

Strategic Planning: Financial Impact of Different Types of Surgery

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Strategic Planning: Financial Impact of Different Types of Surgery



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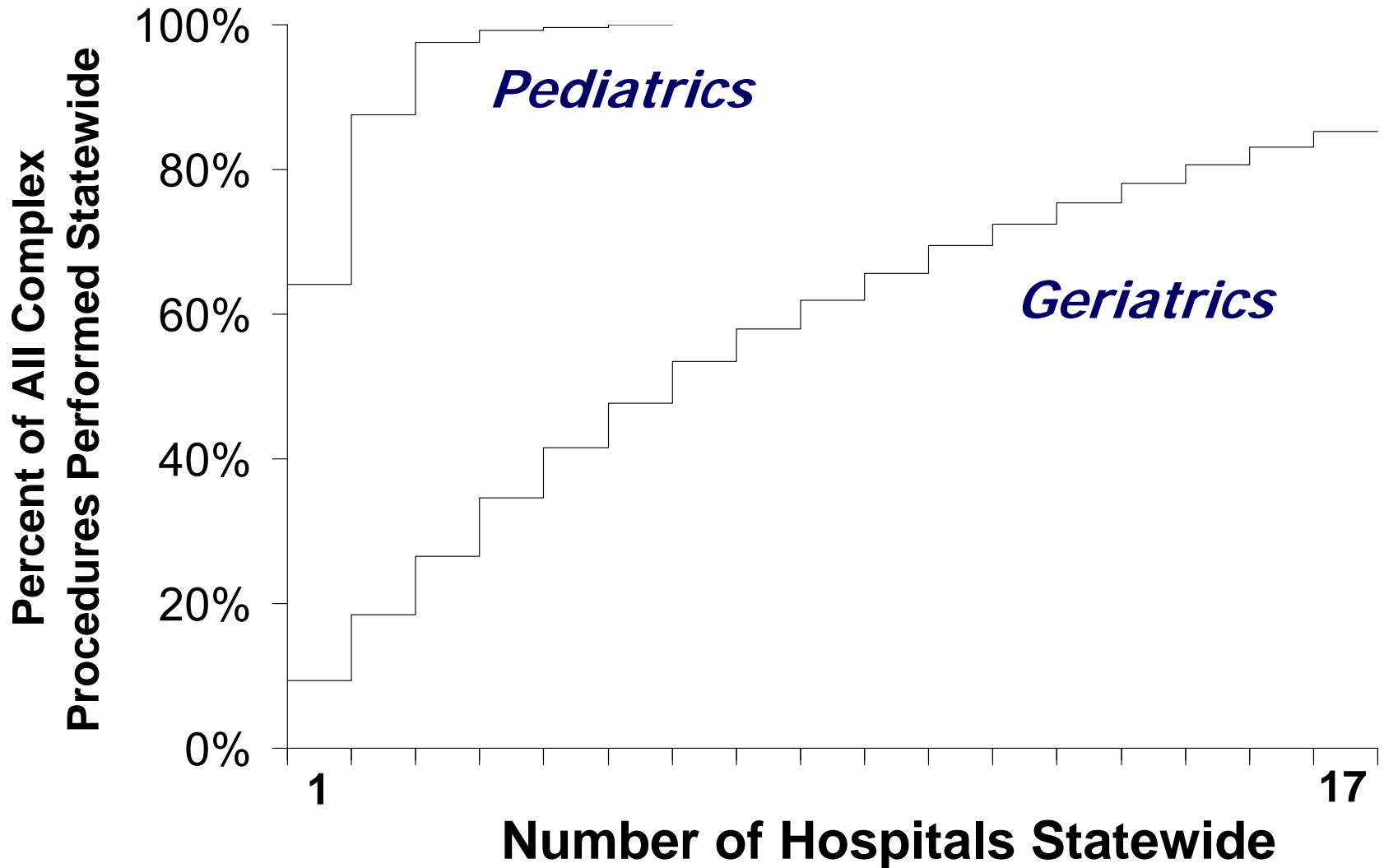
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Summary of Other Talk

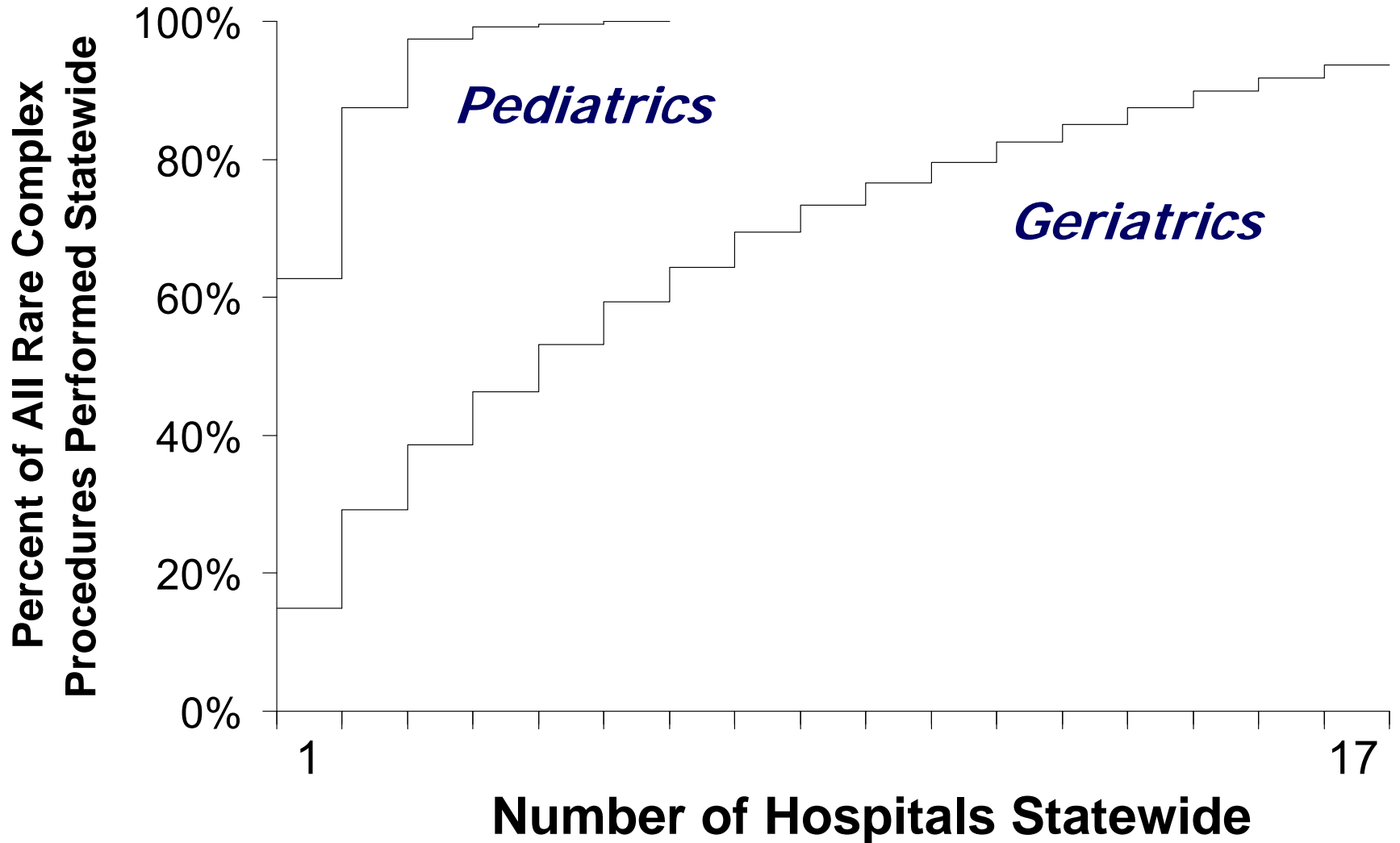
- “Showing Differences Among Hospitals and their Surgical Practices”
 - Useful to review the other presentation in its entirety before reviewing this talk



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, Wachtel & Yue. Anesthesiology 2003

Wachtel & Dexter. 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?

