

Strategic Planning: Financial Impact of Different Types of Surgery

- This talk includes many similar slides
 - Paging through produces animation
 - View with Adobe Reader for **mobile**: iPad, iPhone, Android
- Slides were tested using Adobe Acrobat
 - You can select View and then Full Screen
 - First optimize your settings
 - Select Edit, then Preferences, then Full Screen, and then No Transition
- Other PDF readers suitable if scrolling can be disabled
 - Google Chrome PDF Viewer has Select Fit to Page, and then use the right/left arrow keys

Updated 10/04/17



Strategic Planning: Financial Impact of Different Types of Surgery

Franklin Dexter, M.D., Ph.D.



Director, Division of Management Consulting

Professor, Department of Anesthesia

University of Iowa

Franklin-Dexter@UIowa.edu

www.FranklinDexter.net

Financial Disclosure

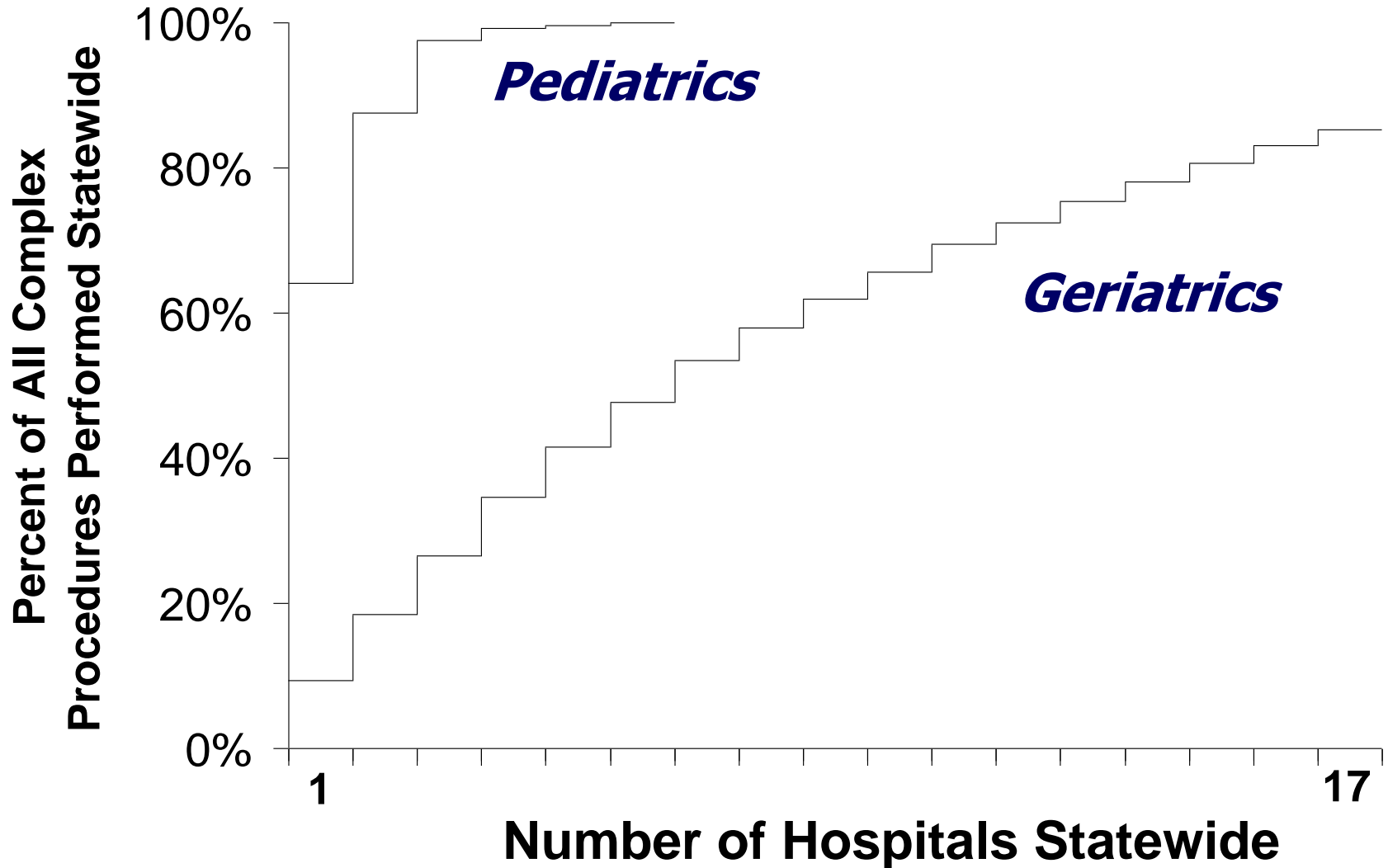
- I am employed by the University of Iowa, in part, to consult and analyze data for hospitals, anesthesia groups, and companies
- Department of Anesthesia bills for my time, and the income is used to fund our research
 - I receive no funds personally other than my salary and allowable expense reimbursements from the University of Iowa, and have tenure with no incentive program
 - I own no healthcare stocks (other than indirectly through mutual funds)

Summary of Other Talk

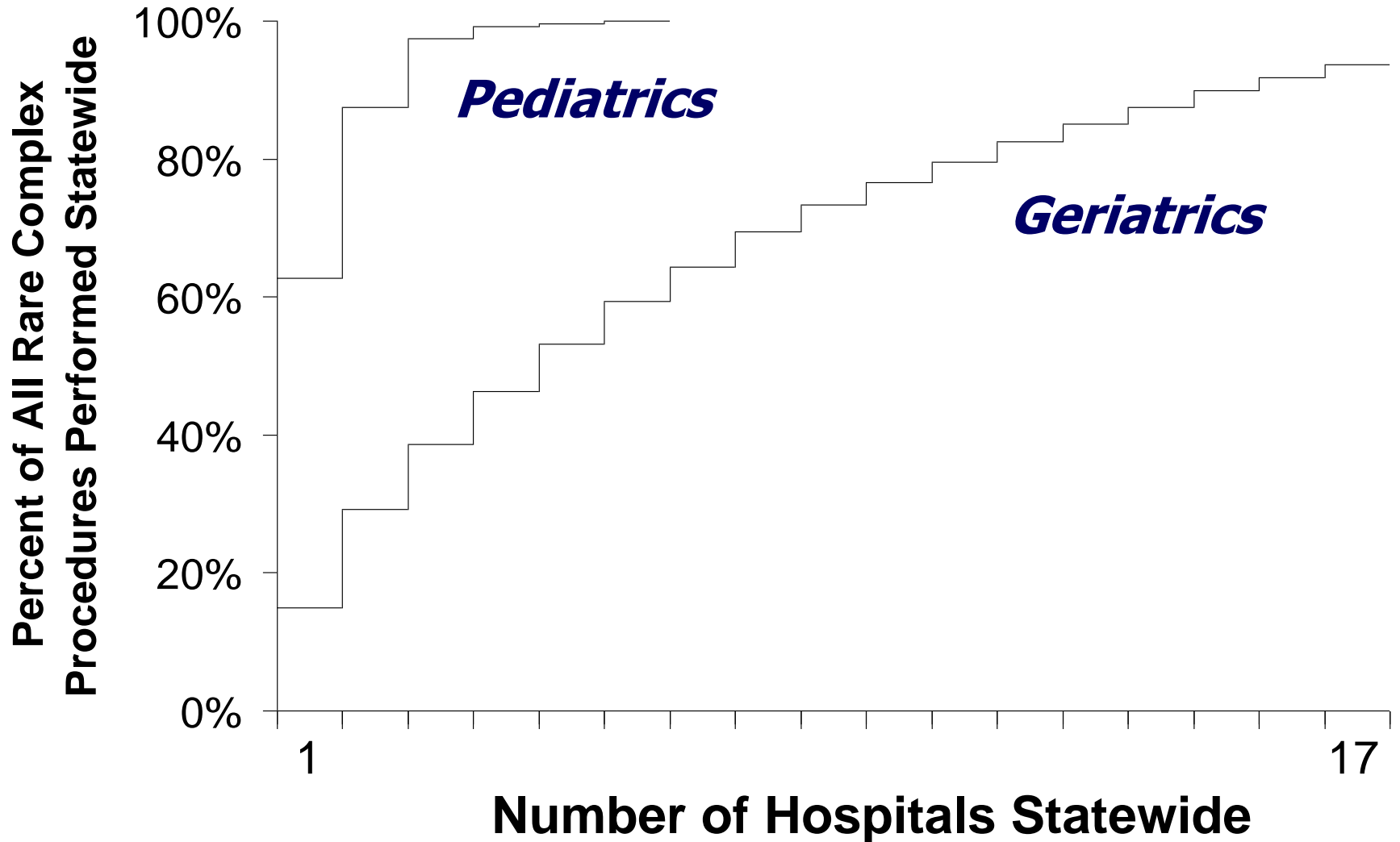
- “Showing Differences Among Hospitals and their Surgical Practices”
 - Useful to review the other presentation in its entirety before reviewing this talk



Physiologically Complex Procedures



Rare Types of Procedures



Summary of Other Talk

- In children, one hospital performed 64% of all physiologically complex procedures and 63% of all rare physiologically complex procedures in the entire state
- No similar dominance for geriatrics

Dexter F et al. Anesthesiology 2003

Wachtel RE, Dexter F. Anesthesiology 2004



Is the Dominance Good or Bad Financially for the Hospital?

- Maybe most hospitals don't do physiologically complex pediatric cases because the hospitals would lose money on them
- Does that one hospital lose money on them? Does it know? How would it know?

