

# 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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# Financial Disclosure

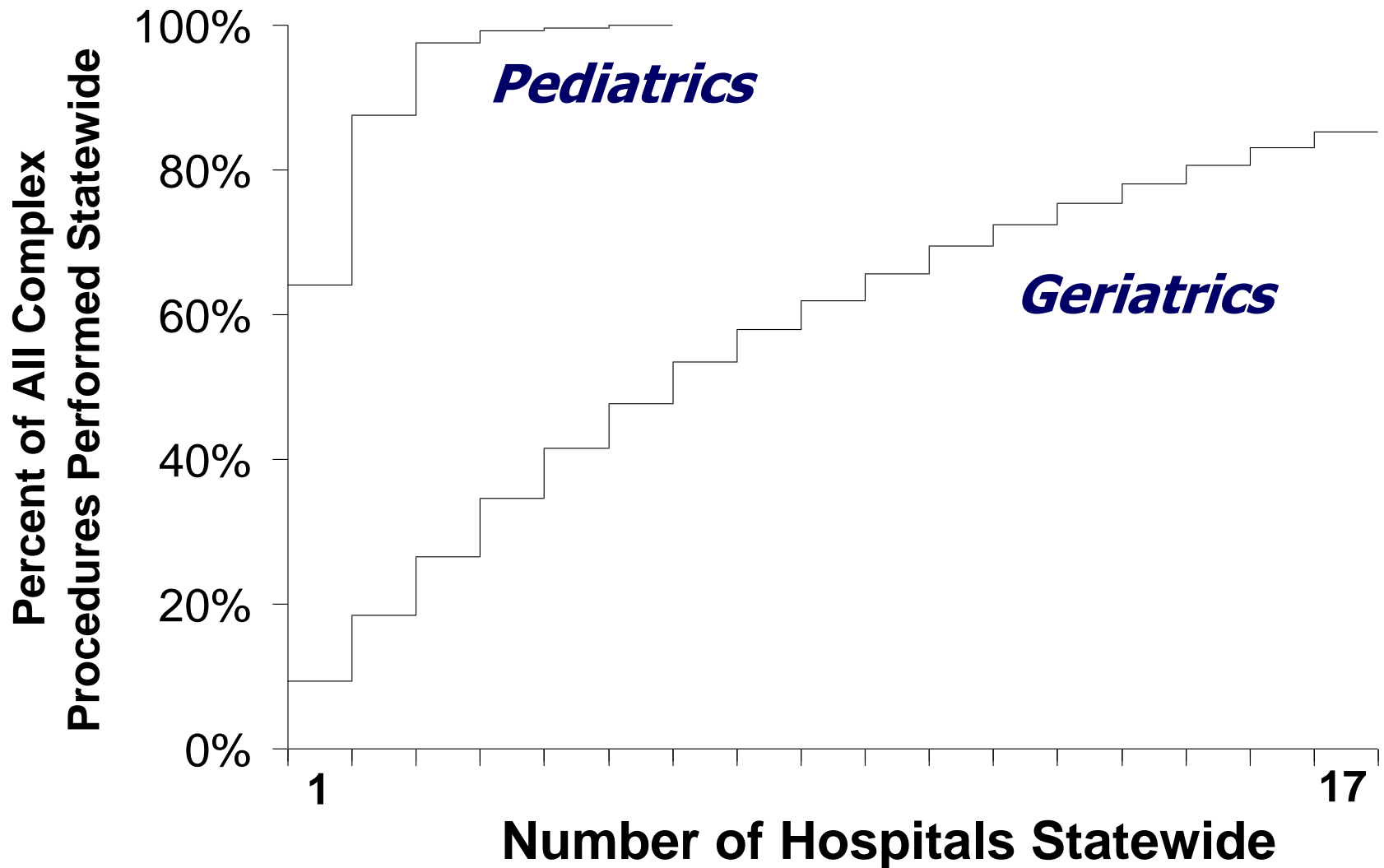
- I am employed by the University of Iowa, in part, to consult and analyze data for hospitals, anesthesia groups, and companies
- Department of Anesthesia bills for my time, and the income is used to fund our research
  - I receive no funds other than from the University of Iowa, including no travel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

# Summary of Other Talk

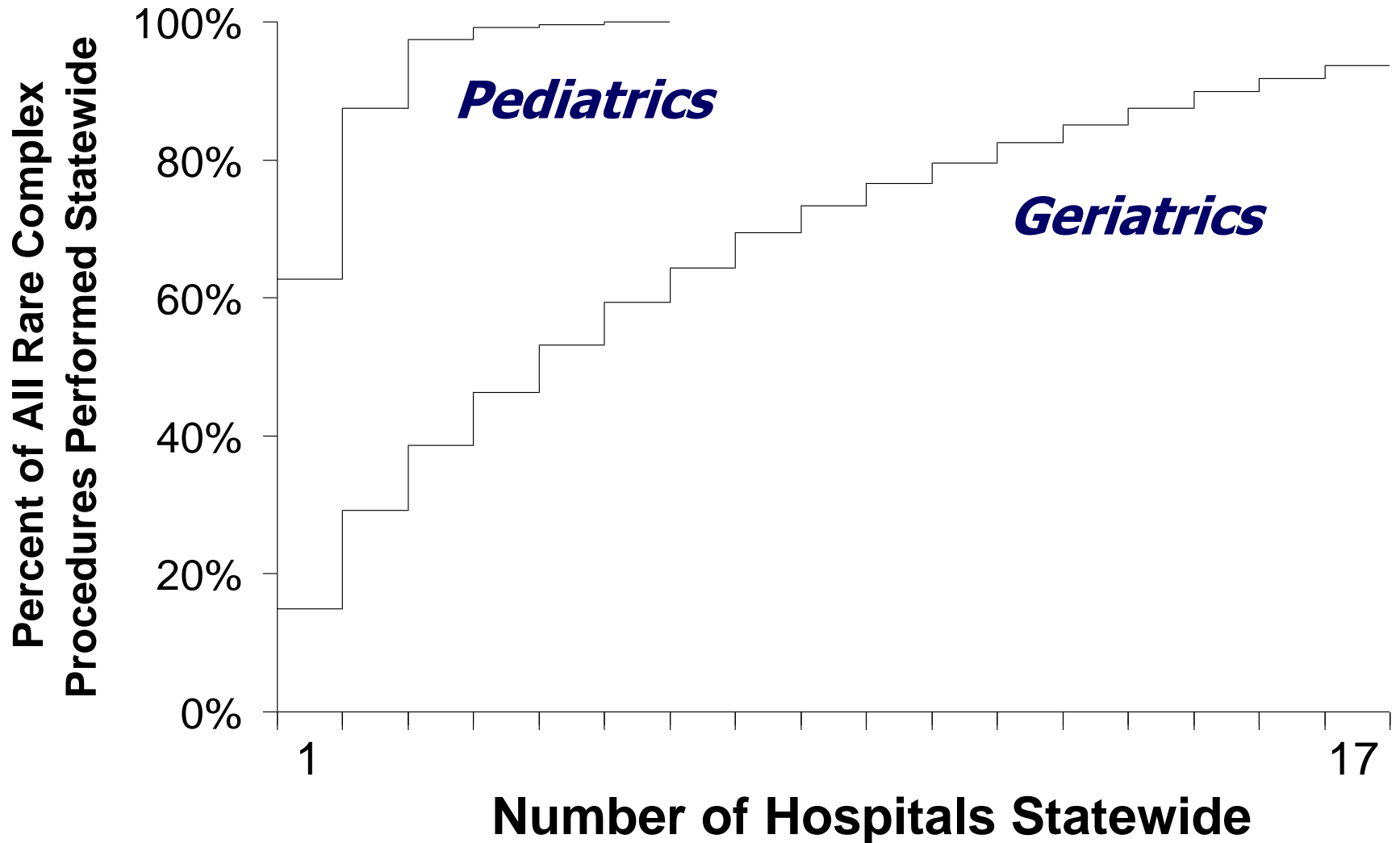
- “Showing Differences Among Hospitals and their Surgical Practices”
  - Useful to review the other presentation in its entirety before reviewing this talk