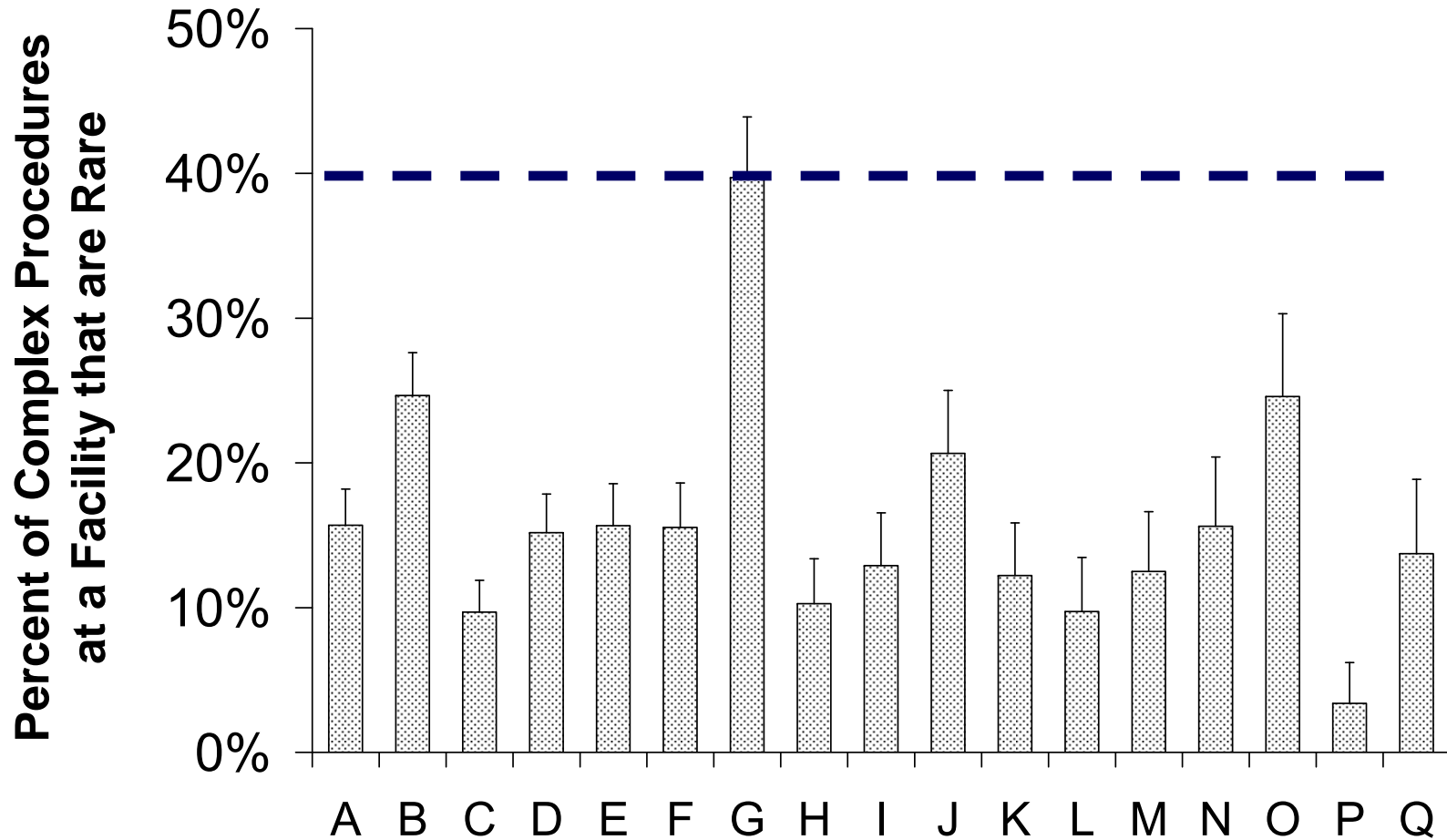


Is the Dominance Good or Bad Financially for the Hospital?

- 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 reimbursements 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?



What is Known

- As part of its strategic planning process, the hospital should emphasize and encourage those specialties that are most profitable
 - Publicize expertise
 - Equip new operating rooms
 - Hire more surgeons
- Unlike for operational and tactical decisions, these strategic decisions depend highly on how hospitals and providers are reimbursed



Predictions

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

Wachtel 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 et al. Anesth Analg 2001

Dexter et al. Anesth Analg 2002

Dexter 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 (e.g., TSI/Eclipsys)
- If not available, simply sum costs of
 - OR hours
 - Implant costs
 - ICU days
 - Bed days on floor

Dexter et al. Anesthesiology 2002

Dexter 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) basic units
 - Determine directly from CPT codes using ASA crosswalk
 - Determine by converting ICD-9 procedure codes to CPT codes

Dexter et al. Anesth Analg 2002

Dexter & Thompson. 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 codes of secondary procedures from hospital database



What Else is Needed?

- OR times from OR information system



What Else is Needed?

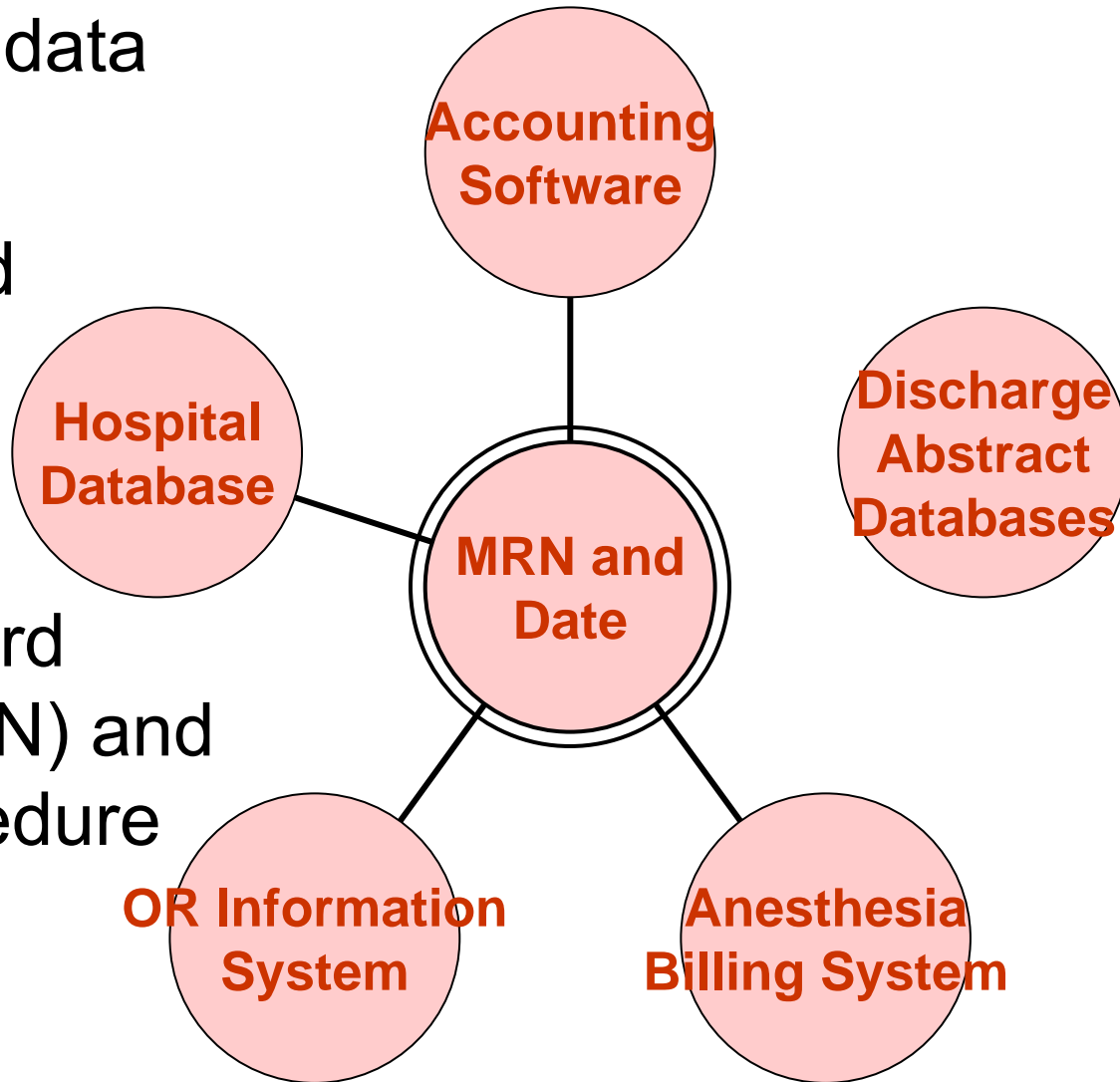
- List of procedures that are rare from state or provincial discharge abstract database
- Rare procedure
 - Performed < 250 times statewide
 - Performed, on average, less than once per workday



