equipment purchases. Hospitals that choose to share ownership in an ASC can send lower acuity, lower reimbursing cases (e.g., ophthalmology and GI procedures) to the ASC

and still profit from them, while freeing up hospital operating rooms for higher acuity, higher reimbursing cases.

“Hospitals understand that declining reimbursement can be offset by case volume and physician loyalty in a JV partnership,” says Murphy. “Physicians will have ownership in surgery centers moving forward – and for a hospital not to participate means that we would stand to lose a significant volume of cases to a competitive surgical center.”

Case in point – Robert Wood Johnson University Hospital (RWJUH) partnered with Regent Surgical Health to convert the Ambulatory Surgical Pavilion at RWJ from an HOPD to an ASC joint venture. The surgery pavilion had a proud history of clinical quality and viewed the conversion as an opportunity to increase integration with physicians. RWJUH approached Regent to invite local surgeons to participate in the center as partners.

“My partners and I have found that the ASC joint venture has provided the clinical control we wanted,” says H. Matthew Wheatley, M.D., Board President of The Ambulatory Surgical Pavilion at Robert Wood Johnson. “We’re more involved in hospital and ASC decision-making; this partnership has been a win-win for us.”

Minimizing physician splitters is viewed by many as an important benefit of conversions and supports physician alignment and satisfaction for all involved.

“We’ve found that the combination of the convenient location and the investment opportunity for physicians help us minimize splitters,” says Dr. Wheatley. “Instead of spending time marketing to them, there are inherently more reasons for them to keep their cases onsite.”

TWO ADDITIONAL BENEFITS OF AN HOPD > ASC CONVERSION

PAYER COST SHARING

In spite of the conversion trend, some hospital leaders are reluctant to give up 100% of the higher reimbursement rates in the HOPD for the smaller amount paid for procedures in an ASC. Payer cost sharing arrangements can make the shift from HOPD to ASC more palatable, especially for nonprofit systems, who can reinvest the savings and redeploy to fund unreimbursed care in the ER, for example, or to update inpatient facilities within the hospital.

MARKET RELEVANCE

Market relevance is another key benefit to conversion. A joint venture offers hospitals an opportunity to stay in front of changes in healthcare, while keeping a finger on the pulse of their market and competitors.

“For our health system, the provision comprehensive care that leads the market achieves the ‘triple aim’ of exceptional patient experience, high quality and low cost care,” says Murphy. “It requires us to challenge the status quo and make strategic decisions that position us for success in a value-based care environment.”

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EVOLVING MARKETPLACE, RIPE FOR DISRUPTION

Research suggests that by 2018, 50% of CMS payments will be linked to a value-based model of reimbursement. Companies no longer willing to wait to lower the costs of care, are disrupting the marketplace with innovative actions.



Teaming up to address healthcare for their U.S. employees with the aim of improving employee satisfaction, Amazon, Berkshire Hathaway, and JPMorgan Chase formed an independent company free from profit-making incentives and constraints. Their focus is on technology solutions that will provide employees and their families with simplified, high-quality, and transparent healthcare at a reasonable cost.

"The healthcare system is complex, and we enter into this challenge open-eyed about the degree of difficulty," said Jeff Bezos, Amazon founder and CEO. "Hard as it might be, reducing healthcare's burden on the economy while improving outcomes for employees and their families would be worth the effort. Success is going to require talented experts, a beginner's mind, and a long-term orientation."



A second example directly disrupts care delivery: Amid the most severe flu outbreak in a decade, telehealth emerged as an effective clinical solution offering quality care along with the benefit of keeping ill patients out of waiting rooms and clinics, so they would not infect other medically fragile patients. Teladoc, the world's largest provider of virtual care delivery services, saw a significant spike in volume as a result, doubling its volume of flu cases treated over the previous season.

"I am proud of our network of board certified physicians and Teladoc's ability to scale in times of need to diagnose and treat patients of all ages suffering from flu and other seasonal ailments. We're helping our members to get better faster," said Lewis Levy, MD, chief medical officer, Teladoc.

"The Amazon initiative is a shot across the bow at tradition, while Teladoc is changing the way we think about treating flu and improving the quality of care," Bishop says. *"With the emerging trend toward HOPD>ASC conversions, we're seeing hospital systems shifting into the paradigm of healthcare disruption as well."*

MAKING IT HAPPEN

In order to gain the strategic benefits and market advantages of converting HOPDs to ASCs in joint ventures with physicians, many hospitals are taking action now, or beginning to think about conversion as a possible step in the near future.