# 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?

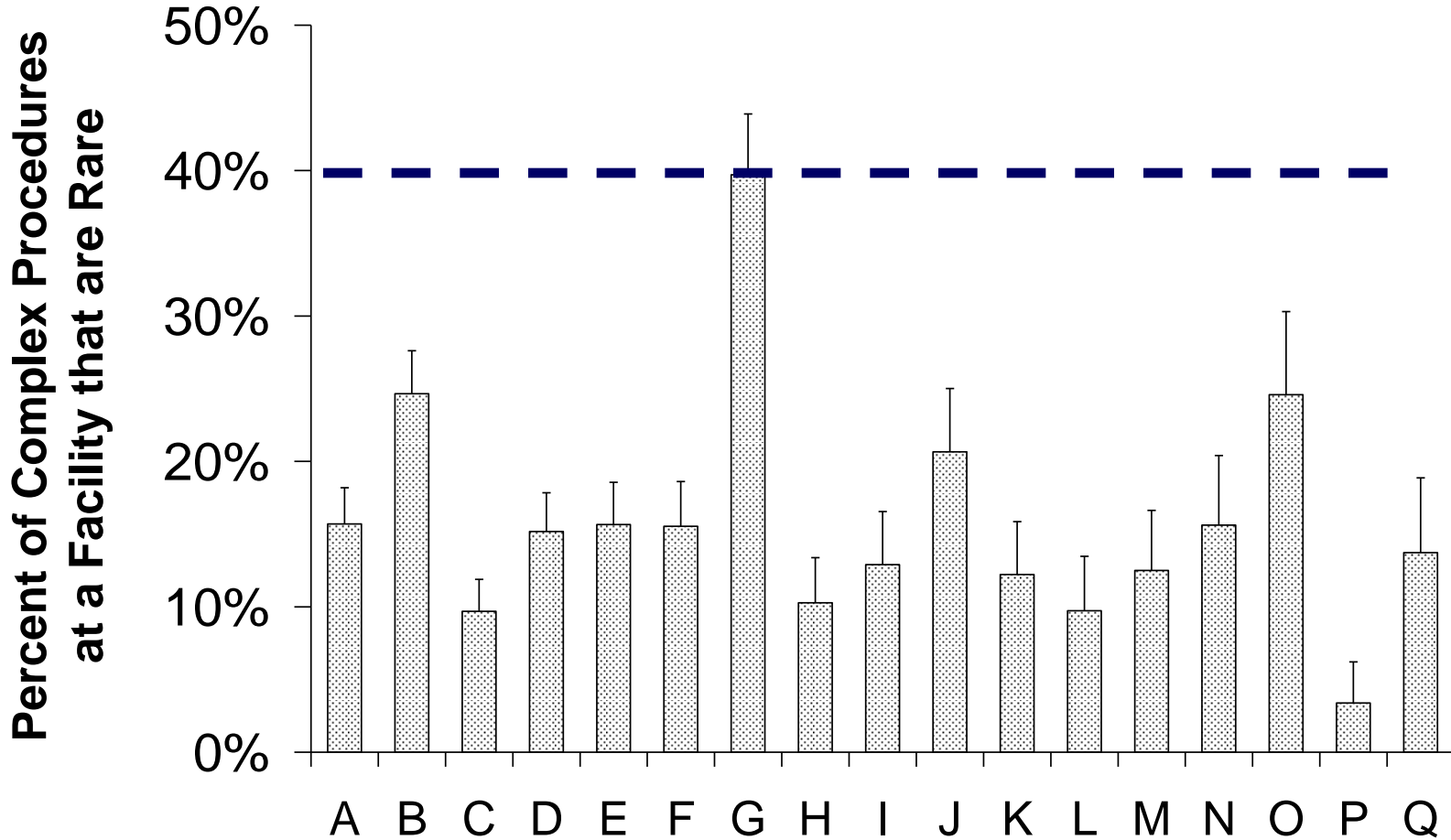


# Is the Dominance Good or Bad Financially for the Hospital?

- 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?



# 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
  - $\geq 8$  ASA Relative Value Guide (RVG) base 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?