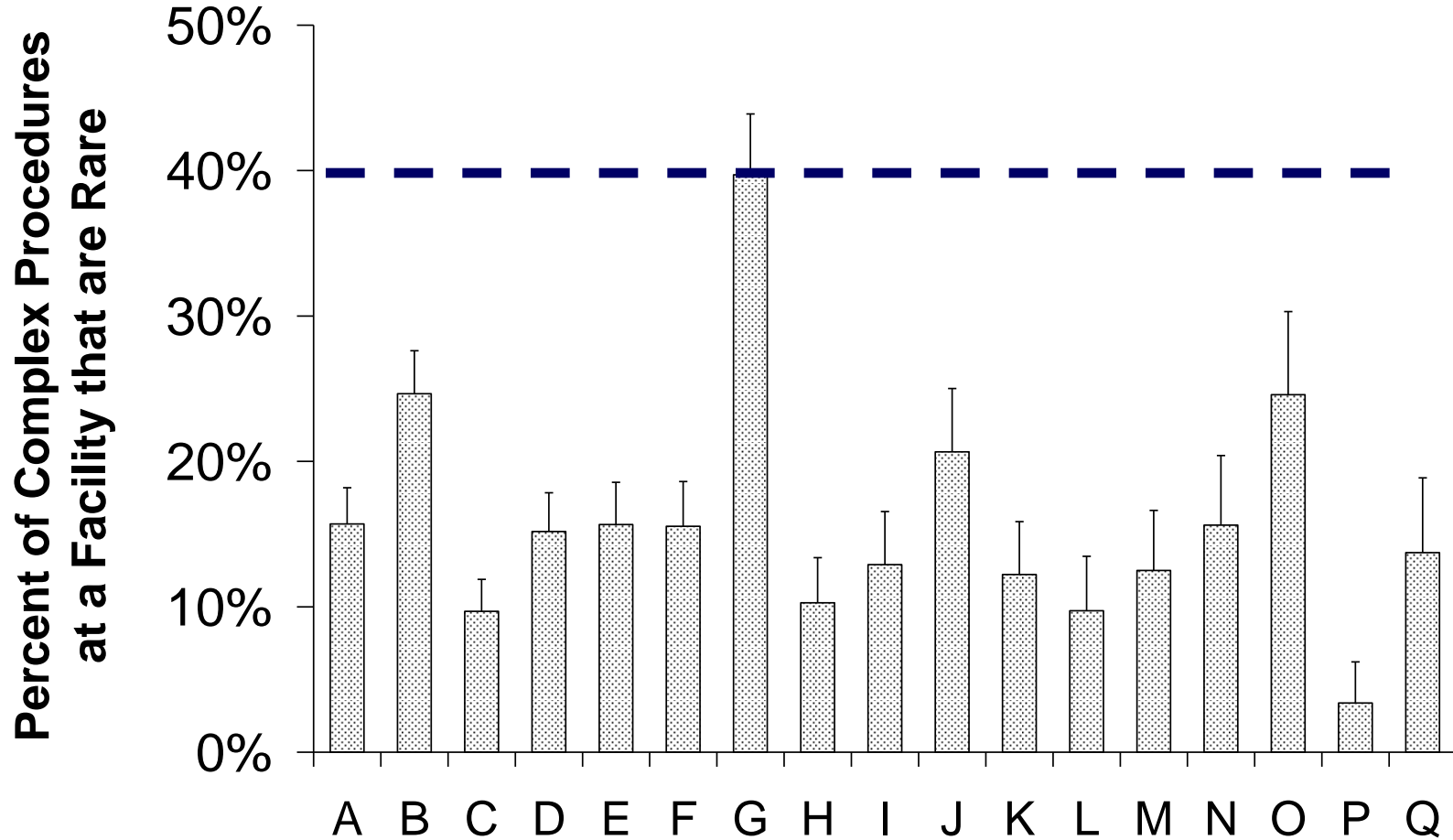


Is the Dominance Good or Bad Financially for the Hospital?

- From a financial perspective, should hospital:
 - Encourage dominance in pediatric surgery and promote itself as a “center of excellence?”
 - Hope patients go elsewhere?



Rare Procedures in Geriatric Patients



Rare Procedures

- At the hospital, 40% of all physiologically complex procedures in the elderly were rare
- Much higher proportion than at other hospitals
- “We specialize in rare procedures.”



Is the Specialization Good or Bad Financially for the Hospital?

- From a financial perspective, should hospital:
 - Encourage growth in geriatric surgery, because the number of elderly needing sophisticated medical care is increasing?
 - Discourage growth in geriatric surgery, because Medicare payments are low?
 - Educate benefactors and third-party payers that increased funding is needed for rare and complex procedures, because they are more expensive to perform?



Predictions

- Test 3 predictions regarding the financial implications of the types of procedures performed by this hospital

Wachtel RE et al. Anesthesiology 2005



Predictions

- Test 3 predictions regarding the financial implications of the types of procedures performed by this hospital
 - 1) Pediatric surgery is more lucrative than geriatric surgery
 - 2) Rare physiologically complex procedures are financially disadvantageous
 - 3) Procedures with high implant charges are associated with poor financial performance



How to Measure Profitability

- Revenues
 - Hospital
 - Professional
- Costs
 - Fixed
 - Variable



Fixed Costs

- Building and grounds
 - Maintenance and utilities
- Administration
 - Billing office, VPs, information system
- OR expenses
 - Equipment and instruments



Variable Costs

- Supplies
 - Drugs
 - Linens
 - Implants
- Labor
 - ICU, OR, PACU, ward nursing



Contribution Margin

- Marginal cost of manufacturing another widget
- Contribution margin associated with selling another widget
 - Incremental revenue minus marginal cost
 - Incremental revenue minus variable costs



Profit

- Profit
 - Revenue
 - Minus variable costs
 - Minus fixed costs



Contribution Margin

- Contribution margin associated with doing a surgical case
 - Incremental Revenue minus variable costs
- For comparison, must account for differences in resource use: OR time
- CM/OR hour

Macario A et al. Anesth Analg 2001

Dexter F et al. Anesth Analg 2002

Dexter F et al. Anesth Analg 2005



Contribution Margin

- Calculate CM/OR hour
 - Groups of patients
 - Types of surgical procedures
- Determine whether differences are financially important
 - \$250 or more
 - Variable costs per hour of OR time that can be influenced by strategic planning



Study Only Patients Undergoing Elective Surgery

- Outpatient surgery
- Inpatient surgery
 - admitted day of elective surgery
 - not anesthesiologists' physical status "E"
 - not on weekend or holiday
 - no ambulance or ER charges



Why Study Only Patients Undergoing Elective Surgery?

- Elective case
 - All subsequent costs of hospitalization and additional surgeries arising from complications can be attributed to initial decision to perform surgery

Why Not Urgent Cases?

- Emergent or urgent cases
 - Can be victims of trauma who with numerous charges unrelated to original surgical procedure
 - Hospitals do not have the same ability to alter the numbers and types of procedures performed through strategic decision-making



Analysis Methodology

- Combine patient-specific information obtained from several sources within the hospital



Data Linked Together Based on Medical Record Number

- Hospital and professional practice database of patient information
- OR information system
- Anesthesia billing data
- Hospital accounting data



Accounting Data

- Hospital may have bottom-up activity based cost accounting system
- If not available, simply sum costs of
 - OR hours
 - Implant costs
 - ICU days
 - Bed days on floor

Dexter F et al. Anesthesiology 2002

Dexter F et al. Anesth Analg 2005



Hospital Database

- Hospital and professional practice database(s) of patient information
 - List of inpatient admissions
 - List of outpatient admissions
 - Dates of surgery
 - Diagnosis and procedure codes



What Else is Needed?

- Must determine if surgery was elective
 - Date of admission
 - Date of surgery
 - Ambulance charges from billing system
 - American Society of Anesthesiologists' status E from anesthesia billing data



What Else is Needed?

- Physiological complexity of case
 - ≥ 8 ASA Relative Value Guide (RVG) base units
 - Determine directly from CPT codes using ASA crosswalk
 - Determine by converting ICD-9/10 procedure codes to CPT codes

Dexter F et al. Anesth Analg 2002

Dexter F, Thompson E. AANA J 2001



What Else is Needed?

- Physiological complexity of case
 - CPT code of primary procedure from anesthesia billing data
 - CPT codes or ICD-9/10 codes of secondary procedures from hospital database



What Else is Needed?

- OR times from OR information system



What Else is Needed?

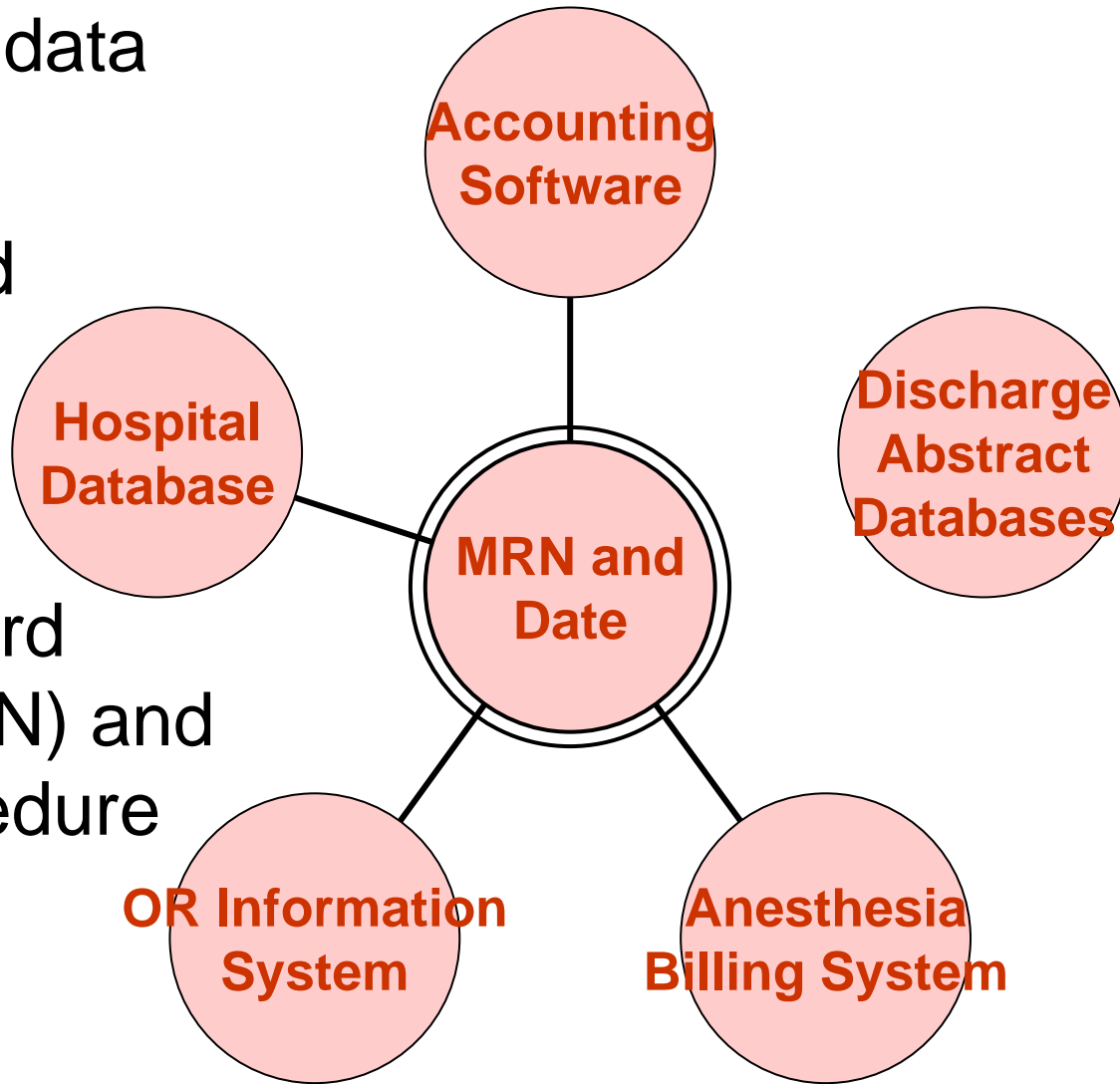
- List of procedures that are rare from state or provincial discharge abstract database
- Rare procedure
 - Performed < 250 times statewide
 - Performed, on average, less than once per workday



