ASC Financial & Operational Benchmarking in the Era of Healthcare Reform

AARON MURSKI
SENIOR MANAGER
VMG HEALTH
I. Healthcare Reform Trends
II. Current ASC Market Observations
III. The Case for Benchmarking
IV. Benchmarking Defined
V. Benchmarking Process
VI. Example Benchmarking Applications
Healthcare Reform Trends

- Not News: Healthcare costs continue to grow unsustainably

National Healthcare Spending as a % of GDP

Healthcare reform as currently structured is not projected to lower overall healthcare costs

Medicare MUST contain its expenditures per beneficiary
Healthcare Reform Trends

- Medicare has used 2 tools to affect its expenditure:
  - Option A: Pricing, or “whack-a-mole”
  - Option B: Coverage changes (for unnecessary or ineffective services)

- Pricing changes have been problematic
  - Annual Sustainable Growth Rate debacle
  - Supply and demand...

- Coverage changes, and what services should be paid for, are difficult to support without DATA!
Healthcare Reform Trends

- Coverage changes rely on data for support, and the ability to track participants’ (YOU) performance
  - Long term trend, technology implementation accelerating pace
  - P4P aka “Value based purchasing”

- The legislative agenda is clear: monitor and track clinical indicators and outcomes, incentivize better quality and value, penalize poor outcomes

- Aside from quality and value, what could be next?
Healthcare Reform Trends

- **Examples:**
  - MMA of 2003 – establish AHRQ, DME quality standards, voluntary hospital quality reporting
  - DRA of 2005 – home health quality reporting, imaging pay reductions
  - TRHCA of 2006 – Physician quality reporting initiative (now “system”)
  - MIPPA of 2008 – DME quality, Imaging Accreditation by 2012, require VBP for physicians
  - ARRA of 2009 – EHR Incentive Program
  - PPACA of 2010 – Hospital VBP

- Generally, all follow the same pattern
Healthcare Reform Trends

- Example that’s come full circle: Hospital Value-Based Purchasing Program (HVBP)

- MMA 2003 report 10 quality measures or 0.4% reduced pay
  - By 12/31/2003, 2,338 hospitals were reporting (over 3,000 eligible)

- DRA 2005 required the development of a VBP program, should not increase expenditure (read: penalty)
  - Earn back a portion of payments through performance

- PPACA 2010 implemented HVBP, must meet quality measures
  - Still voluntary, but 1% payment hit up to 2% by 2017

- What’s next?
Healthcare Reform Trends

- Example with high political visibility: Physician Quality Reporting System
  - Tax Relief and Health Care Act of 2006 (TRHCA) required the establishment of physician quality reporting for the second half of 2007 – incentive = 1.5% to participate
  - Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) made PQRI permanent but only authorized incentive payments through 2010 – incentive = 2%
  - Patient Protection and Affordable Care Act of 2010 added additional incentive for 2011 to 2014 of 0.5%
    - Involvement is not mandatory, but...
    - 2012 final rule – if you are not reporting in 2013, beginning in 2015 you will be penalized 1.5% and 2% in 2016
    - 144 quality measures as of 2012

- Pattern = voluntary with incentive, then penalty
- What’s next? MIPPA requires VBP for physicians....
Healthcare Reform Trends

● Example with high political visibility: Electronic Health Records
  o American Recovery and Reinvestment Act of 2009 (ARRA) $27 billion over ten years in EHR
  o Health Information Technology for Economic and Clinical Health Act of 2009 (HITECH) made federal incentive payments available to eligible providers for adoption and meaningful use
    ➢ $44K over 5 years for Medicare for physicians
    ➢ $64K over 6 years for Medicaid for physicians
    ➢ $2 million base payment for hospitals
    ➢ BUT..... For 2015 and later – “payment adjustment” for eligible hospitals and physicians who do not successfully demonstrate meaningful use

● Pattern = voluntary with incentive, then penalty
● What’s next?
Healthcare Reform Trends

- Example with drastic industry-shaping fallout: Diagnostic Imaging

- Background – Medicare spending for physician imaging services doubled from $7 billion to $14 billion

- Deficit Reduction Act of 2005 (DRA) and MIPPA had both immediate and long-term changes
  - Multiple payment reductions and HOPPS cap significantly reduced reimbursements
  - Accreditation (or the definition) of imaging centers will impact who can provide imaging services

- What’s next?
Current Market Analysis

- Observing a Maturation of the ASC Industry
  - Revenue growth is difficult to achieve

- Economic Downturn / Sluggish Recovery Continues to Impact ASC Volumes – but clearly trending up

- Significant Managed Care & Medicare Reimbursement Pressure

- Uncertainty Regarding Healthcare Reform’s Long-Term Impact on ASCs

- Successful ASCs must stay ahead of cost curve, and proactively address legislative headwinds
## Current Market Analysis