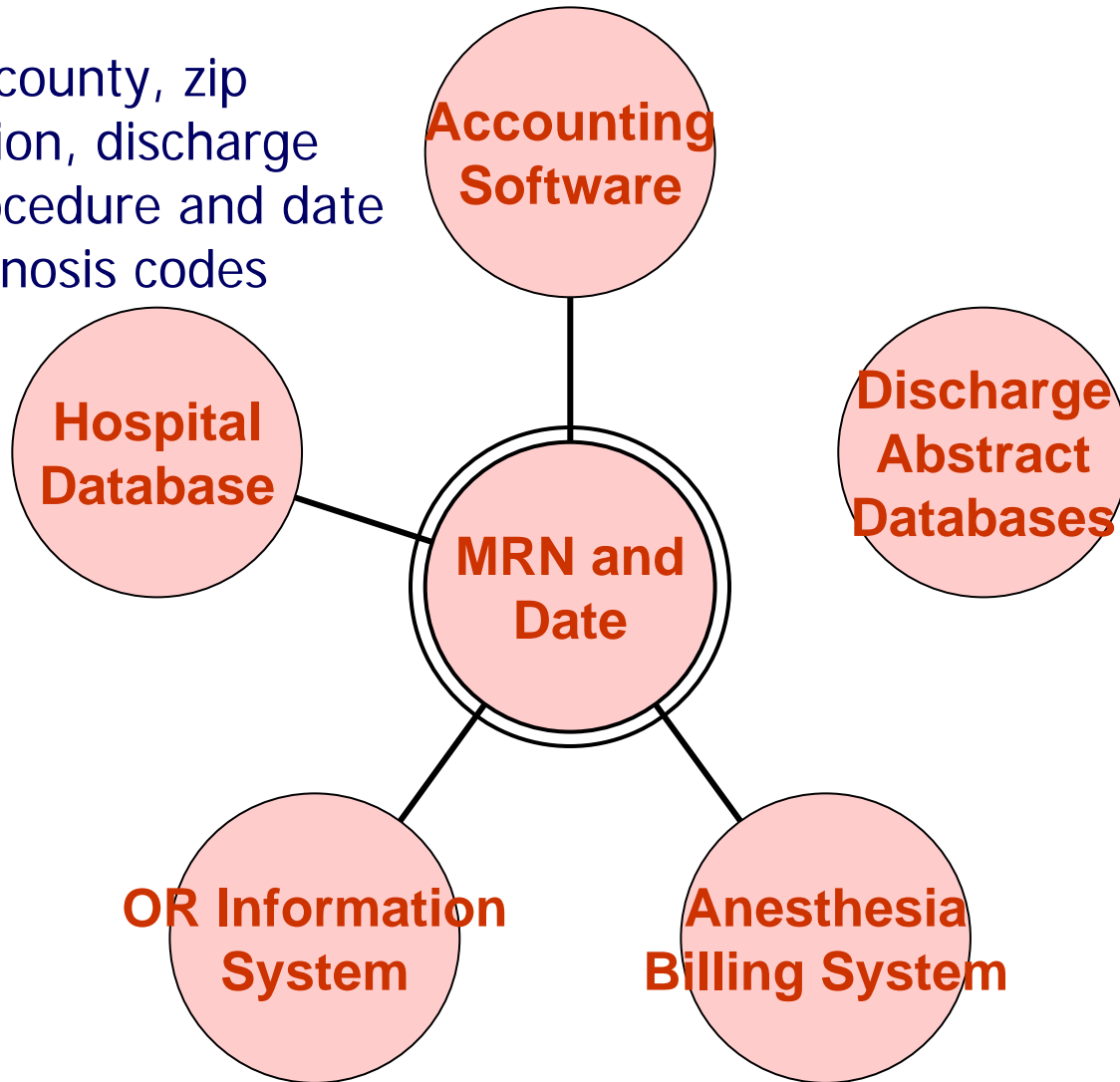
5 sources of data

data in each
file are linked

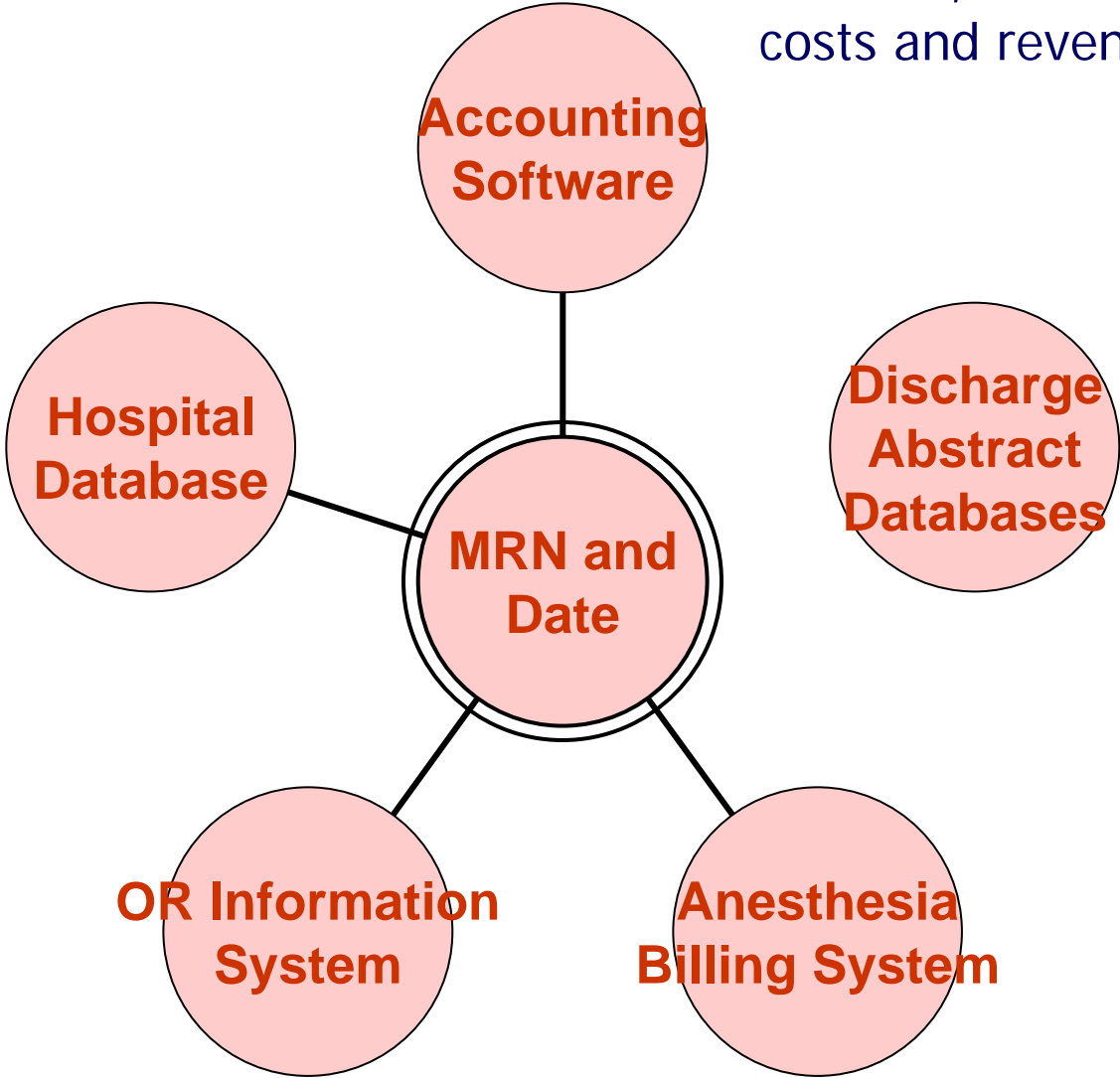
medical record
number (MRN) and
date of procedure