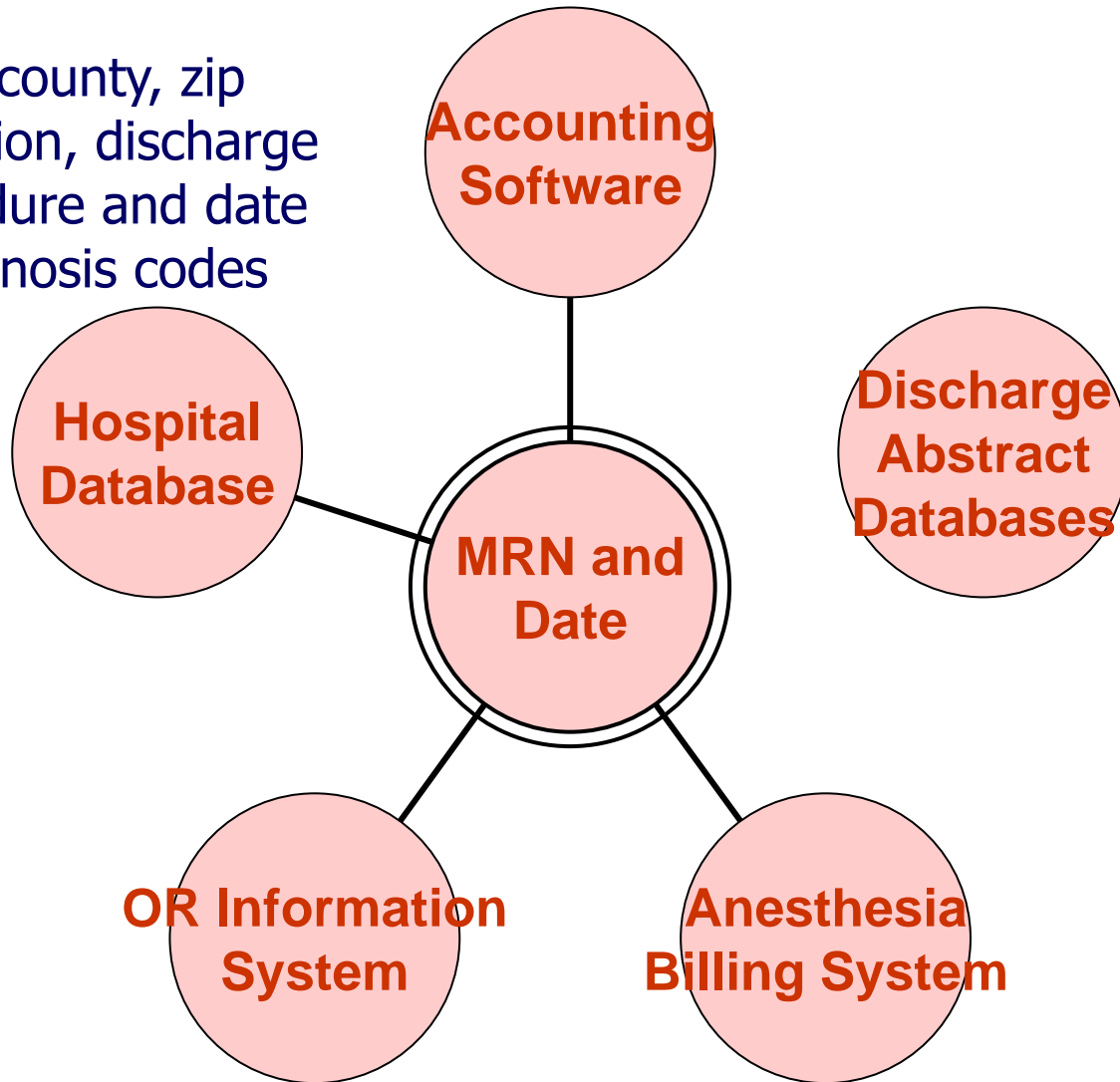
5 sources of data

data in each
file are linked

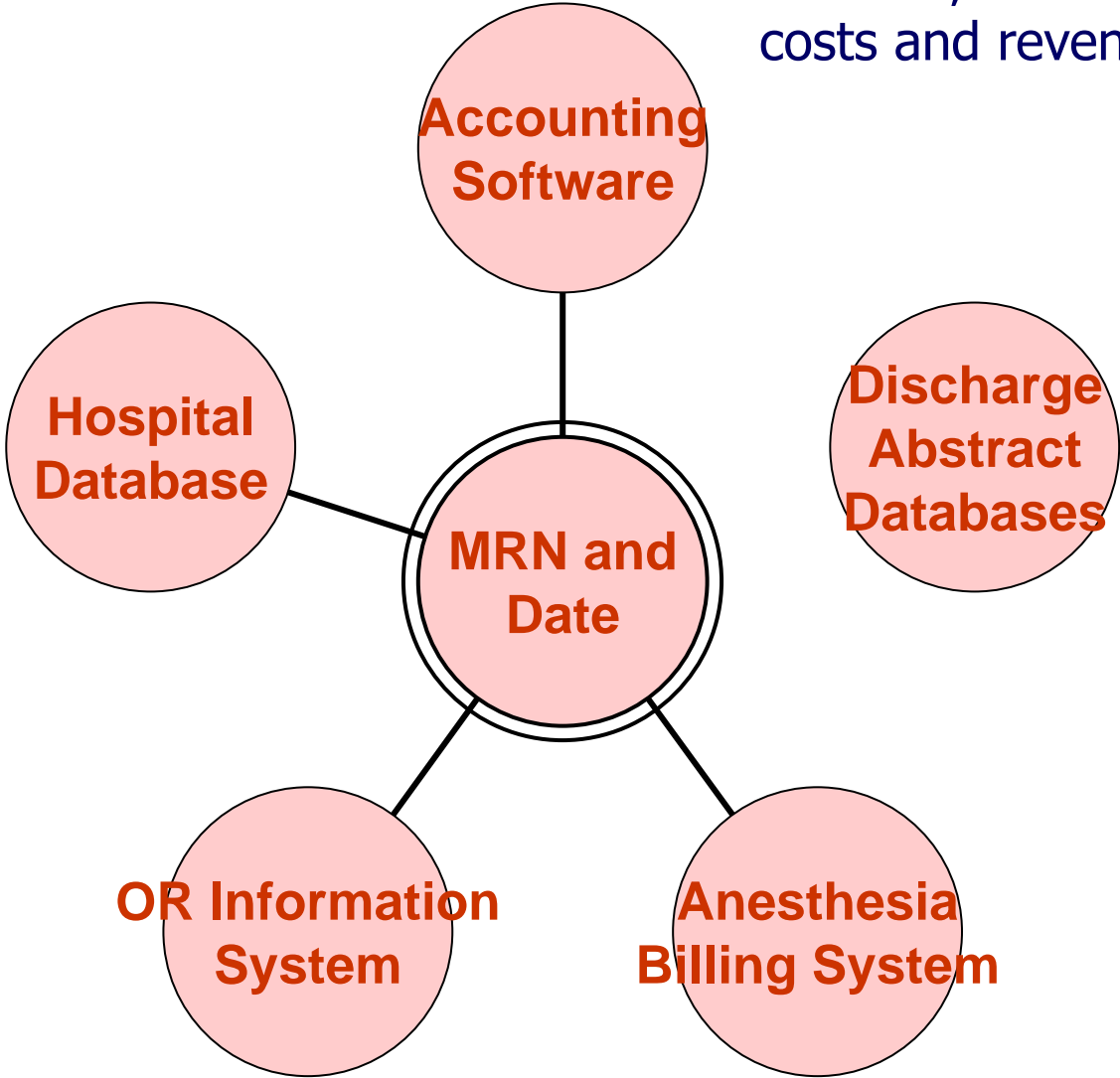
medical record
number (MRN) and
date of procedure