- **Same Center Volume Growth Recovering**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>USPI</td>
<td>7%</td>
<td>6%</td>
<td>2%</td>
<td>2%</td>
<td>(1%)</td>
<td>1%</td>
</tr>
<tr>
<td>AMSURG</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>1%</td>
<td>0%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

*Source: Company’s Annual Reports*

### Market Forces Driving this Trend:

1. Diminishing Ability to Attract New Volume / Physicians
2. Trend stabilized and is beginning to show reversal after economic downturn (pent up demand)
Current Market Analysis

- Growth in Excess Capacity reached inflection point, currently trending in positive direction

**Median Cases per OR per Day**

- **2007**: 3.1
- **2008**: 3.0
- **2009**: 2.6
- **2010**: 2.7
- **2011**: 3.0

*Source: VMG Health Intellimarker ASC Survey*

*25% Decline in OR Utilization from 2007 to 2010*
Current Market Analysis

● **Trends in Physician Demographics**

**Current and Projected Hospital Employment**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialists</td>
<td>5%</td>
<td>8%</td>
<td>15%</td>
<td>24%</td>
</tr>
<tr>
<td>PCPs</td>
<td>18%</td>
<td>22%</td>
<td>31%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Current and Projected 1st Year MD Enrollment**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Per 100K Pop.</td>
<td>6.2</td>
<td>5.8</td>
<td>5.6</td>
<td>5.4</td>
<td>5.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Growth</td>
<td>-3.1%</td>
<td>-6.5%</td>
<td>-3.4%</td>
<td>-3.6%</td>
<td>-3.7%</td>
<td>-3.8%</td>
</tr>
</tbody>
</table>

● **Competition for physicians is increasing, due to employment and supply trends**

*Source: “Help Wanted: More US Doctors – Projections Indicate American will Face Shortage of MDs by 2020” by AAMC*
The Case for Benchmarking

- A few questions come to mind:
  - Does any of this sound familiar?
  - The ASC industry has been relatively unharmed legislatively relative to other industries – will this continue?
  - Before legislation affects your industry, how do you best position yourself to react and adapt?
The Case for Benchmarking

- While Medicare must contain healthcare expenditures, ASCs have proven to be a cost effective, patient-friendly, necessary alternative to hospital-based surgery

- ASC quality reporting for Medicare begins October 2012
  - Voluntary reporting can begin April 1, 2012
  - G-Codes

- Beginning in 2014, omission of these codes will result in payment reductions
### The Case for Benchmarking

- **ASC Quality Reporting Program Measurement Set for Payment Determination**

<table>
<thead>
<tr>
<th>Measure</th>
<th>CY 2014</th>
<th>CY 2015</th>
<th>CY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASC-1: Patient Burn</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-2: Patient Fall</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-3: Wrong Site</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-4: Hospital Transfer/Admission</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-5: Prophylactic Intravenous (IV) Antibiotic Timing</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-6: Safe Surgery Checklist Use</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>ASC-7: ASC Facility Volume Data on Selected ASC Surgical Procedures</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Summary of reporting measures finalized for purposes of the CY 2014-2016 payment determinations.**

**Will meeting quality benchmarks be next on the horizon for ASCs?**
The Case for Benchmarking

- Lower risk? ASC’s have not recently experienced the rapid growth compared to other industries

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare ASC payments (billions)</td>
<td>$2.90</td>
<td>$2.90</td>
<td>$3.10</td>
<td>$3.20</td>
<td>$3.40</td>
</tr>
<tr>
<td>Growth</td>
<td>7.4%</td>
<td>0.0%</td>
<td>6.9%</td>
<td>3.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Number of Medicare Certified ASCs</td>
<td>4,711</td>
<td>4,991</td>
<td>5,174</td>
<td>5,260</td>
<td>5,316</td>
</tr>
<tr>
<td>Growth</td>
<td>6.1%</td>
<td>5.9%</td>
<td>3.7%</td>
<td>1.7%</td>
<td>1.1%</td>
</tr>
<tr>
<td>MC Payments per Facility (thousands)</td>
<td>$616</td>
<td>$581</td>
<td>$599</td>
<td>$608</td>
<td>$639</td>
</tr>
<tr>
<td>Growth</td>
<td>1.3%</td>
<td>-5.7%</td>
<td>3.1%</td>
<td>1.5%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

From 2006 to 2010, Medicare payments to ASC’s:
- Increased 4.1% annually
- Per facility increased <1% annually

- All signs point to a Medicare VBP for surgery centers

- Other payment reforms on the way?