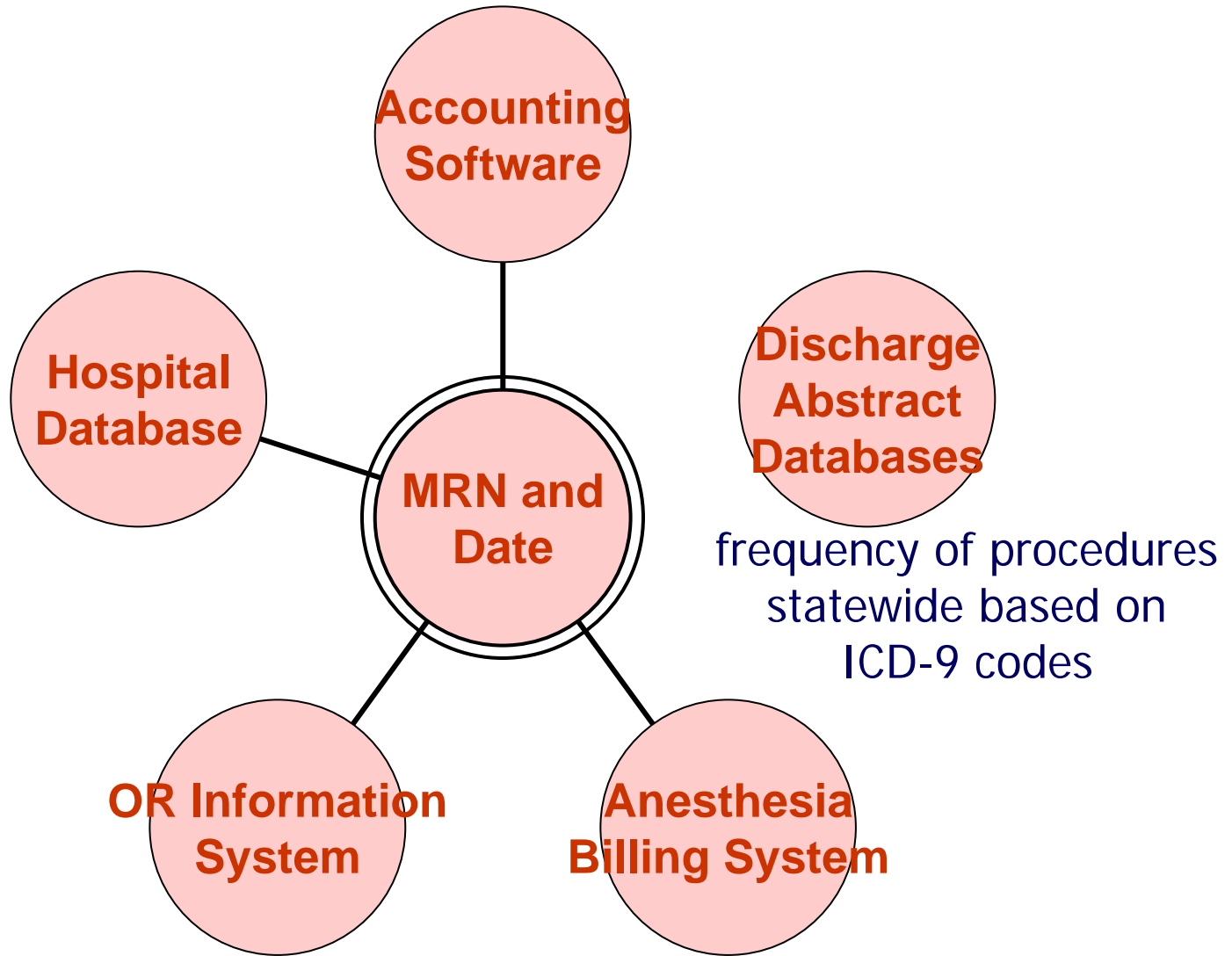


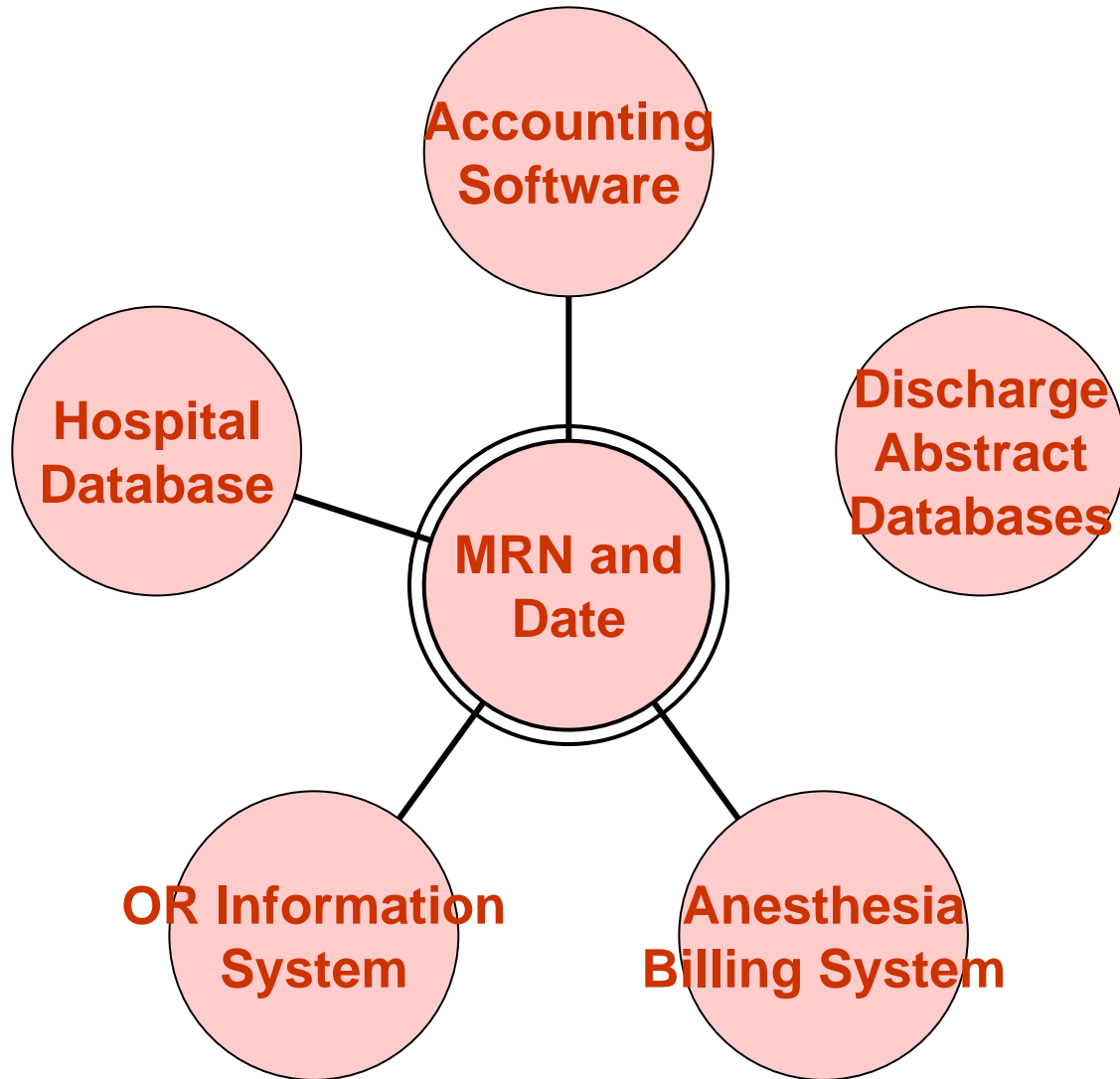
patient age, county, zip
dates of admission, discharge
ICD-9 principal procedure and date
DRG and diagnosis codes



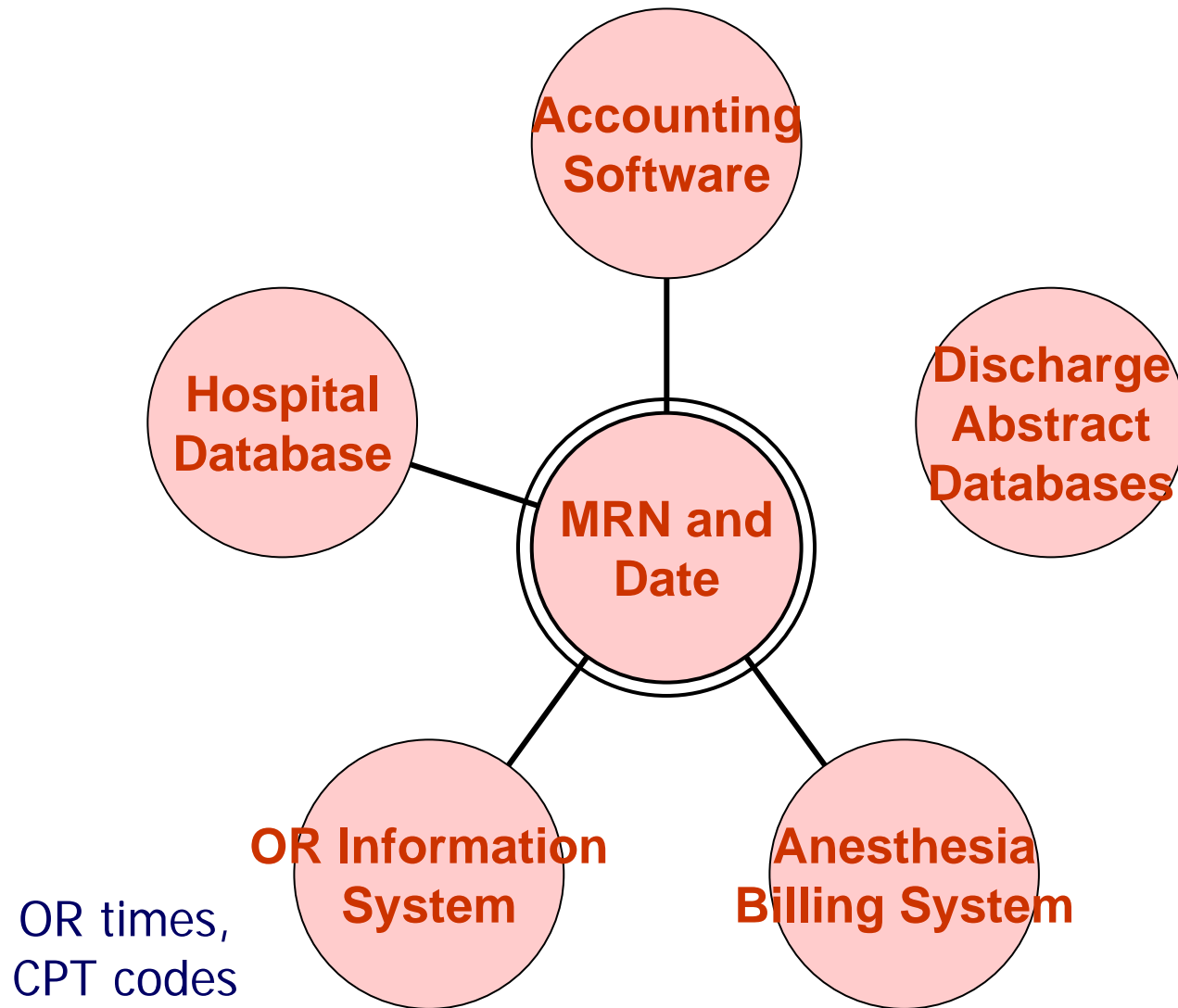
ambulance, ETC charges
costs and revenues