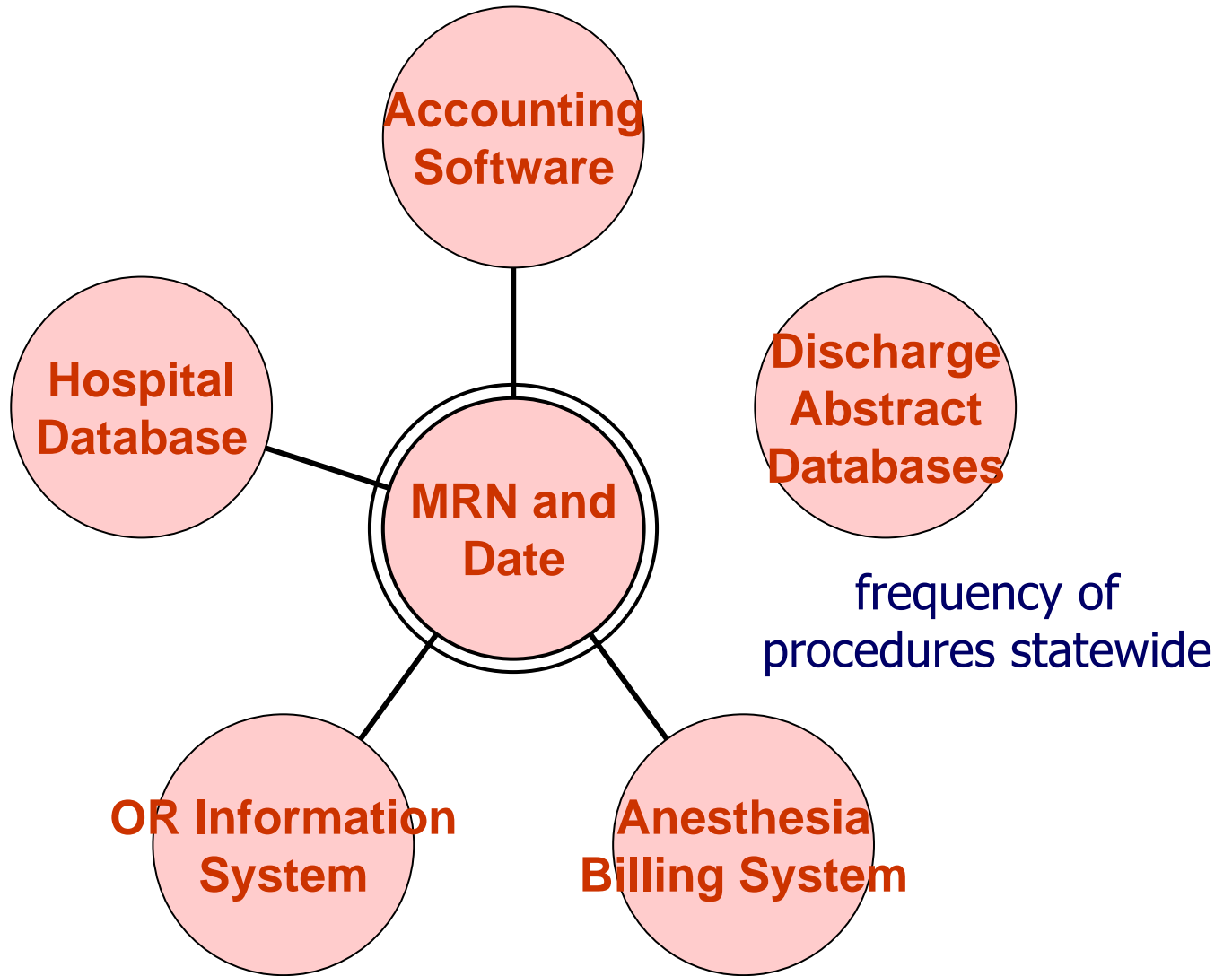


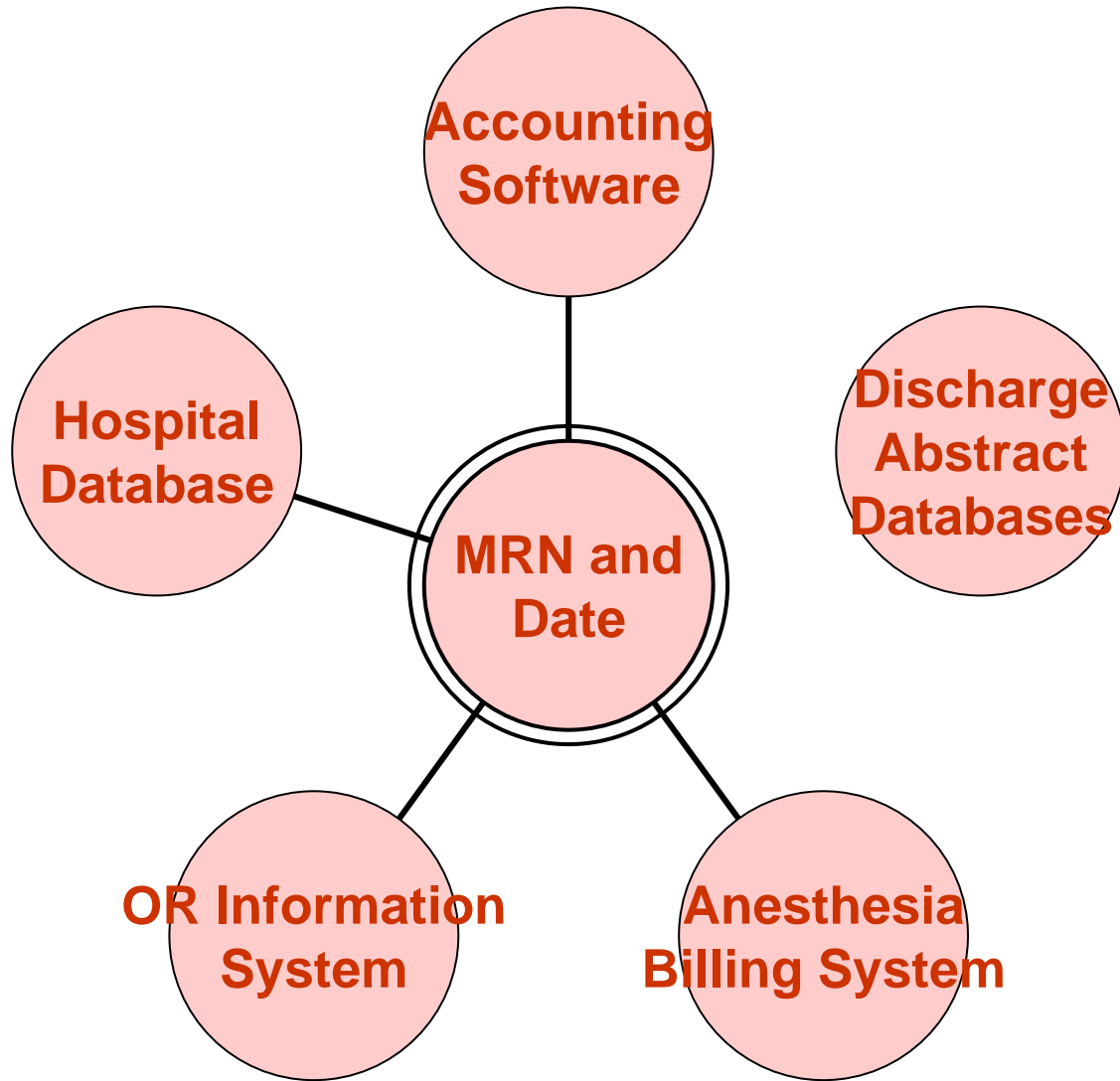
patient age, county, zip
dates of admission, discharge
principal procedure and date
DRG and diagnosis codes



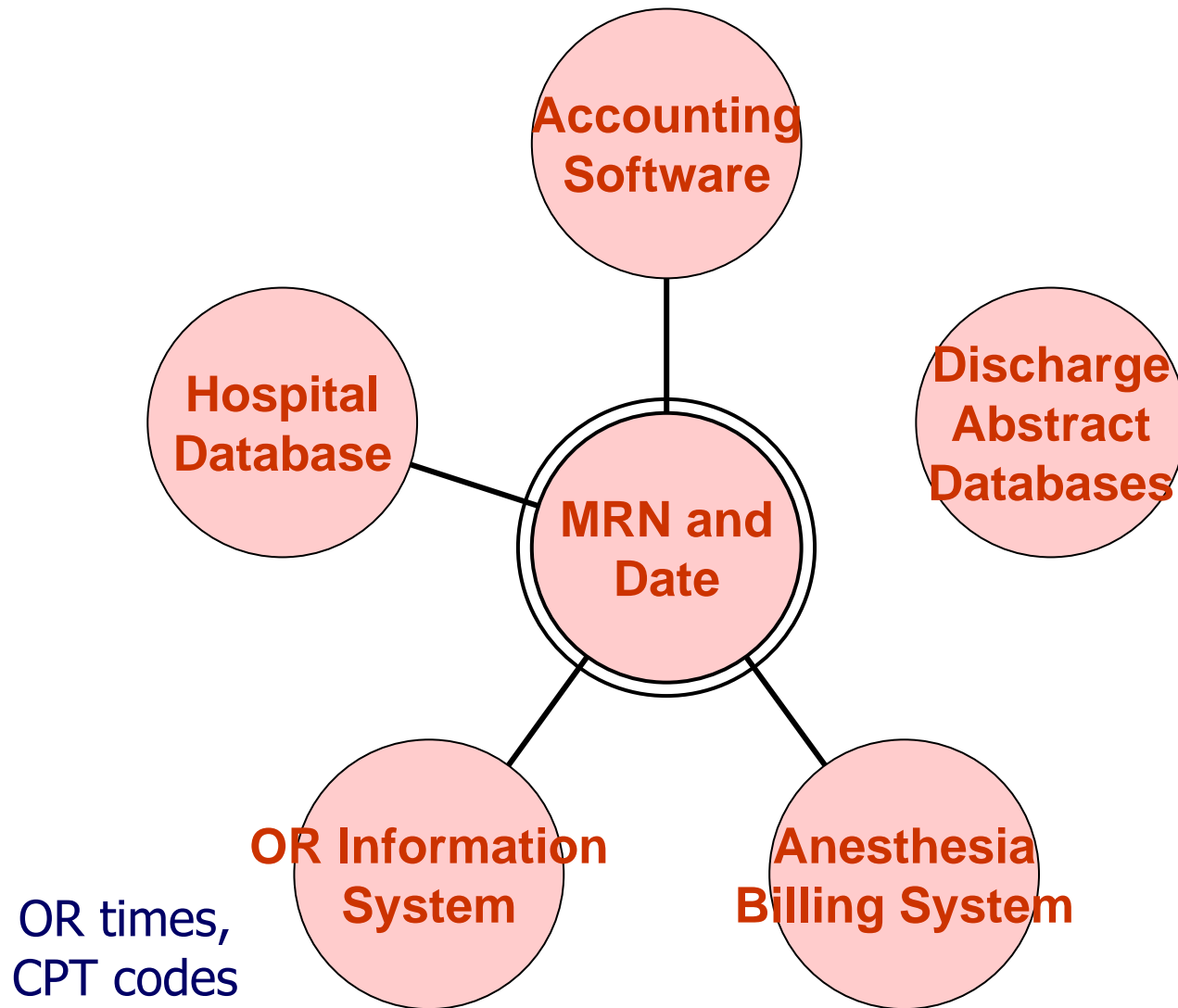
ambulance, ETC charges
costs and revenues