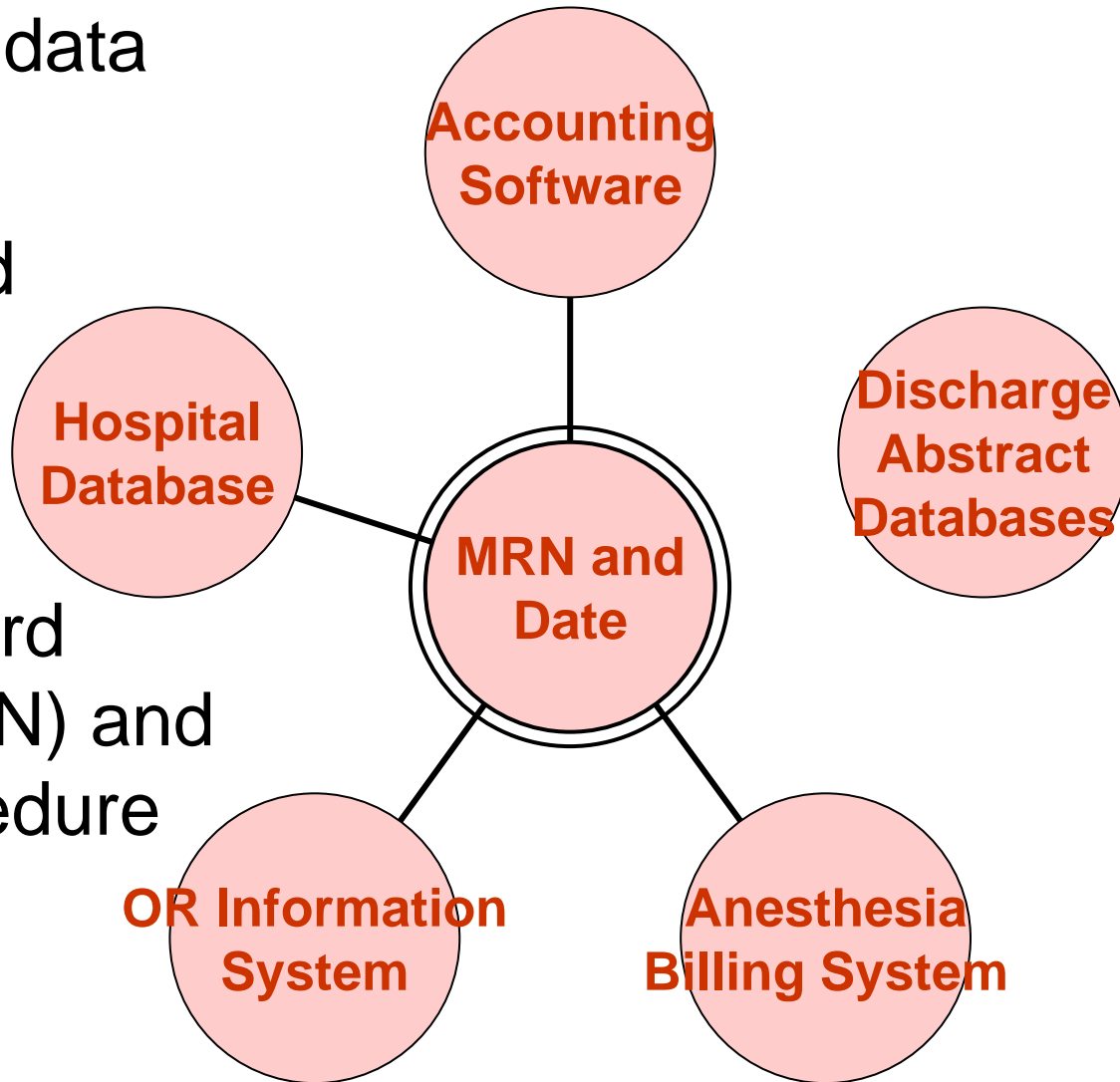
- List of procedures that are rare from state or provincial discharge abstract database
- Rare procedure
  - Performed  $< 250$  times statewide
  - Performed, on average, less than once per workday