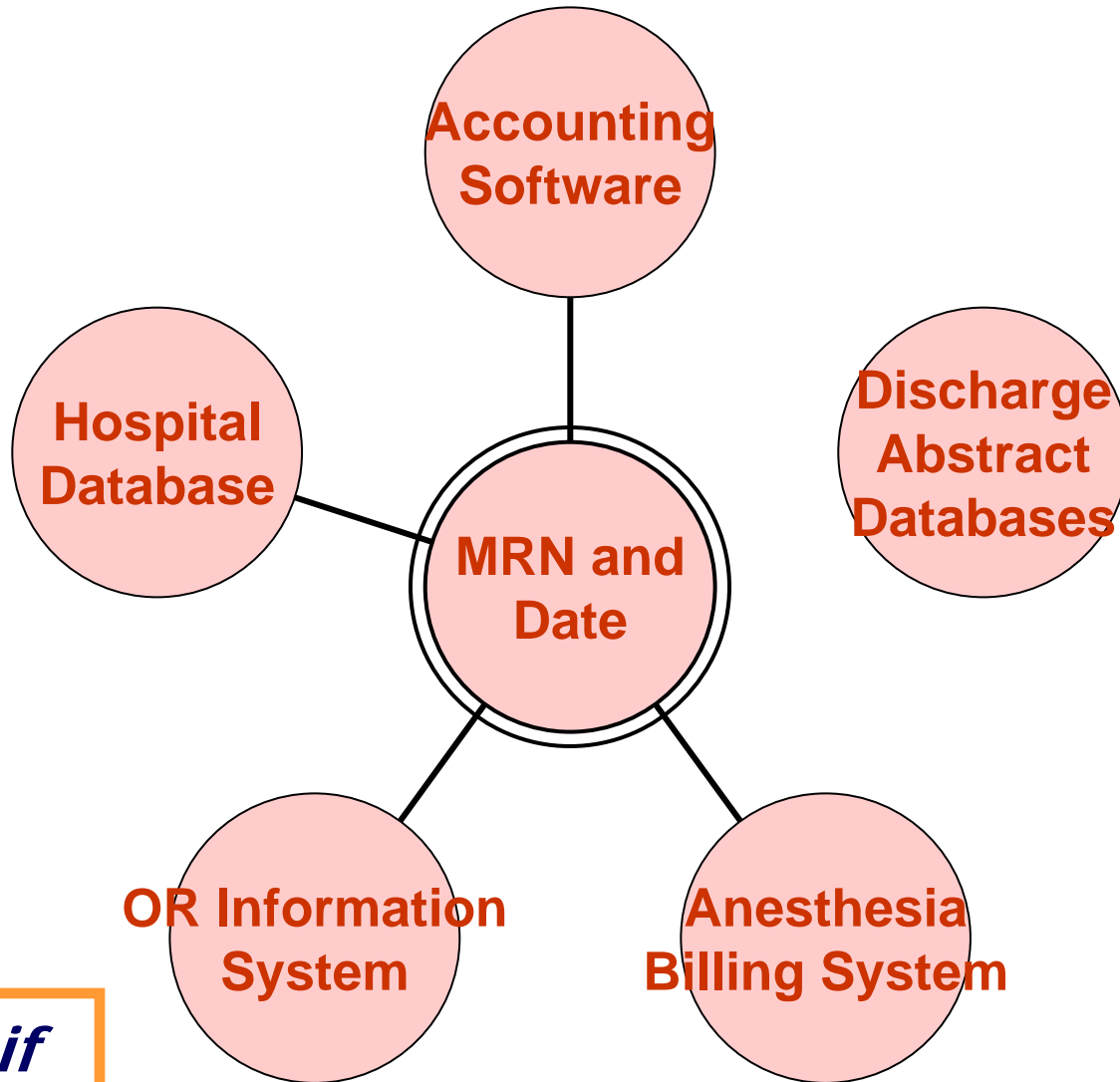






ASA physical status,
primary CPT code and
base units

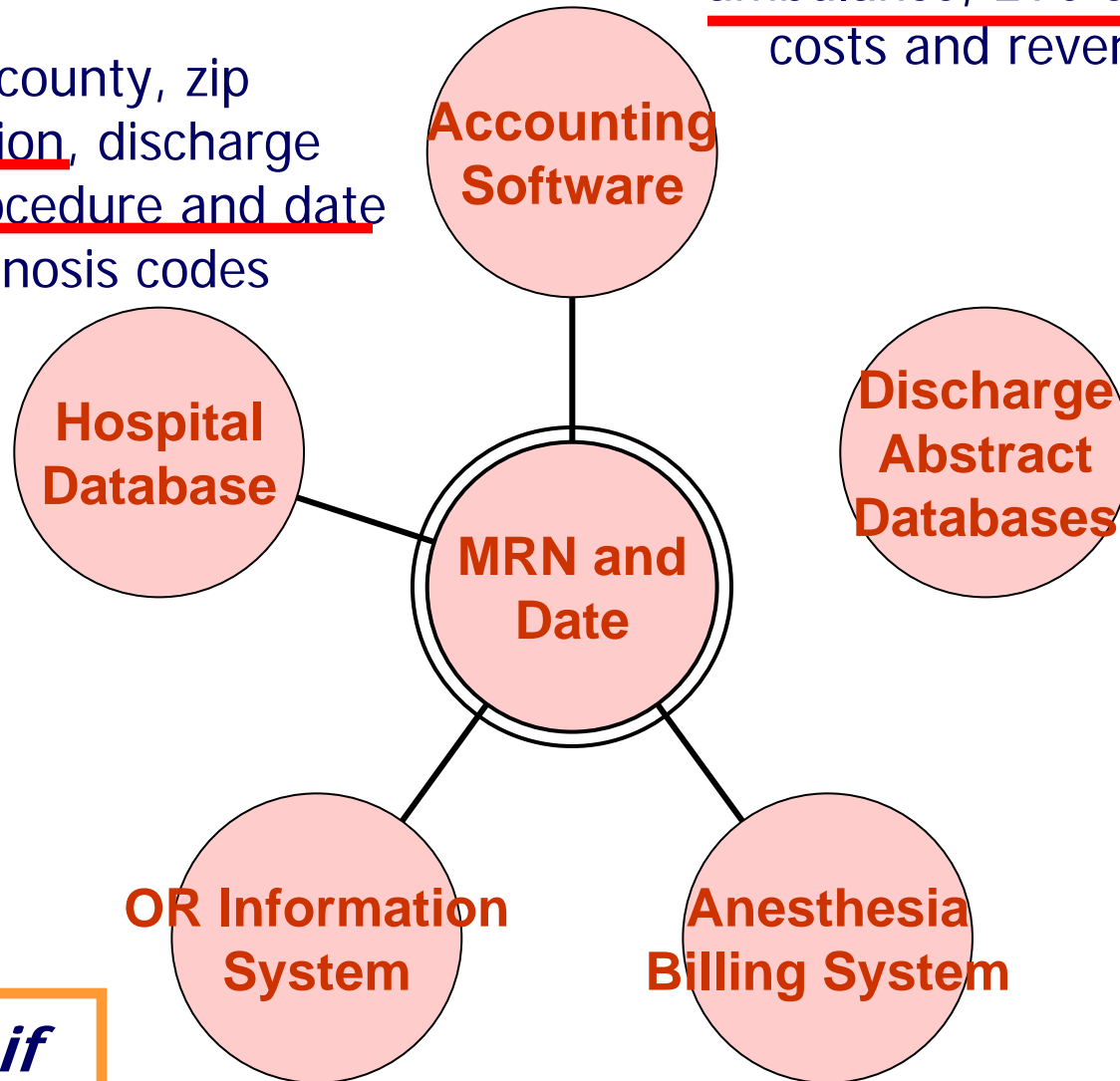




Determine if admission is elective

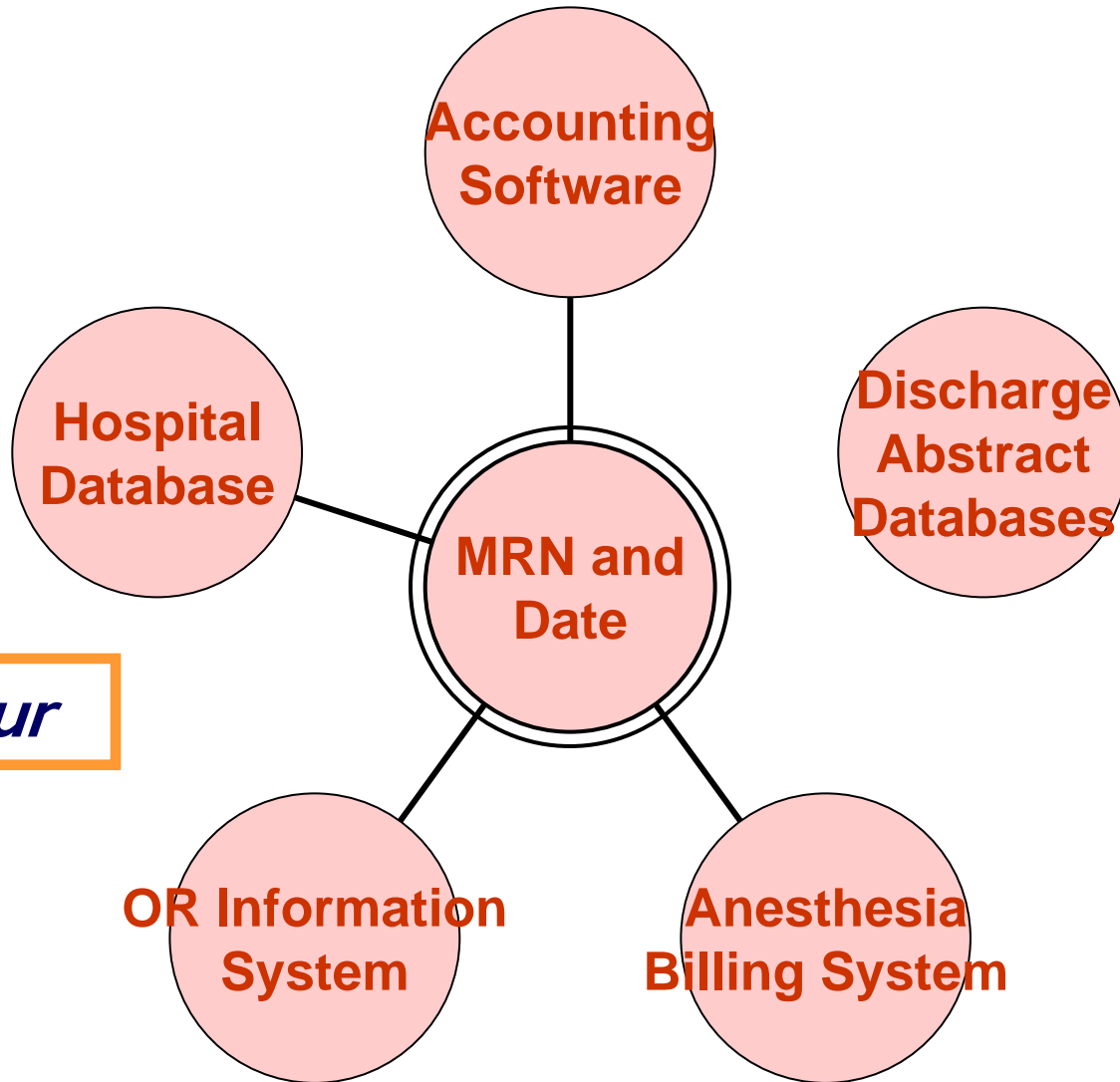
patient age, county, zip
dates of admission, discharge
ICD-9 principal procedure and date
DRG and diagnosis codes