Source: MedPac Report to Congress 2012
Benchmarking Defined

• Simply put, to “Evaluate or check (something) by comparison with a standard”

• What benchmarking is:
  o A useful tool to measure and inform decision making
  o One component of larger effort of Process Improvement
  o A Process in and of itself
  o Objective agent of change (tool for physician buy-in)

• And what it isn’t:
  o Your ASC
  o A static, one time analysis
Benchmarking Defined

- Clinical versus Financial/Operational benchmarks
  - Adherence to clinical protocols vs. economic efficiency
  - Often related, can impact one another

- Benchmarking Process (look familiar?)
  - Identify it
  - Track it
  - Change it
  - Monitor

- Internal versus External Benchmarks
  - Internal = budget, prior year actual
Benchmarking Process

- **$ Investment in process: is the juice worth the squeeze?**

- **Sources of Industry Data**
  - Ambulatory Surgery Center Association “Financial Benchmarking Survey”
  - MGMA “2009 ASC Financial Performance Survey”
  - VMG Health “Intellimarker ASC Financial & Operational Benchmarking Study”
  - Other? Just “Google” it...

- **Finding the right peer group...**
  - Similar geographical region
  - Facility size by operating rooms, net revenue, case volumes
  - Other?
Benchmarking Process

- **Identify the metric**
  - Requires understanding of external metric, data source and calculation
  - Must be able to replicate metric with internal data
  - Understanding peer group is imperative for each metric!!!

- **How do you compare to the standard?**
  - Benchmarks must be comparable, and therefore *current* and from ASCs similar to yours
  - No two ASCs are alike – look at different cross sections of data
  - Some variances you cannot change....
Benchmarking Process

- After identifying metrics and variances....
  - In writing – define goal and process by which goal will be attained
  - Track metrics on a continual basis – frequency depends on metric and individual ASC needs
  - Collaborate – get staff and Board involved and incentivized to implement change over time
Benchmarking Example

- **Example ASC**
  - Location: Midwest
  - Multi-specialty
  - No third party management company
  - Net revenue: $4 million
  - Operating Rooms 3
  - Accounts Receivable Days Outstanding: 36
### Median Income Statement Data - 2011

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>Midwest</th>
<th>$'s - 000's</th>
<th>% of Net Revenue</th>
<th>Ex. ASC $'s</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>6,957</td>
<td>7,985</td>
<td>6,957</td>
<td>7,985</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,418</td>
<td>1,525</td>
<td>22.1%</td>
<td>18.6%</td>
<td>1,050</td>
<td>25.0%</td>
</tr>
<tr>
<td>Taxes &amp; Benefits</td>
<td>332</td>
<td>368</td>
<td>5.0%</td>
<td>5.1%</td>
<td>223</td>
<td>5.3%</td>
</tr>
<tr>
<td>Occupancy Costs</td>
<td>441</td>
<td>445</td>
<td>6.7%</td>
<td>5.3%</td>
<td>294</td>
<td>7.0%</td>
</tr>
<tr>
<td>Medical &amp; Surgical Supplies</td>
<td>1,365</td>
<td>1,455</td>
<td>21.3%</td>
<td>18.1%</td>
<td>840</td>
<td>20.0%</td>
</tr>
<tr>
<td>Other Medical Costs</td>
<td>67</td>
<td>124</td>
<td>1.0%</td>
<td>1.6%</td>
<td>11</td>
<td>0.3%</td>
</tr>
<tr>
<td>Insurance</td>
<td>44</td>
<td>39</td>
<td>0.7%</td>
<td>0.5%</td>
<td>34</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>General &amp; Admin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad Debt</td>
<td>118</td>
<td>192</td>
<td>1.5%</td>
<td>2.3%</td>
<td>42</td>
<td>1.0%</td>
</tr>
<tr>
<td>Management Fees</td>
<td>322</td>
<td>330</td>
<td>4.9%</td>
<td>3.9%</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other G&amp;A</td>
<td>592</td>
<td>589</td>
<td>8.6%</td>
<td>7.3%</td>
<td>420</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Total G&amp;A</strong></td>
<td>1,006</td>
<td>1,120</td>
<td>22.8%</td>
<td>12.3%</td>
<td>462</td>
<td>11.0%</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>5,235</td>
<td>5,515</td>
<td>75.0%</td>
<td>60.6%</td>
<td>2,913</td>
<td>69.4%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,807</td>
<td>2,686</td>
<td>27.1%</td>
<td>34.4%</td>
<td>1,287</td>
<td>30.7%</td>
</tr>
</tbody>
</table>

Source: VMG Health Intellimarker ASC Survey 2011

Largest 2 single expenses in any ASC – Staffing and Supplies
## Benchmarking Example