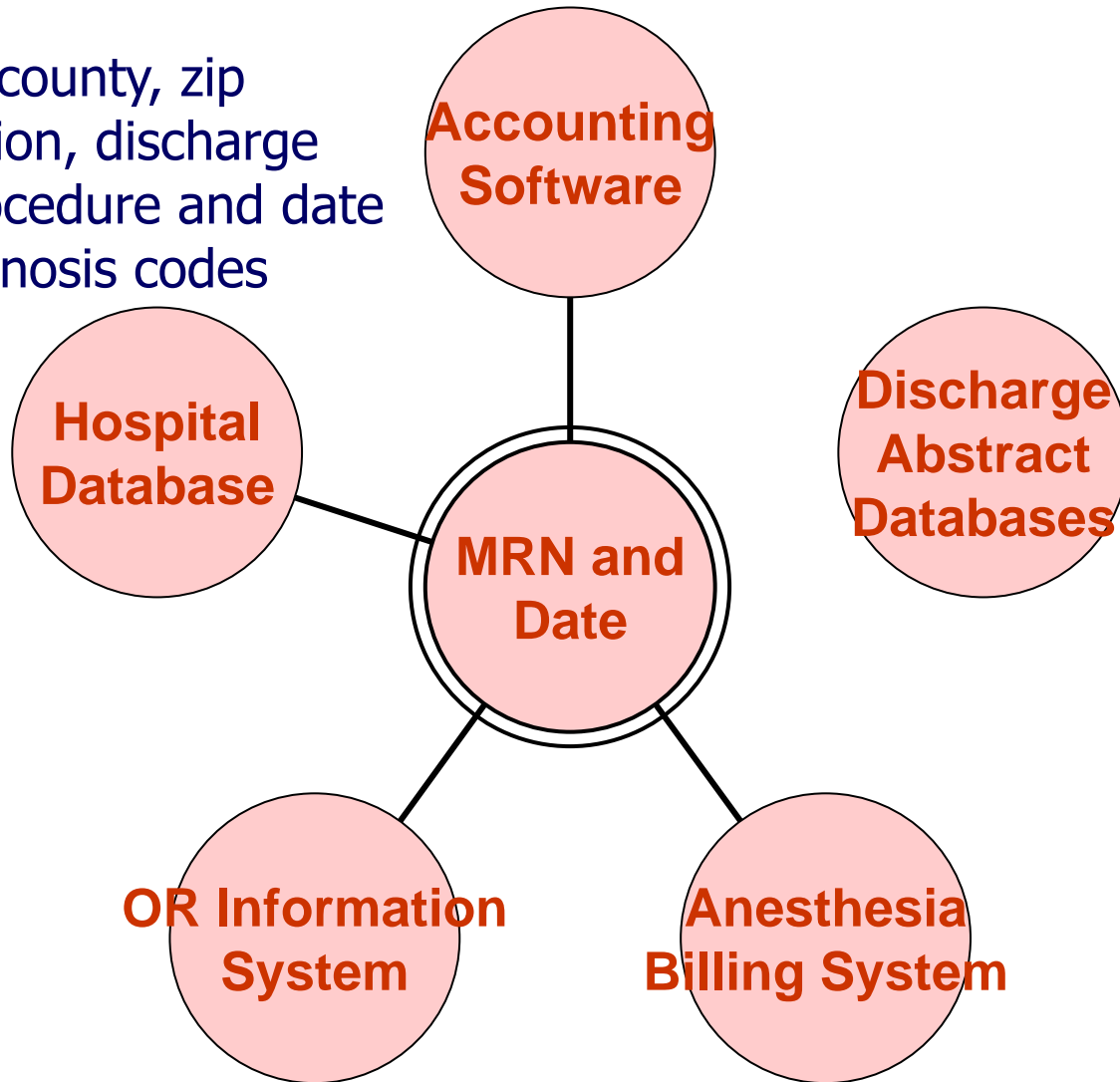
5 sources of data

data in each  
file are linked

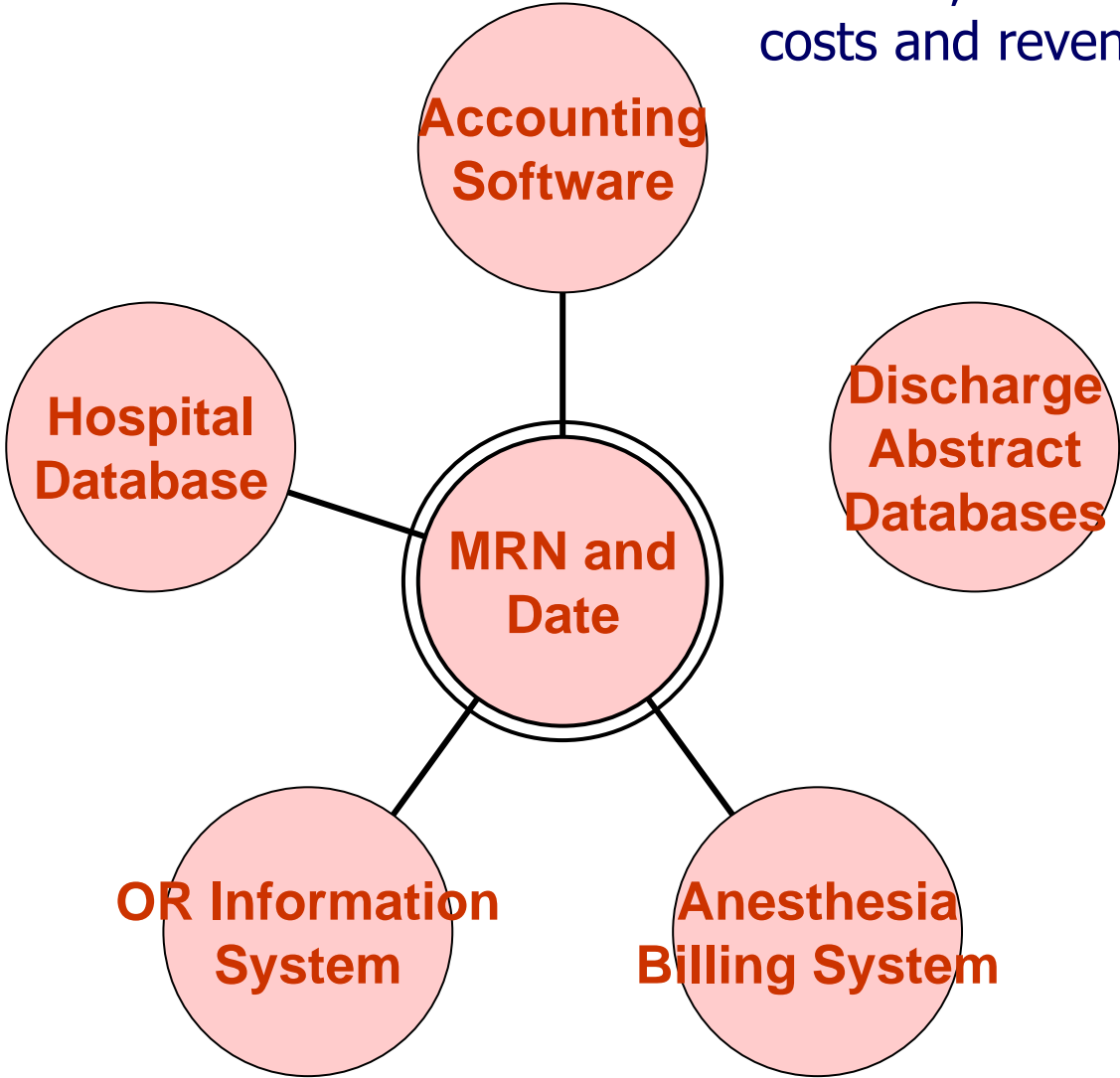
medical record  
number (MRN) and  
date of procedure