ambulance, ETC charges
costs and revenues



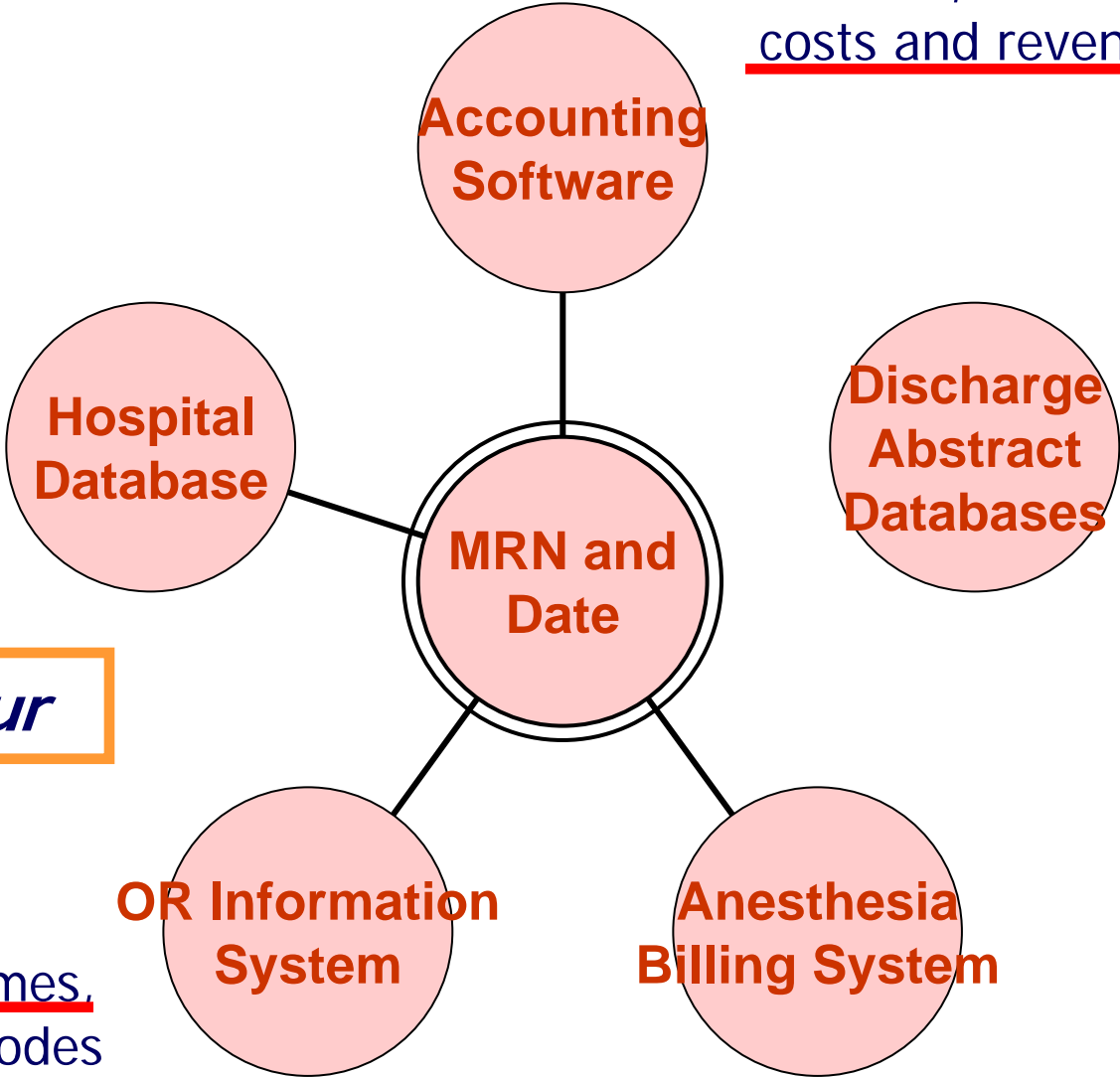
Determine if admission is elective

ASA physical status,
primary CPT code and
base units



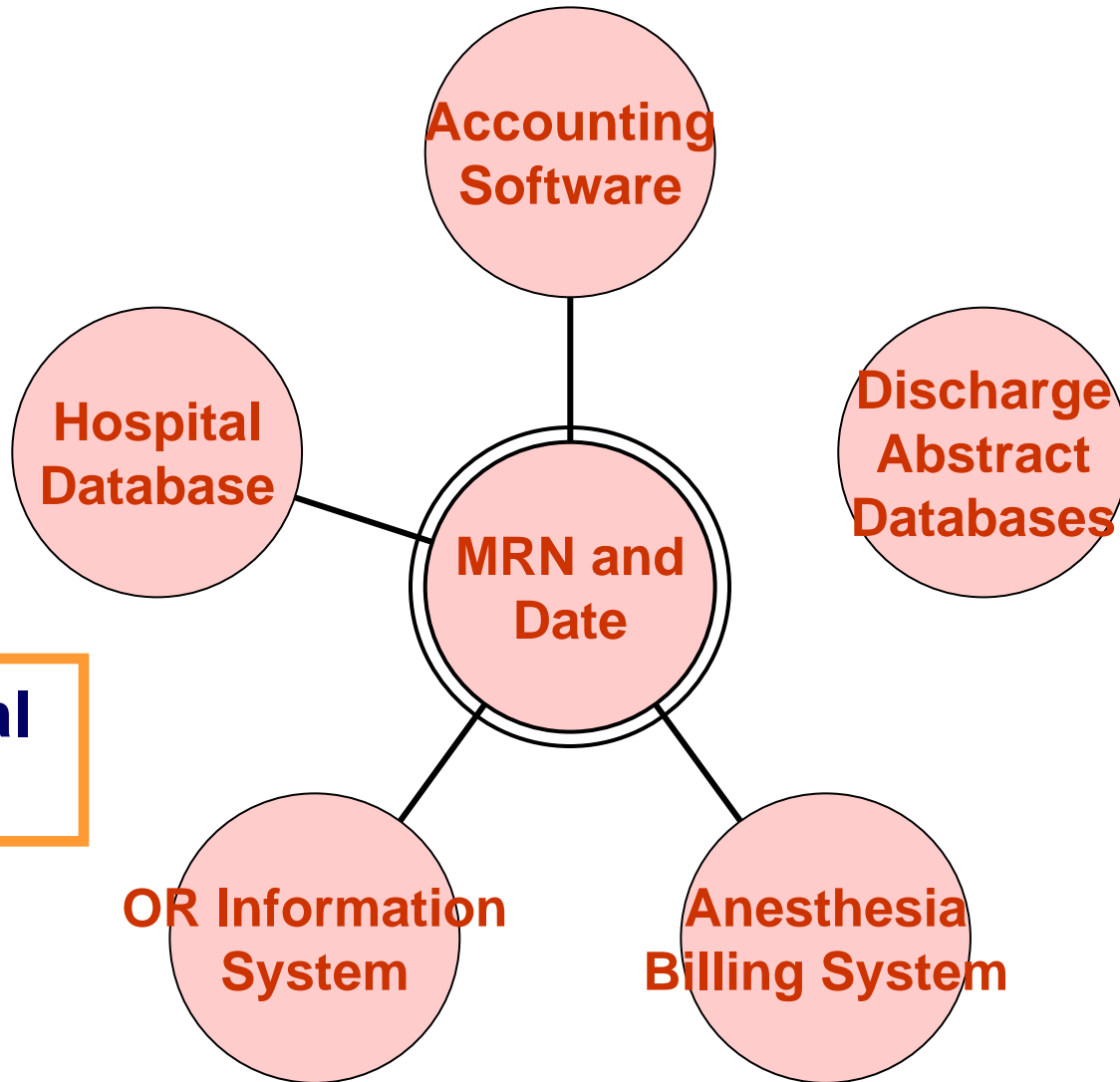
CM/OR hour

ambulance, ETC charges
costs and revenues

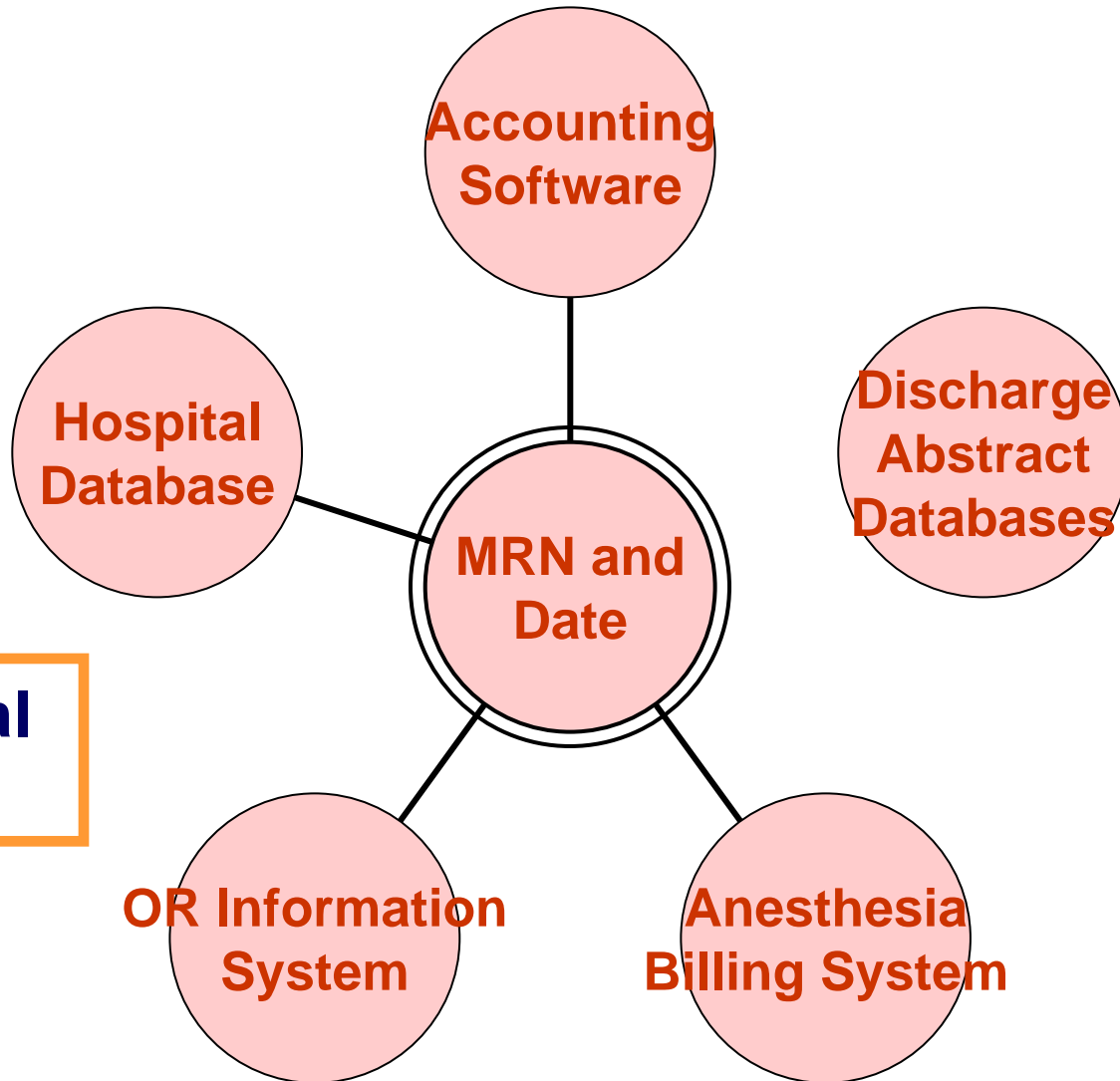


CM/OR hour

OR times,
CPT codes

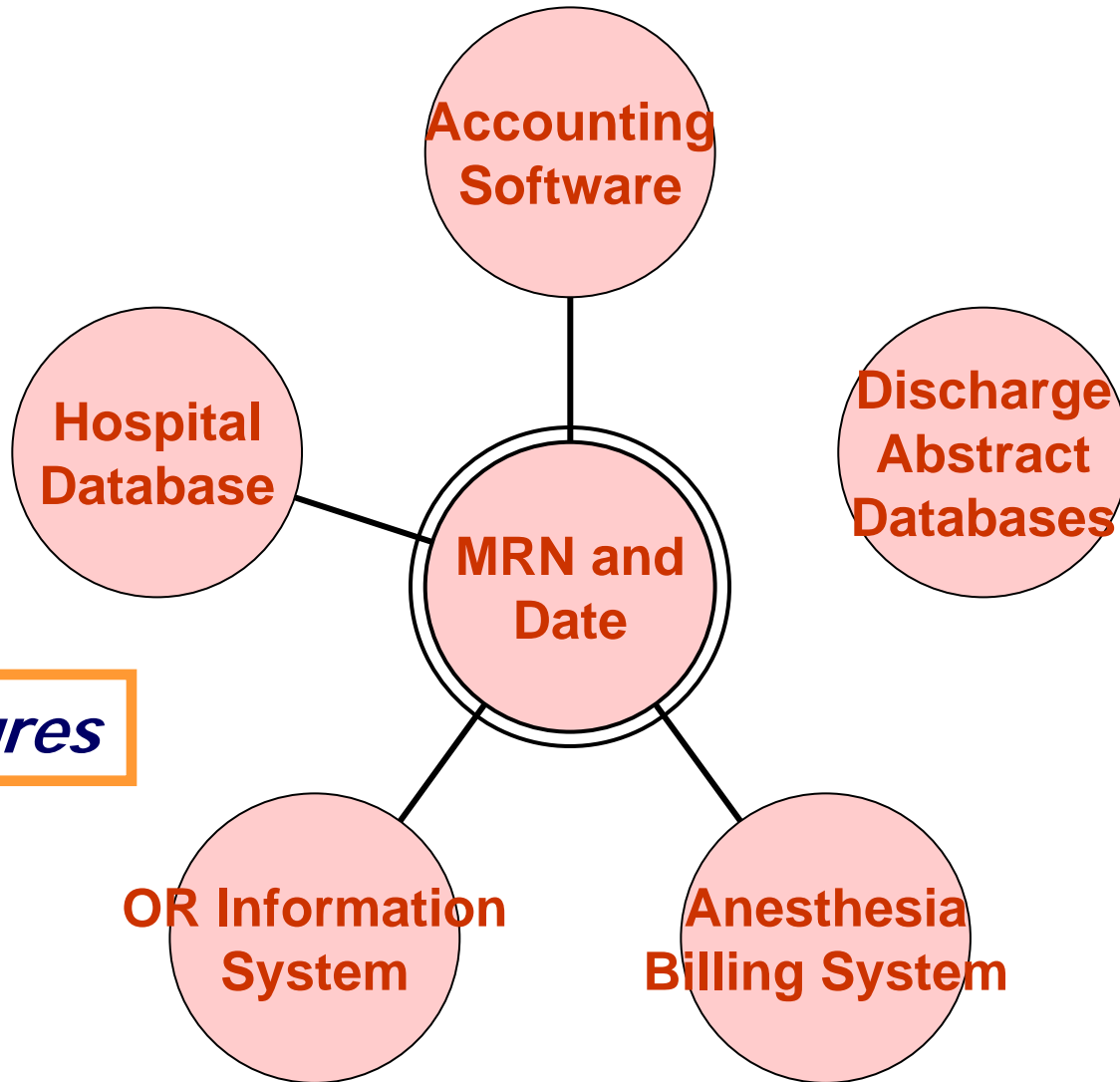


physiological complexity

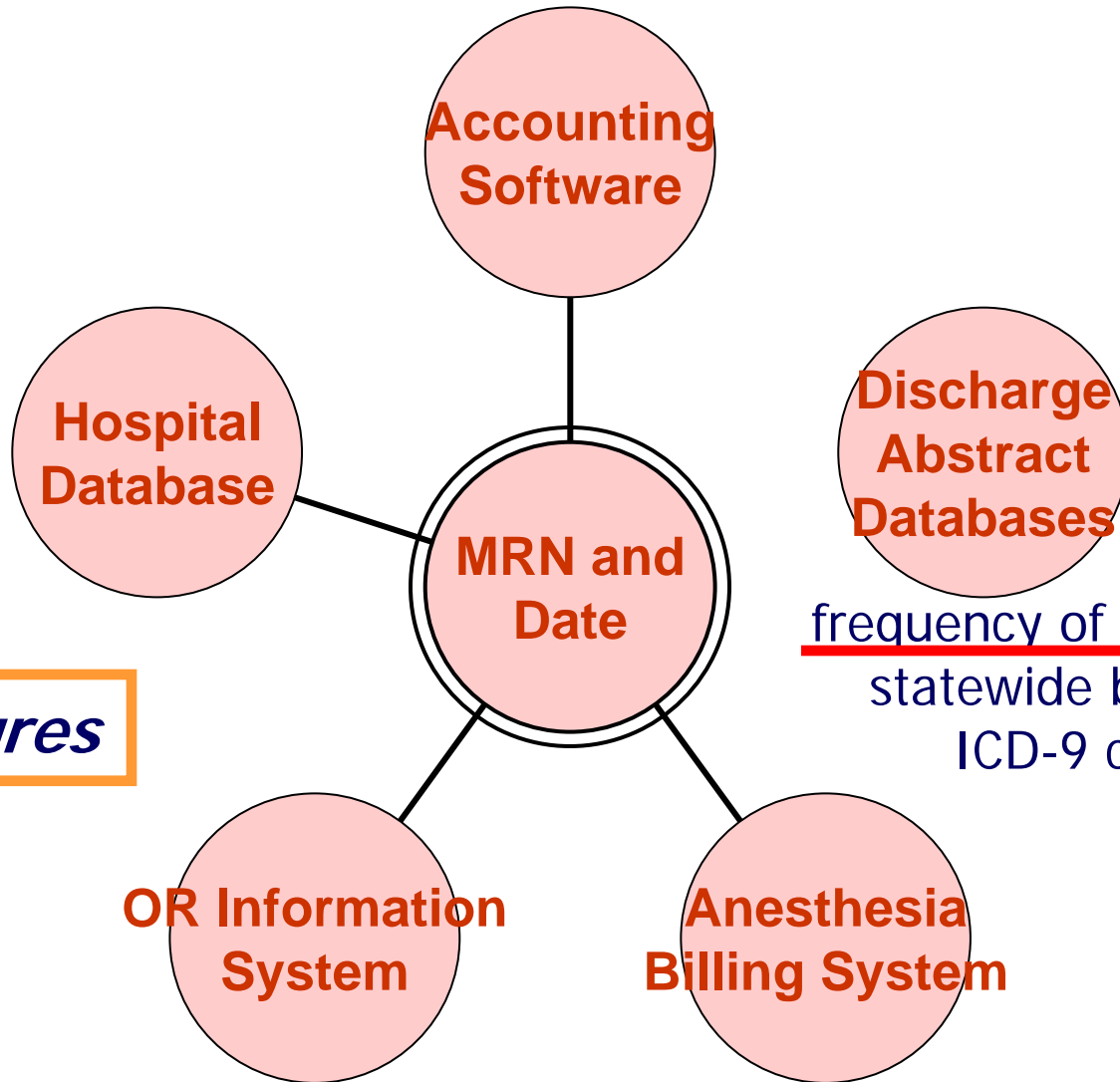


physiological complexity

ASA physical status,
primary CPT code and
base units



rare procedures



frequency of procedures
statewide based on
ICD-9 codes

rare procedures

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



Predictions From One Hospital

- 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



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 basic 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 reimbursement per OR hour greater for pediatrics
 - Hospital reimbursements not different
 - *incorrectly* predicted that hospital reimbursements 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 reimbursements
 - Professional reimbursements 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 reimbursements
 - Professional reimbursements 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 reimbursement accounted for higher CM/OR hour