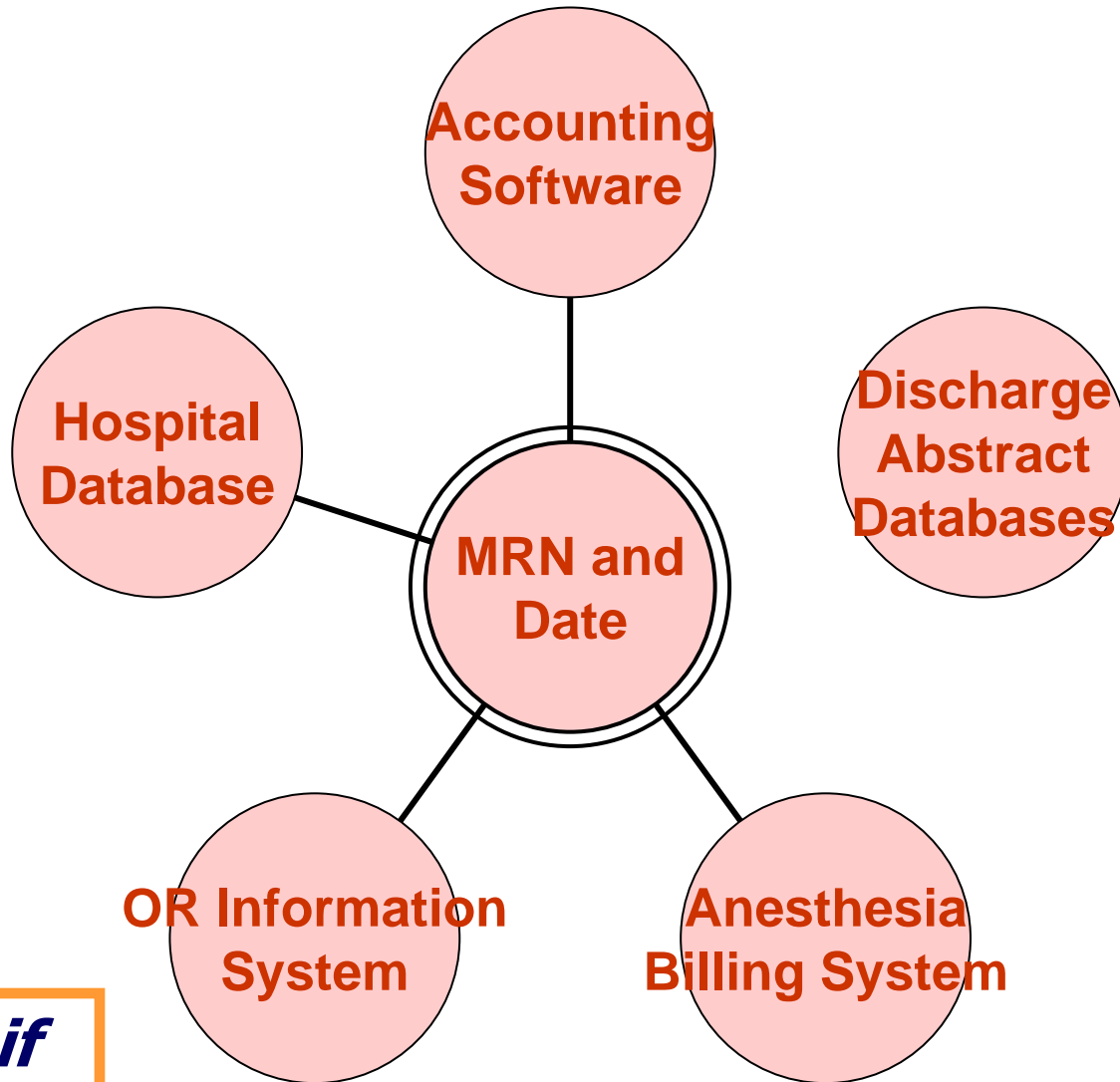






ASA physical status,
primary CPT code and
base units

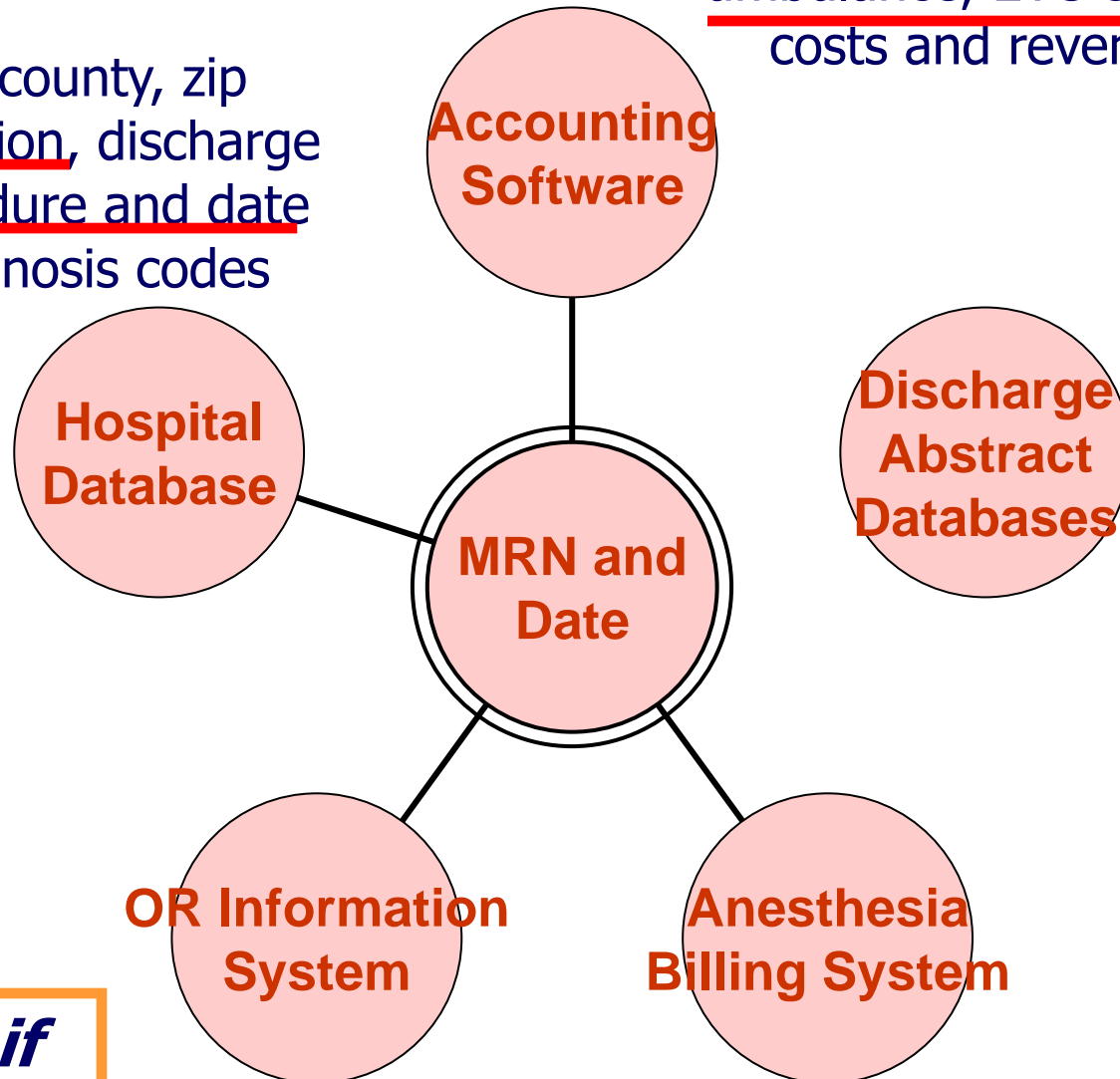




Determine if admission is elective

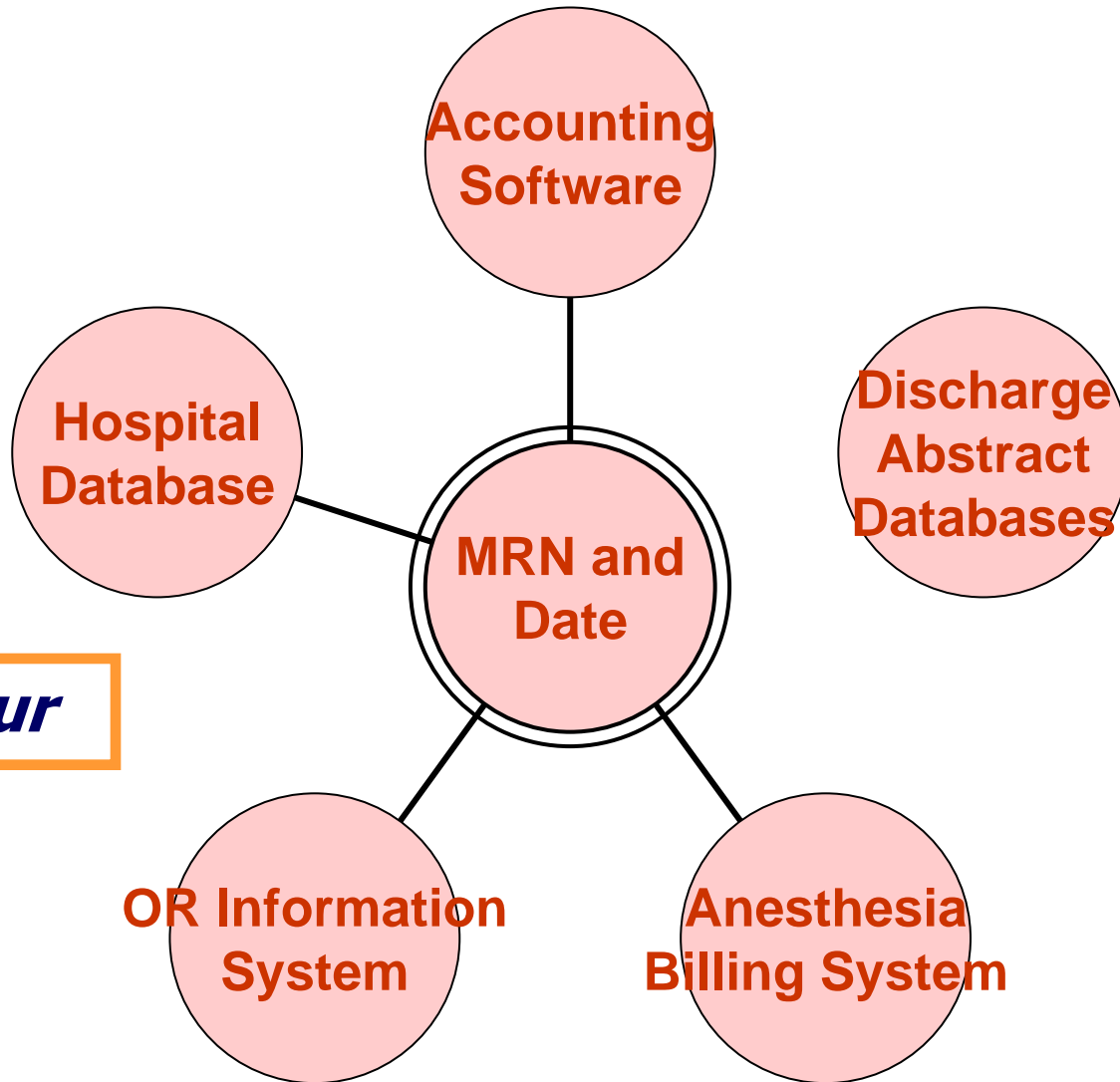
patient age, county, zip
dates of admission, discharge
principal procedure and date
DRG and diagnosis codes