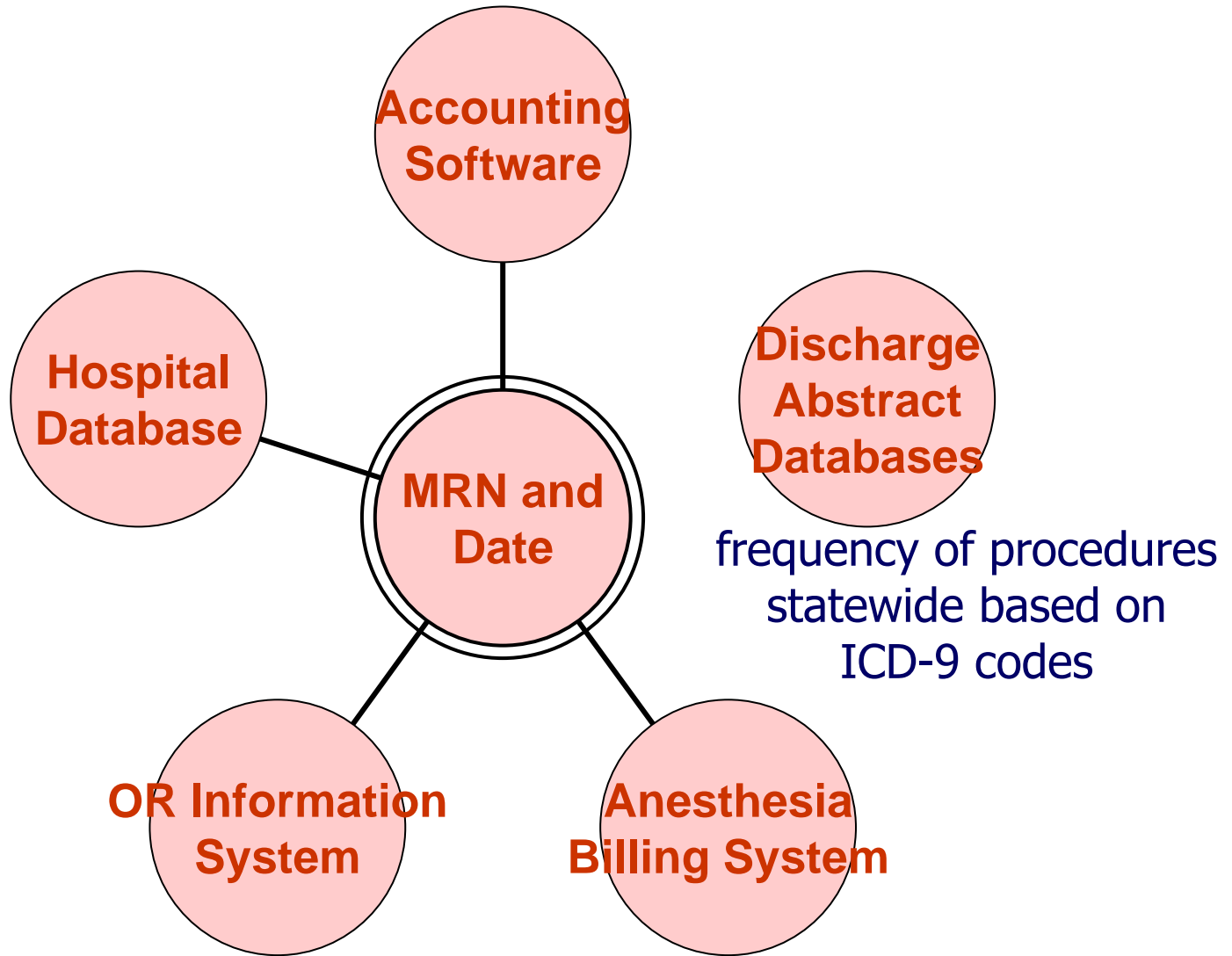


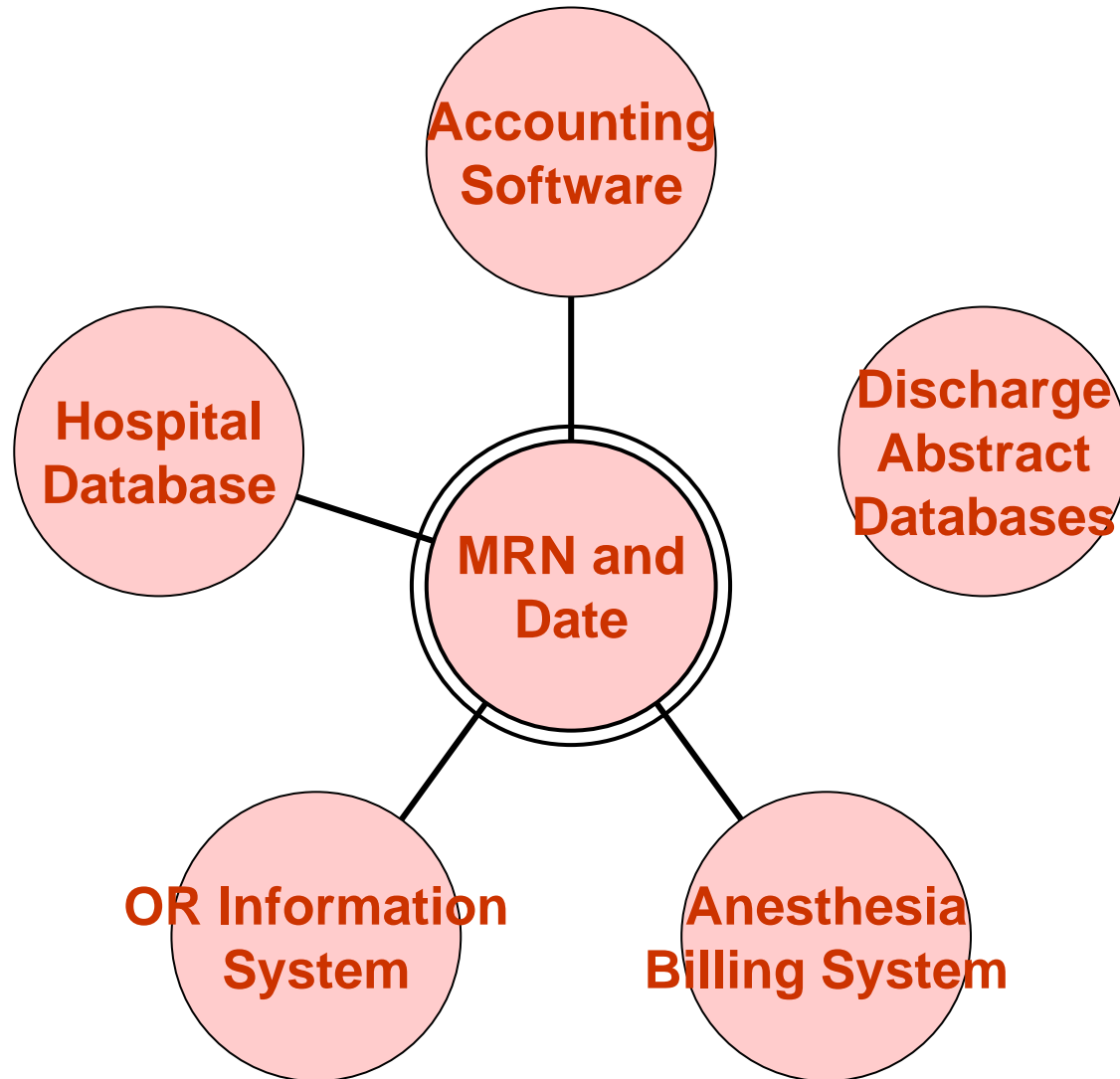
patient age, county, zip  
dates of admission, discharge  
ICD-9 principal procedure and date  
DRG and diagnosis codes



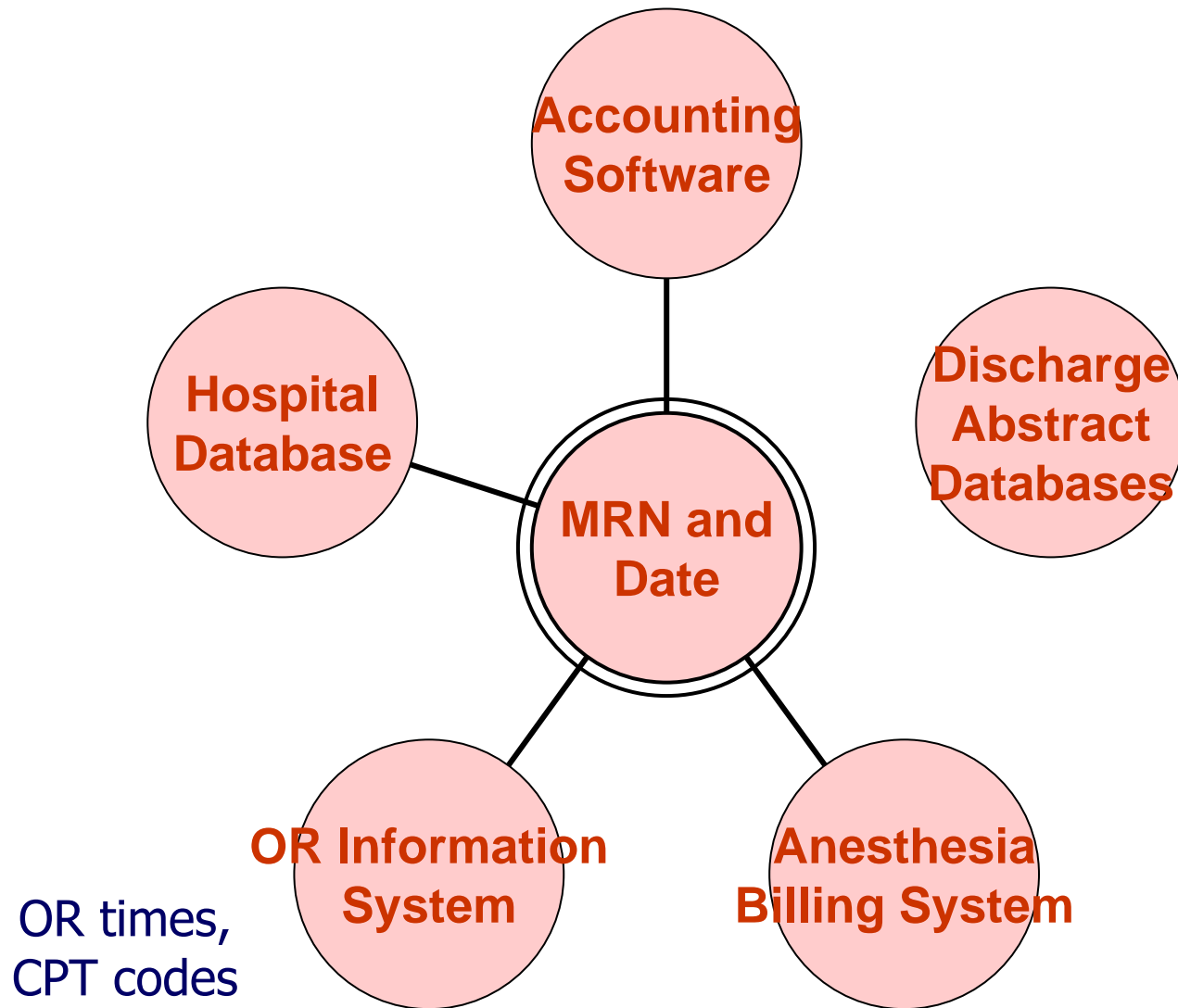
ambulance, ETC charges  
costs and revenues