- For surgeries involving rare procedures, greater hospital reimbursement accounted for higher CM/OR hour



Unexpected Identification of Potential for Conflict

- For pediatric surgeries, greater professional reimbursement accounted for higher CM/OR hour
 - For surgeries involving rare procedures, greater hospital reimbursement 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
 - Reimbursement 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
 - Reimbursement 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
 - All types of procedures
 - \$330 ± \$220
 - Rare procedures
 - \$520 ± \$320



Expensive Implants

- Expensive implants actually produced *negative* CM/OR hour
 - Hospital lost money for every surgery performed
- Prediction was of poor financial return, not the previously unrecognized huge impact of expensive implants



Other Hospitals

- Numbers and conclusions are specific to this hospital
- Cannot generalize findings to other hospitals
- At least 4 reasons



Other Hospitals – 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



Other Hospitals – Reason #2

- Even for similar cases, CM/OR hour sensitive to
 - Payer mix
 - Reimbursement levels
 - wage index
 - geographic adjustments



Examples of Reimbursement

Average Medicaid Payment Per User

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



Other Hospitals – Reason #3

- Profit depends on fixed costs
 - Vary tremendously between hospitals
 - Wages differ widely
 - No consistent method for depreciating costs of buildings
 - “non-profit” hospital rapidly depreciates cost of new building to “balance” excess revenues, later underestimating fixed costs



Other Hospitals – Reason #4

- Differences in which professional costs and revenues are included
 - CRNAs?
 - Salaried physicians?
 - All physicians?
 - Productivity incentives?



Conclusions

- Process is conceptually very simple, but analyst needs experience with
 - Hospital managerial accounting
 - OR information systems
 - Anesthesia billing practices
 - State discharge abstract coding
 - Database programming



Conclusions

- Specific results can be ...
 - Unexpected
 - particularly involving high implant costs
 - Useful for strategic planning
 - Widely different among hospitals
 - analysis methods from papers, not results
 - each hospital needs to do analysis
 - Sensitive to process of hospital and professional reimbursement



Additional Information on Operating Room Management

- www.FranklinDexter.net
 - Comprehensive bibliography of peer reviewed articles in operating room and anesthesia group management
 - 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
 - Contact information