According to Regent Chief Development Officer Thomas Crossen, Regent's track record for facilitating and managing successful hospital-surgeon ASC joint ventures uniquely positions the company to help hospitals connect with leading physicians' practices to begin HOPD to ASC conversion conversations and structure winning partnerships.



Assess what they're trying to accomplish short term and long term and how that fits their overall value-based care strategy



Develop a target list of physicians to syndicate ownership that will achieve volume and quality care goals



Identify disruptive tactics to enhance care such as robotics and higher acuity joint replacement or spine care

He outlines three primary steps for hospitals interested in HOPD to ASC conversion:

“The two hardest parts of HOPD to ASC conversions for hospitals are, number one, coming to the realization that they need to give up some traditional advantages in the short-term for the longer-term viability of the ASC model,” Crossen says. *“And the next hardest part is getting all parties aligned in a deal.”*

Leveraging experience as managing partner in more than 23 hospital/physician current ASC joint ventures, Regent is adept at facilitating conversations with hospital executives on why they would want to consider HOPD to ASC conversion, facilitating physician discussions, and managing the execution.

“We are very accustomed to the conversation between a hospital and physicians, which is easily the most dynamic piece of this entire puzzle,” Crossen says. *“It requires spending a lot of time with the physicians to help them trust in the value of the deal and also speaking with the hospital so they fully understand impact of the conversion.”*

As an experienced third party, Regent brings impartial expertise. *“At its core, the transition from an HOPD to an ASC is the hospital selling a valuable asset, with Regent and the target physicians as buyers. That’s a difficult shift for many hospitals. As a management company, we will have done the analytics to be sure it’s a good deal, because after all, we’re buying in as well or following the old adage, putting our money where our mouth is. This helps both the hospital and the doctors feel more confident.”*

THE ASC COST DIFFERENTIAL

By specializing in specific procedures, ASCs maximize efficiency and quality outcomes for patients. Procedures performed in an ASC cost Medicare just 53% of the amount paid to HOPDs.

ASCs perform more than **7 MILLION PROCEDURES** annually for Medicare beneficiaries.

More than **\$2.3 BILLION** in savings is generated each year when patients receive certain preventive and surgical procedures at **ASCs instead of HOPDs.**

Medicare pays hospitals **\$1,745** for performing an outpatient cataract surgery while paying ASCs **only \$976** for performing the same surgery.

If ASCs and HOPDs offer the same services, why the divergence in payments? It’s due in part, to the fact that the Centers for Medicare & Medicaid Services (CMS) applies two different measures of inflation to update each payment system. For HOPDs, CMS uses the hospital market basket, which measures the cost of medical expenses. For ASCs, CMS uses the Consumer Price Index –Urban (CPI-U), which measures the cost of goods such as milk and bread, arriving at an inflation update that is historically lower than the hospital market basket.





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Chris Bishop, CEO of
Regent Surgical Health

CONCLUSION

As part of their evolution toward value-based care, leading hospital systems have reversed a trend, and are now increasingly converting HOPDs to ASCs for efficiencies that outweigh the benefits of a more traditional, fee for service reimbursement model.

“HOPDs make sense when billing 100% fee for service, but not when you transition to value-based care,” says Bishop. “As health systems begin to shift so that 30, 40, even 50% of their reimbursements are now value-based care, the old strategy loses its’ financial advantage. Take for example the cost of a joint replacement procedure. The reality is, that cost can go from a \$40,000 expense in the HOPD to just \$18,000 in an ASC, and there is ample evidence that the patient experience and outcomes are often superior as well.”

Bishop says part of Regent’s five-year plan is to help hospitals plan for future HOPD conversions when the time is right for them. *“It can take nine months to a year to actually affect this type of conversion,”* he explains. *“Within our development pipeline, four or five of our projects are hospital outpatient department conversions, compared to about one every three years previously. Looking deeper, we’ve found that typically the hospitals looking at the HOPD conversions have gone from 5% of their revenues being generated from value-based care, to 30 or 40%.”*

To stay ahead of the dynamic change in the healthcare industry, leading hospital systems are innovating to manage the transition in how they get paid. HOPD to ASC conversions are another step toward building the robust ambulatory platforms that will continue to help them lower costs while improving the quality of care.

For more information on Regent Surgical Health’s management of HOPD to ASC conversions, contact us today.

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