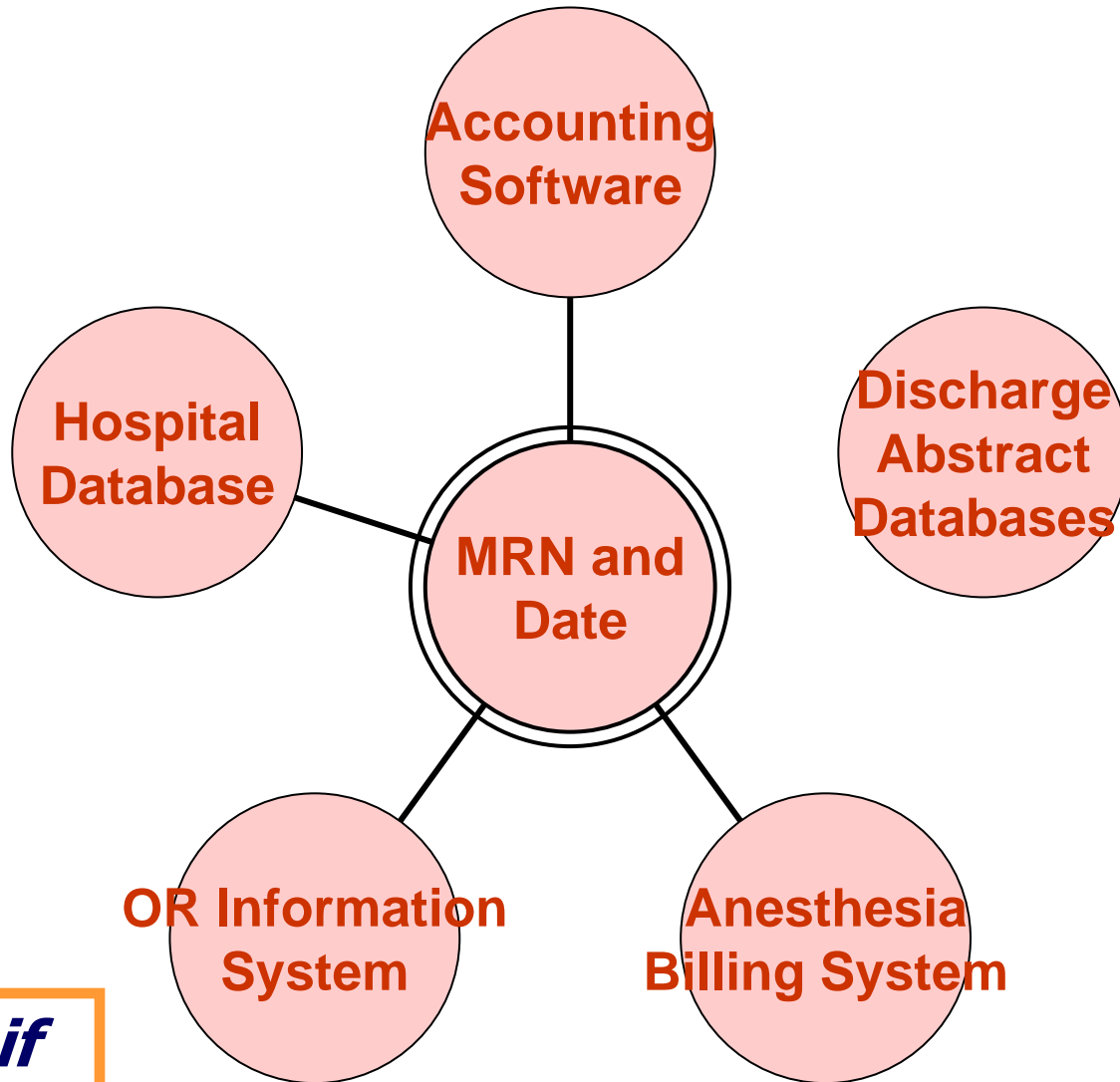






ASA physical status,  
primary CPT code and  
base units

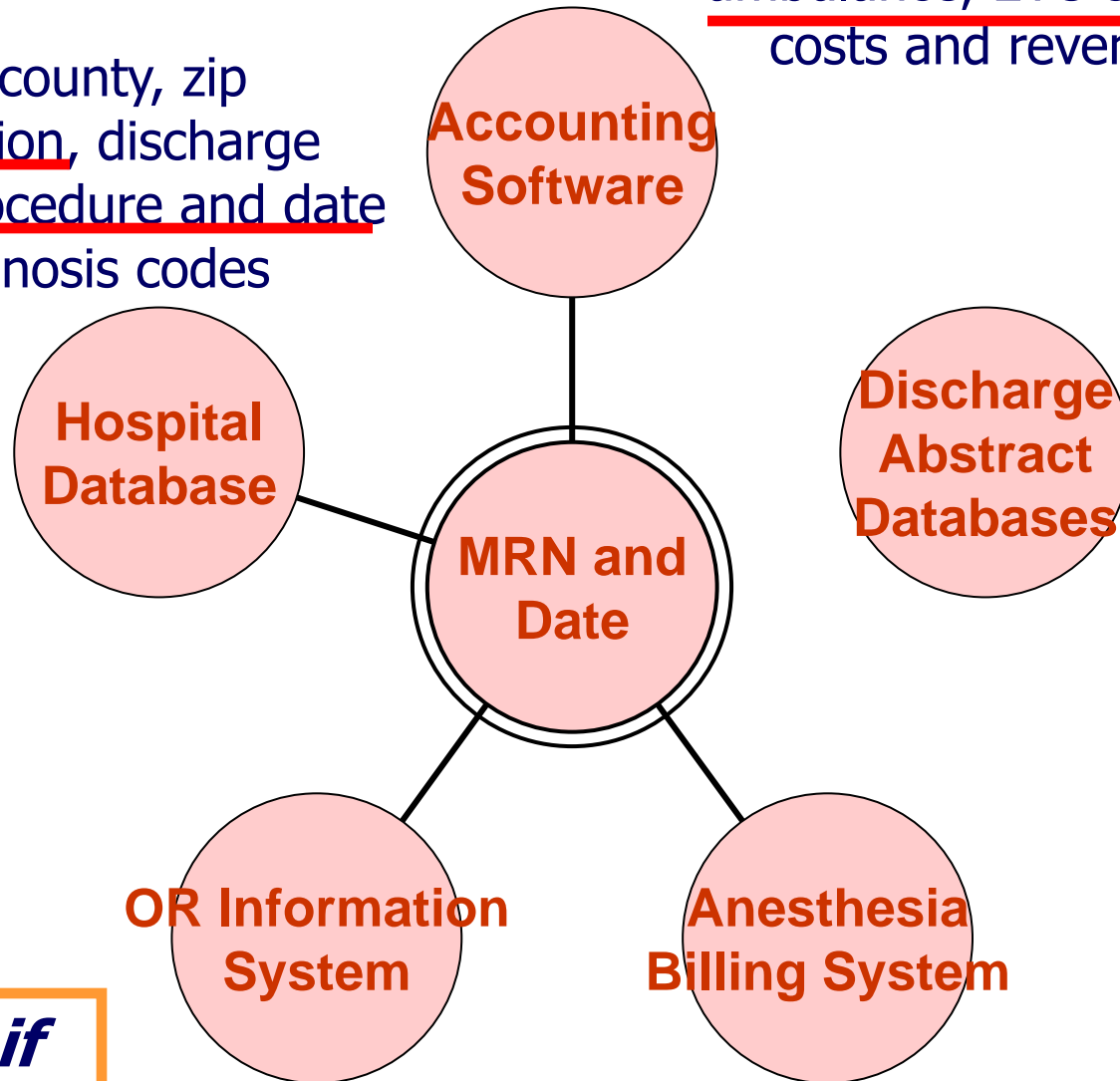




***Determine if admission