ambulance, ETC charges
costs and revenues



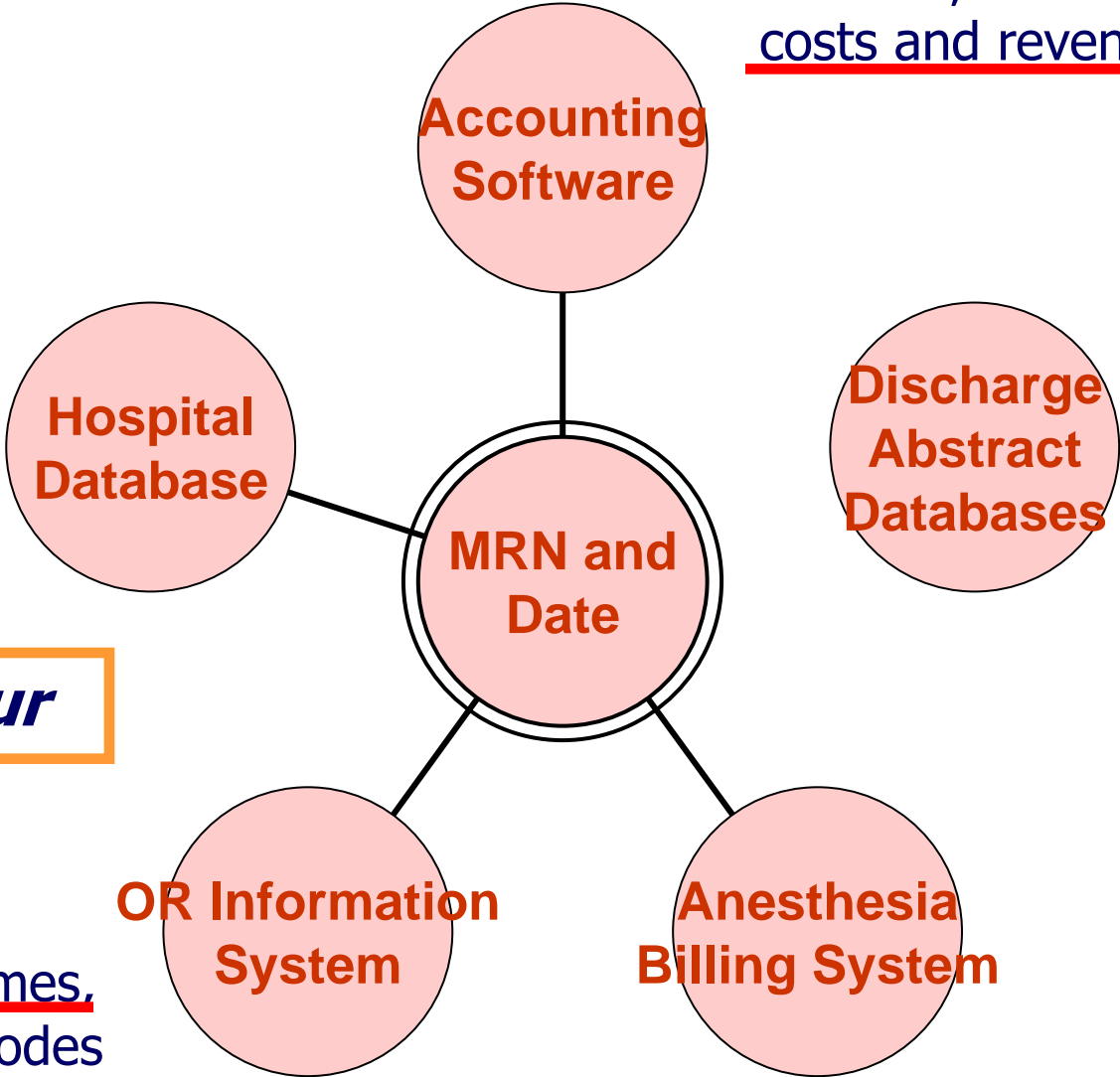
Determine if admission is elective

ASA physical status,
primary CPT code and
base units



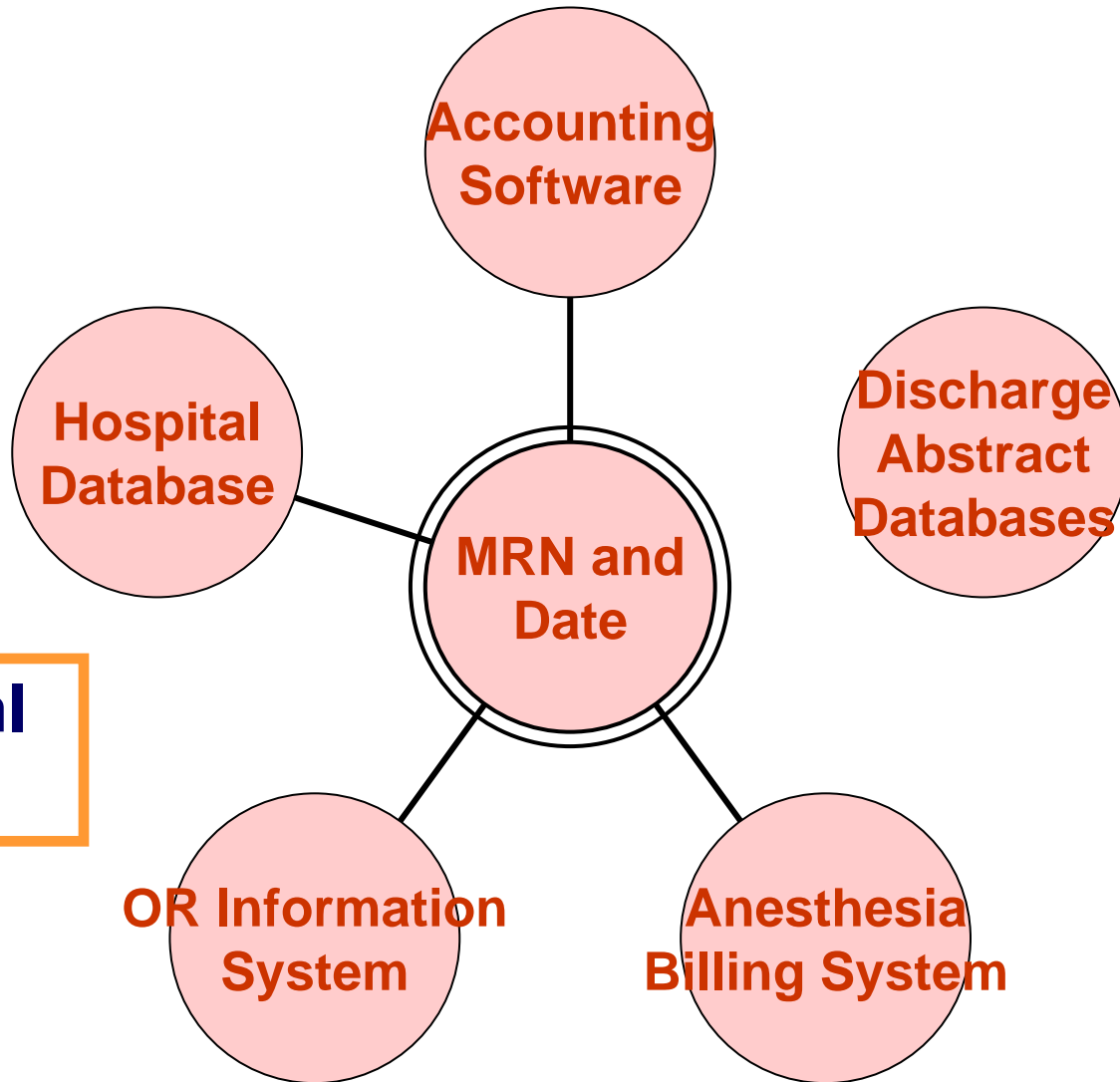
CM/OR hour

ambulance, ETC charges
costs and revenues

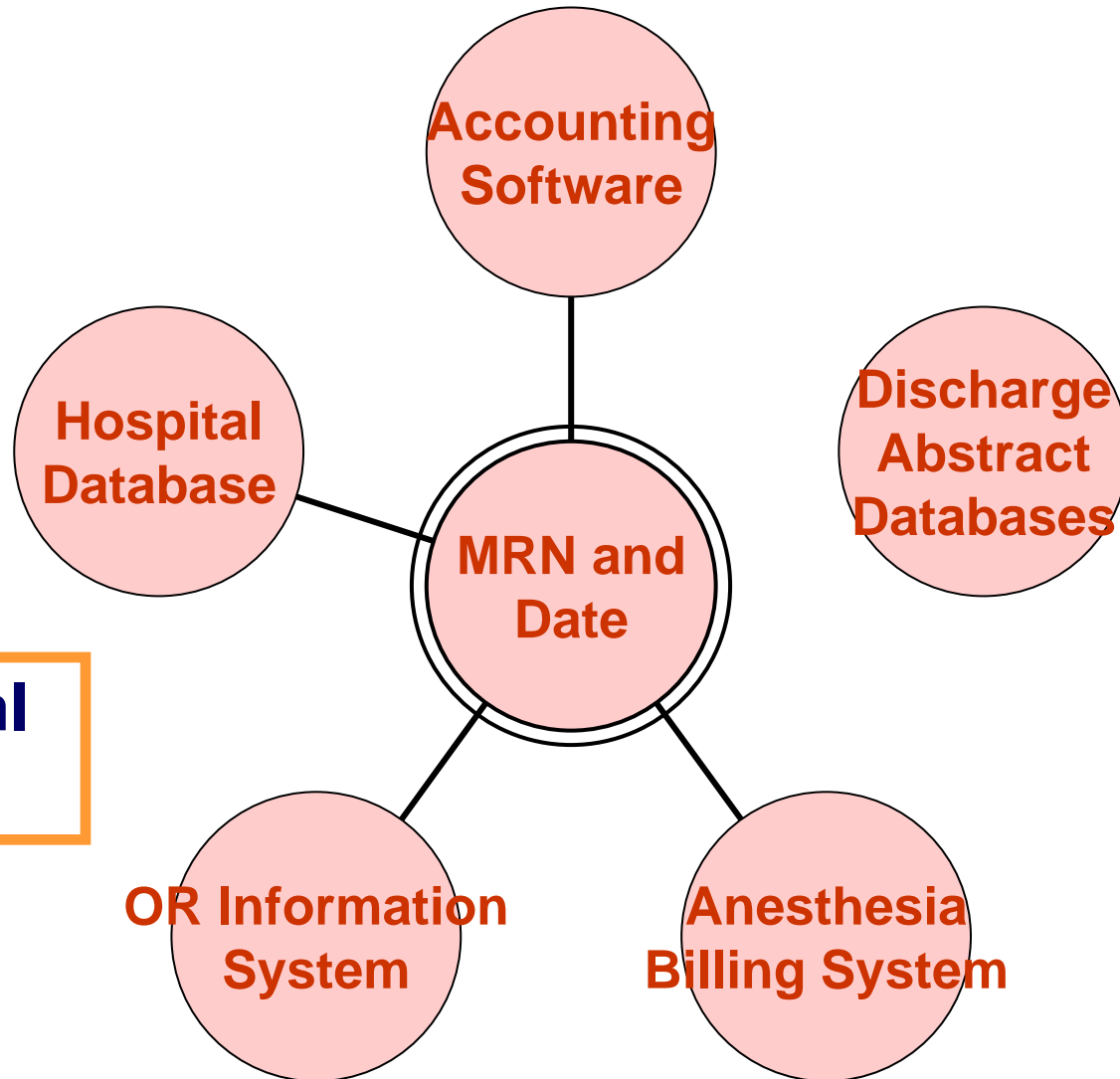


CM/OR hour

OR times,
CPT codes

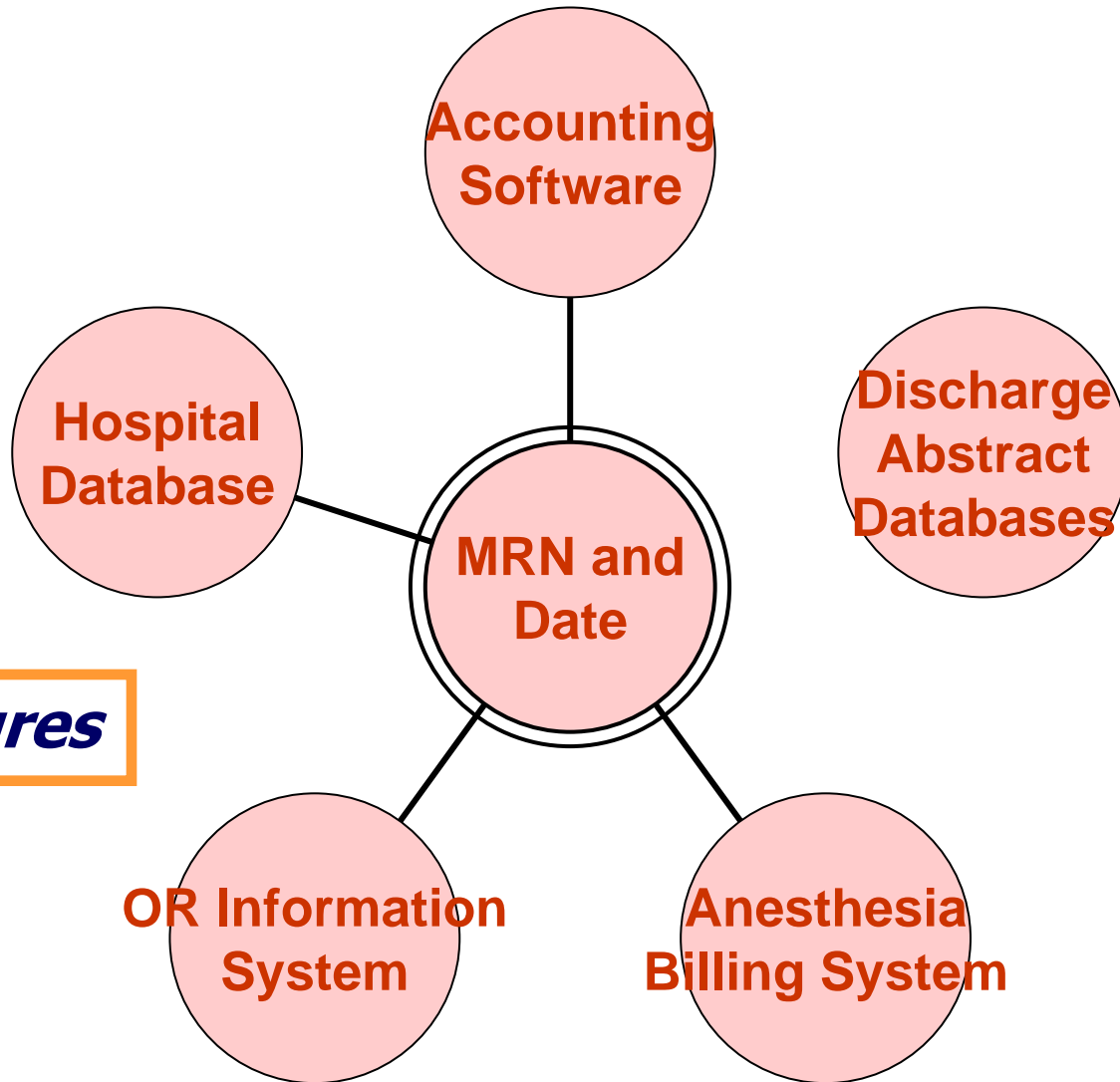


**physiological
complexity**

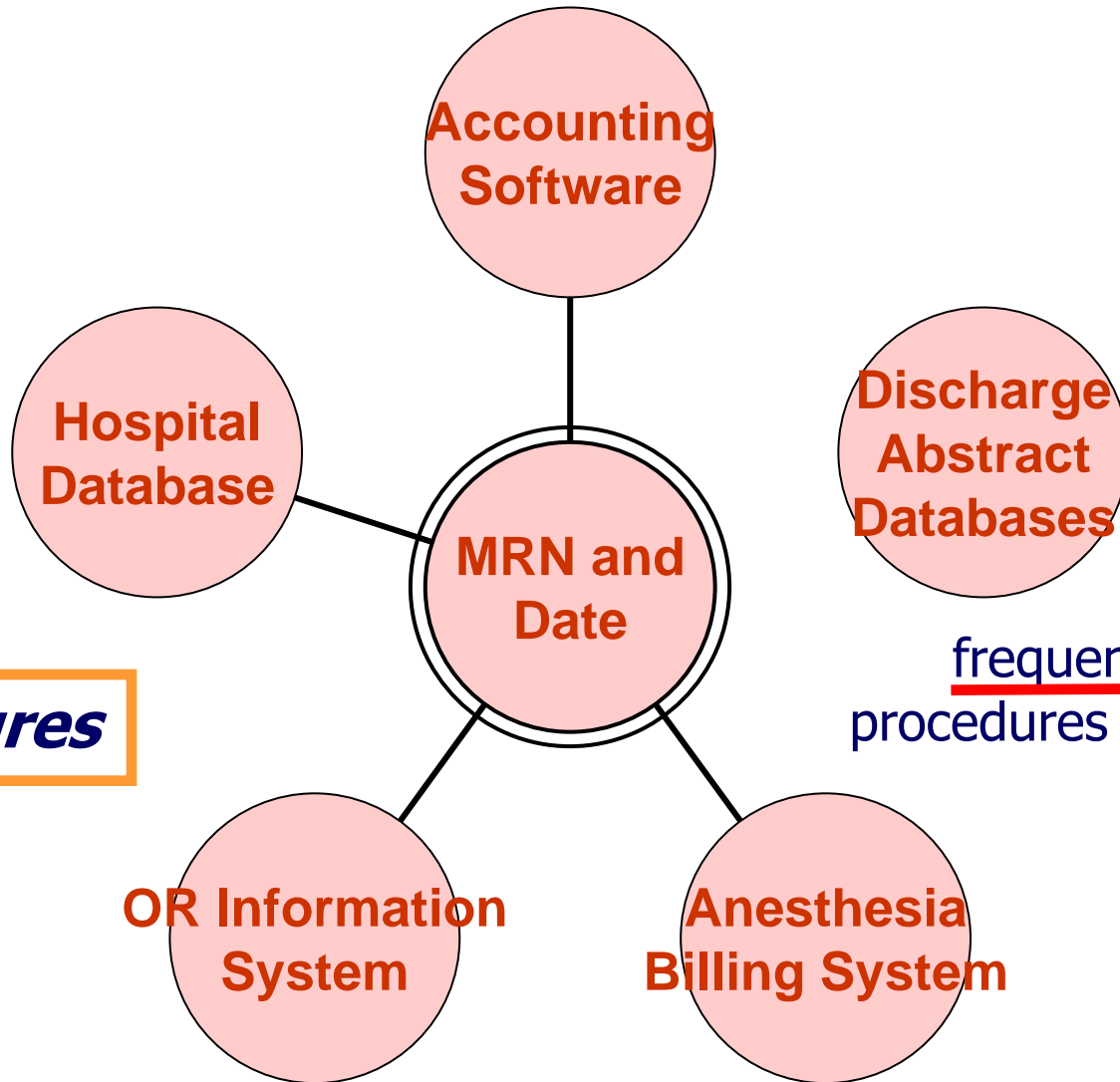


physiological complexity

ASA physical status,
primary CPT code and
base units



rare procedures



rare procedures

frequency of
procedures statewide

Cautions in Analysis

- If patient underwent second surgery during same hospitalization, then OR time and variable costs must be added to original elective surgery
 - Computer programming must check for this possibility



Cautions in Analysis

- Procedures may be supplied as
 - CPT codes
 - ICD-9 procedure codes
- Not always inter-convertible
 - Each ICD-9 code maps to many CPT codes



Cautions in Analysis

- Not always possible to determine physiological complexity for each procedure or case
 - Depends on base units assigned to CPT code, not ICD-9 code



Cautions in Analysis

- Not always possible to determine frequency statewide to see if procedure is rare
- Inconsistent coding in state discharge abstract database
 - One hospital may use CPT codes
 - Other hospitals use ICD-9 codes



Prediction #1

- Pediatrics *vs.* geriatrics
 - Pediatric surgery is more lucrative than geriatric surgery



Prediction #1

- Pediatrics *vs.* geriatrics
 - Pediatric surgery is more lucrative than geriatric surgery

➤ ***True***



Pediatrics *vs.* Geriatrics

- CM/OR hour greater for pediatrics than geriatrics (all $P < 0.001$)
 - Inpatient surgery that was physiologically complex (≥ 8 ASA RVG base units)
 - Inpatient surgery that was not physiologically complex
 - Outpatient surgery
- Differences in CM/OR hour were financially important, exceeding \$250

Pediatrics *vs.* Geriatrics

- Reason why of importance
 - Professional payments per OR hour greater for pediatrics
 - Hospital payments not different
 - ***incorrectly*** predicted that hospital payments would be less for geriatrics due to low Medicare payments



Prediction #2

- Rare physiologically complex procedures are financially disadvantageous, because they have higher costs



Prediction #2

- Rare physiologically complex procedures are financially disadvantageous, because they have higher costs

➤ ***Not True***



Rare Types of Procedures

- CM/OR hour greater for discharges involving at least one rare procedure
 - Higher costs, but much higher hospital payments
 - Professional payments not different between two groups



Rare Types of Procedures

- CM/OR hour greater for discharges involving at least one rare procedure
 - Higher costs, but much higher hospital payments
 - Professional payments not different between two groups
- ***No basis for negotiating with insurance companies to increase payments for rare procedures***