### Net revenues per case

**Median Regional Net Revenue Per Case - 2011**

<table>
<thead>
<tr>
<th>Specialty</th>
<th>National</th>
<th>Midwest</th>
<th>Ex. ASC</th>
<th>Nation</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENT</td>
<td>$1,761</td>
<td>$1,998</td>
<td>$1,795</td>
<td>1.9%</td>
<td>-10.2%</td>
</tr>
<tr>
<td>GI</td>
<td>$778</td>
<td>$778</td>
<td>$825</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>General Surgery</td>
<td>$1,689</td>
<td>$1,952</td>
<td>$1,827</td>
<td>8.2%</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>$1,267</td>
<td>$1,297</td>
<td>$1,100</td>
<td>-13.2%</td>
<td>-15.2%</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>$2,585</td>
<td>$2,890</td>
<td>$2,649</td>
<td>2.5%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Pain Management</td>
<td>$955</td>
<td>$1,002</td>
<td>$819</td>
<td>-14.2%</td>
<td>-18.3%</td>
</tr>
<tr>
<td>Podiatry</td>
<td>$1,871</td>
<td>$1,837</td>
<td>$1,850</td>
<td>-1.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Urology</td>
<td>$1,639</td>
<td>$2,005</td>
<td>$1,924</td>
<td>17.4%</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

**Variance**

- Payor Mix for specialty?
- Managed care environment?
- Volume levels?
- Implants?

*Source: VMG Health Intellimarker ASC Survey 2011*
## Benchmarking Example

### Accounts Receivable Metrics

**A/R Days Outstanding, Median Data 2011**

<table>
<thead>
<tr>
<th>Days Out</th>
<th>Ex. ASC</th>
<th>Nation</th>
<th>Midwest</th>
<th>Op Rms</th>
<th>Revenue &lt; $4.5</th>
<th>Revenue 3K - 6K</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>33</td>
<td>37</td>
<td>32</td>
<td>32</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>-8.3%</td>
<td>2.8%</td>
<td>-11.1%</td>
<td>-11.1%</td>
<td>-13.9%</td>
<td></td>
</tr>
</tbody>
</table>

**Benchmark Data**

<table>
<thead>
<tr>
<th>Op Rooms</th>
<th>1 - 2</th>
<th>3 - 4</th>
<th>&gt; 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Out</td>
<td>35</td>
<td>32</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Volume</th>
<th>&lt;3K</th>
<th>3K - 6K</th>
<th>&gt;6K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Out</td>
<td>36</td>
<td>31</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Revenue</th>
<th>&lt; $4.5</th>
<th>$4.5 - $7</th>
<th>&gt; $7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Out</td>
<td>32</td>
<td>32</td>
<td>33</td>
</tr>
</tbody>
</table>

*Source: VMG Health Intellimarker ASC Survey 2011*

- Third party billing and collecting?
- Payor mix weighting?
## Benchmarking Example

### Staffing Metrics

#### Median Selected Staffing Metrics - 2011

<table>
<thead>
<tr>
<th>Hours Per Case</th>
<th>National</th>
<th>Midwest</th>
<th>Ex. ASC</th>
<th>Nation</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurse</td>
<td>6.0</td>
<td>6.8</td>
<td>7.0</td>
<td>16.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Tech</td>
<td>2.4</td>
<td>2.5</td>
<td>2.5</td>
<td>4.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Admin</td>
<td>4.0</td>
<td>3.9</td>
<td>4.5</td>
<td>12.5%</td>
<td>15.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hourly S&amp;W</th>
<th>National</th>
<th>Midwest</th>
<th>Ex. ASC</th>
<th>Nation</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurse</td>
<td>$31.72</td>
<td>$29.79</td>
<td>$35.49</td>
<td>11.9%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Tech</td>
<td>$20.59</td>
<td>$19.43</td>
<td>$20.15</td>
<td>-2.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Admin</td>
<td>$22.73</td>
<td>$22.38</td>
<td>$22.86</td>
<td>0.6%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

**Source:** VMG Health Intellimarker ASC Survey 2011
Benchmarking Example

- Is it your ASC, or an industry trend?
  - Helpful to understand trend over time
- Current ASC industry trends:

Staff Hours Per Case

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>14.9</td>
<td>14</td>
<td>10.4</td>
<td>11</td>
</tr>
</tbody>
</table>

De-Leveraging: Debt / Total Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>44.6</td>
<td>49</td>
<td>35</td>
<td>31.8</td>
</tr>
</tbody>
</table>

Source: VMG Health Intellimarker ASC Survey
Much uncertainty remains for ASCs in healthcare reform, VBP is likely from Medicare

- Physician Demographics = limited revenue growth
- Managing costs is imperative and will define successful surgery centers
- Benchmarking is becoming the new norm for well managed ASCs
Questions?

AARON MURSKI

SENIOR MANAGER
VMG HEALTH