is elective***

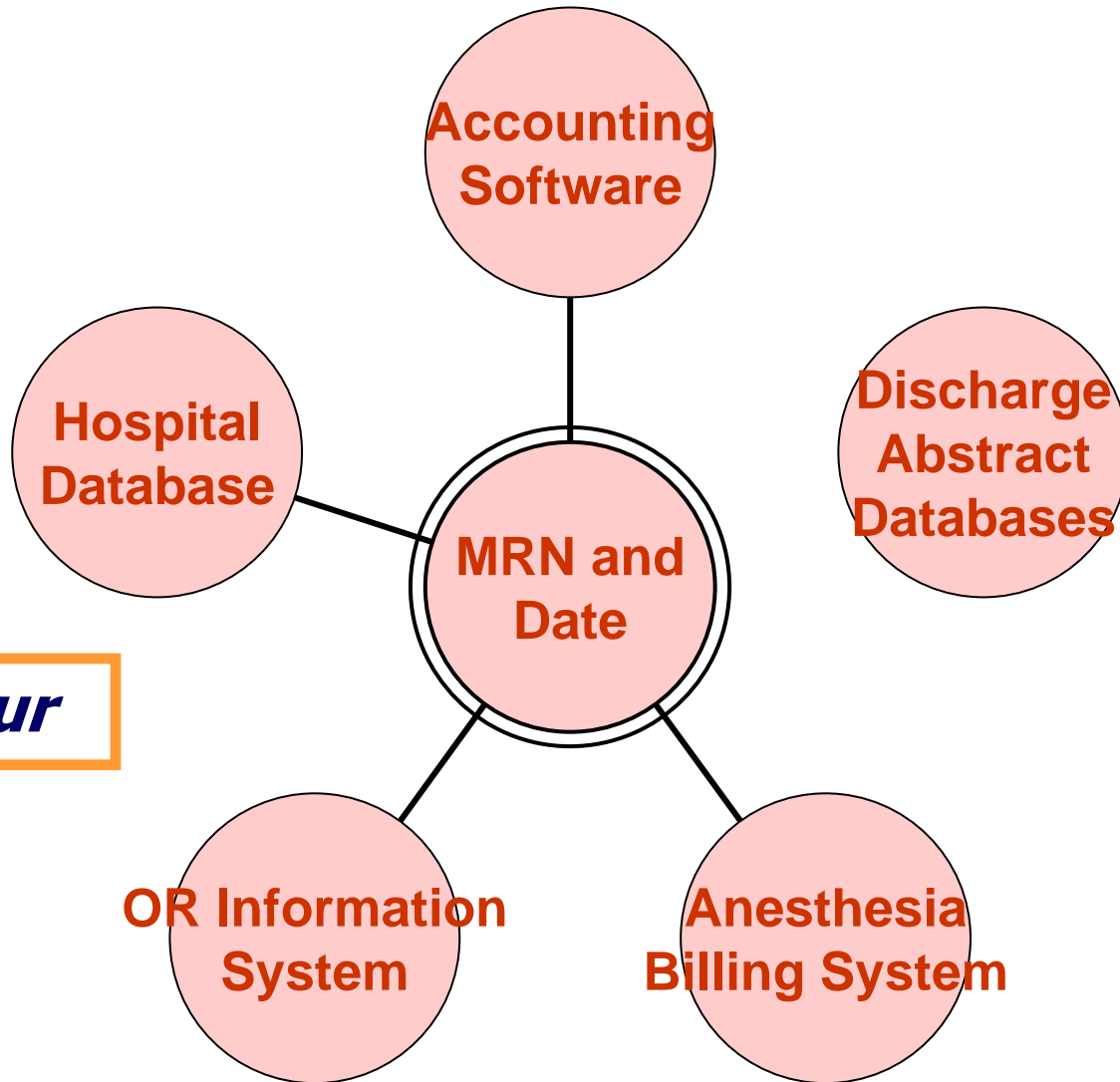
patient age, county, zip  
dates of admission, discharge  
ICD-9 principal procedure and date  
DRG and diagnosis codes