Unexpected Identification of Potential for Conflict

- For pediatric surgeries, greater professional payment accounted for higher CM/OR hour
- For surgeries involving rare procedures, greater hospital payment accounted for higher CM/OR hour



Unexpected Identification of Potential for Conflict

- For pediatric surgeries, greater professional payment accounted for higher CM/OR hour
 - For surgeries involving rare procedures, greater hospital payment accounted for higher CM/OR hour
- ***Knowledge to prevent internal conflicts***



Unexpected Identification of Potential for Conflict

- Hospital executives might want to
 - Highlight rare and unusual procedures
 - Hire surgeons with special expertise
 - Cut pediatric surgery
- Head of pediatric surgery
 - Sees it is a big money-maker
 - Wants to expand pediatric surgery



Unexpected Identification of Potential for Conflict

- Hospital executives might want to
 - Highlight rare and unusual procedures
 - Hire surgeons with special expertise
 - Cut pediatric surgery
- Head of pediatric surgery
 - Sees it is a big money-maker
 - Wants to expand pediatric surgery
- ***Why important to consider both hospital and professional components***



Prediction #3

- Procedures with high implant charges are associated with poor financial performance
 - Payment levels are not adequate to compensate for the high cost of implants



Prediction #3

- Procedures with high implant charges are associated with poor financial performance
 - Payment levels are not adequate to compensate for the high cost of implants

➤ ***True***



Expensive Implants

- Surgeries on lung and esophagus
 - CM/OR hour higher ($P < 0.02$) when compared to all physiologically complex surgery
 - Few implants
- Surgeries on back
 - CM/OR hour lower ($P < 10^{-4}$)
 - Often use expensive implants

Expensive Implants

- Among cases with implant charges > \$10,000
 - Backs
 - \$15 ± \$240 (this is *negative* \$15)
 - All types of procedures
 - \$330 ± \$220
 - Rare procedures
 - \$520 ± \$320



Expensive Implants

- Hospital lost money for each case
- Prediction was of poor financial return, not the previously unrecognized huge impact of expensive implants



Other Facilities

- Numbers and conclusions are specific to the hospital studied
- Cannot generalize findings to other facilities
- At least 4 reasons



Other Facilities – Reason #1

- Pediatrics *vs.* geriatrics may not be appropriate groups to compare
- Rare procedures that are physiologically complex not relevant unless they represent significant portion of caseload
- Implant contracts differ among corporations



Other Facilities – Reason #2

- Profit depends on fixed costs
 - Inconsistent fixed asset accounting
 - Many hospitals are government owned
 - “Non-profit” hospital rapidly depreciates cost of new building to “balance” excess revenues, underestimating fixed costs
 - Risks are highly political, not economic



Other Facilities – Reason #3

- Heterogeneity in which revenues are included when studying a facility *or* professional group
 - CRNAs?
 - Salaried physicians?
 - All physicians?



Other Facilities – Reason #4

- Even for similar cases, CM/OR hour highly sensitive to
 - Payer mix
 - Supply contracts for implants/ disposables



Examples of Payment

Average Medicaid Payment Per User

	<u>Iowa</u>	<u>Illinois</u>
Physician Services	\$390	\$370
Inpatient Hospitalization	\$5,220	\$9,630



Importance of Implants and Expensive Disposables

- Comparing CM/OR hr for outpatient surgery among subspecialties, patient types, etc., the only non-constant terms are
Hospital payment/OR hr – Implant costs/OR hr
- For professional services, the only term is
Professional payment/OR hr

Dexter F et al. Anesthesiology 2002

Toyabe S et al. Health Policy 2005

Hultman CS. Ann Plast Surg 2016



Importance of Implants and Expensive Disposables

- Comparing CM/OR hr for outpatient surgery among subspecialties, patient types, etc., the only non-constant terms are

Hospital payment/OR hr – Implant costs/OR hr

- For professional services, the only term is Professional payment/OR hr

Large variability among procedures

Dexter F et al. Anesthesiology 2002

Toyabe S et al. Health Policy 2005

Hultman CS. Ann Plast Surg 2016



Importance of Implants and Expensive Disposables

- Comparing CM/OR hr for outpatient surgery among subspecialties, patient types, etc., the only non-constant terms are
Hospital payment/OR hr – Implant costs/OR hr
- For professional services, the only term is
Professional payment/OR hr

Dexter F et al. Anesthesiology 2002

Toyabe S et al. Health Policy 2005

Hultman CS. Ann Plast Surg 2016



Importance of Implants and Expensive Disposables

- Use methods appropriate for there being multiple rare procedures, patient sizes, etc.
 - Payment (price) cap model for expensive implants and disposables
 - When not applicable, use e-mail to surgeons after cases completed with relative price information

Montgomery K, Schneller ES. Milbank Q 2007

Bosco JA et al. J Arthroplasty 2014

Okike K et al. Health Affairs 2014

Zygourakis CC et al. JAMA Surgery 2017



Review – Summarize the Facts of the Talk



Create 2 or 3 Expectations for a New Perioperative Medical Director



Create 2 or 3 Expectations for a New Perioperative Medical Director

1. Financial analyses developed for tactical analyses are fruitful for strategic assessments
2. Healthcare organizations can have limited financial intuition
3. Focused factory of orthopedic or spinal surgery can have high or low margin
4. Coordination between facility and anesthesia group may include sharing of results, not data
5. Understand facility *vs* professional perspectives



Additional Information on Operating Room Management

- www.FranklinDexter.net/education.htm
 - Example reports with calculations
 - Lectures on drug and supply costs, day of surgery decision making, PACU staffing, OR allocation and staffing, anesthesia staffing, and tactical (1-yr) financial analysis
- www.FranklinDexter.net
 - Comprehensive bibliography of peer reviewed articles in operating room and anesthesia group management