ambulance, ETC charges  
costs and revenues



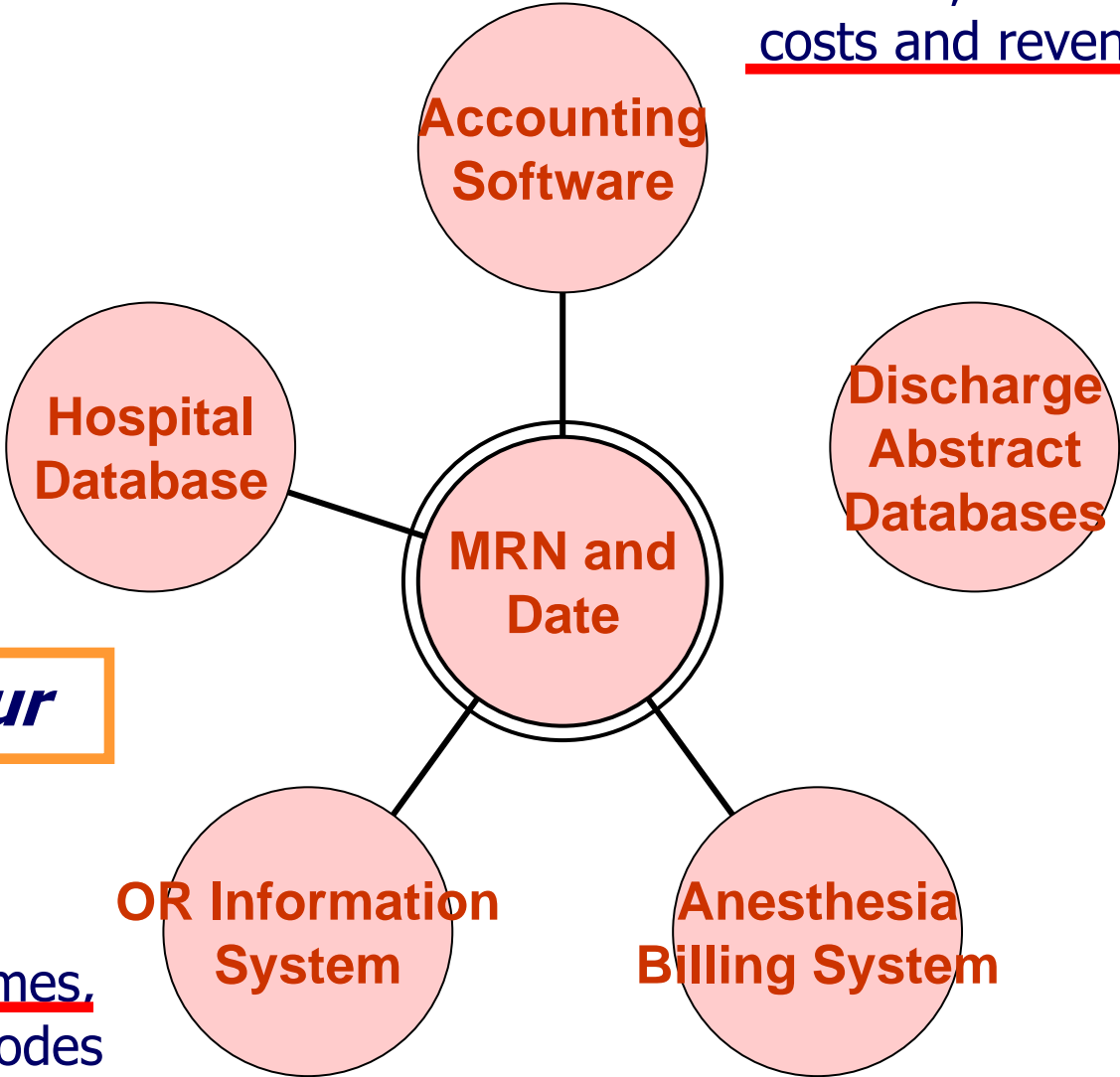
***Determine if admission is elective***

ASA physical status,  
primary CPT code and  
base units



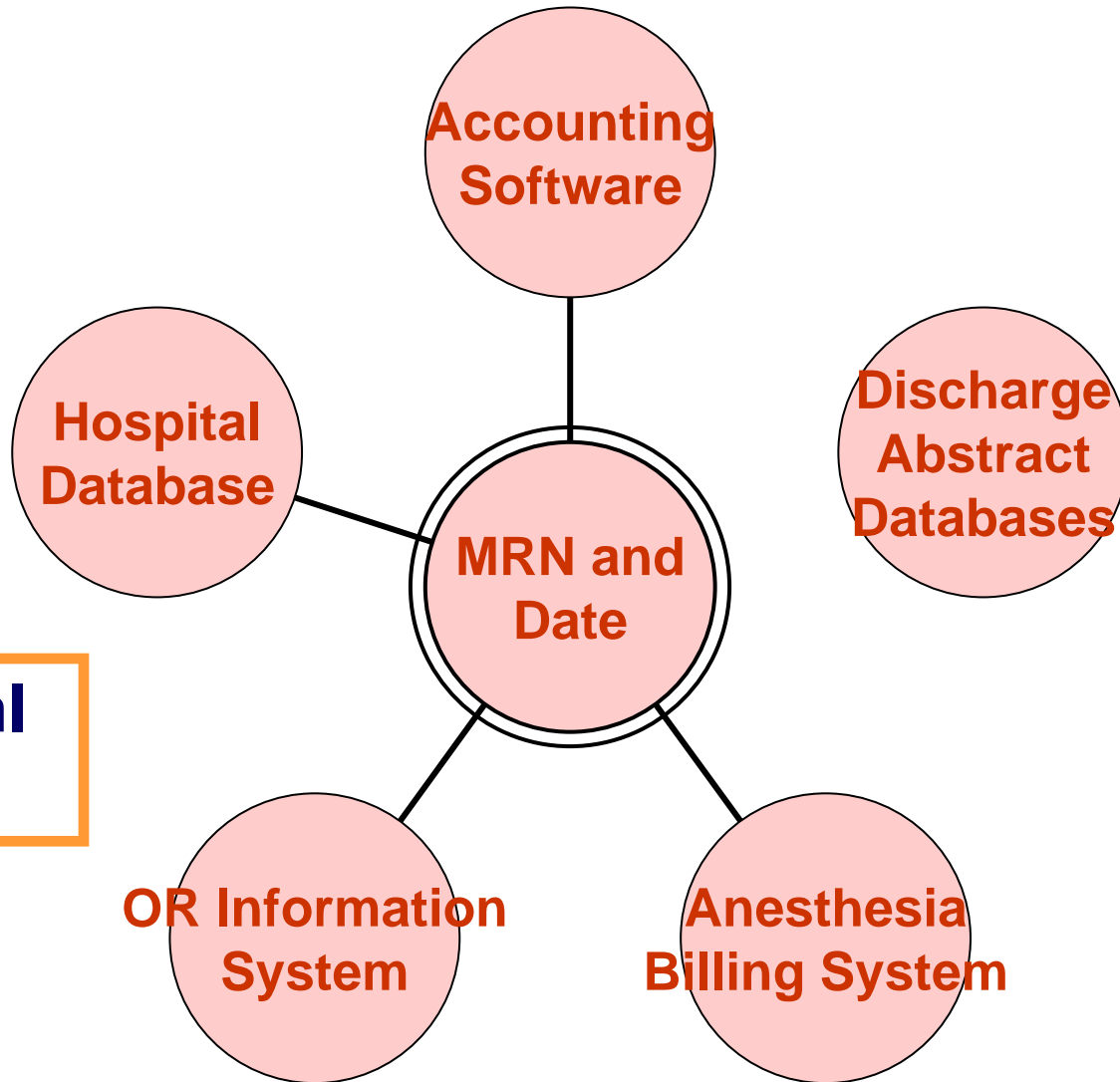
***CM/OR hour***

ambulance, ETC charges  
costs and revenues

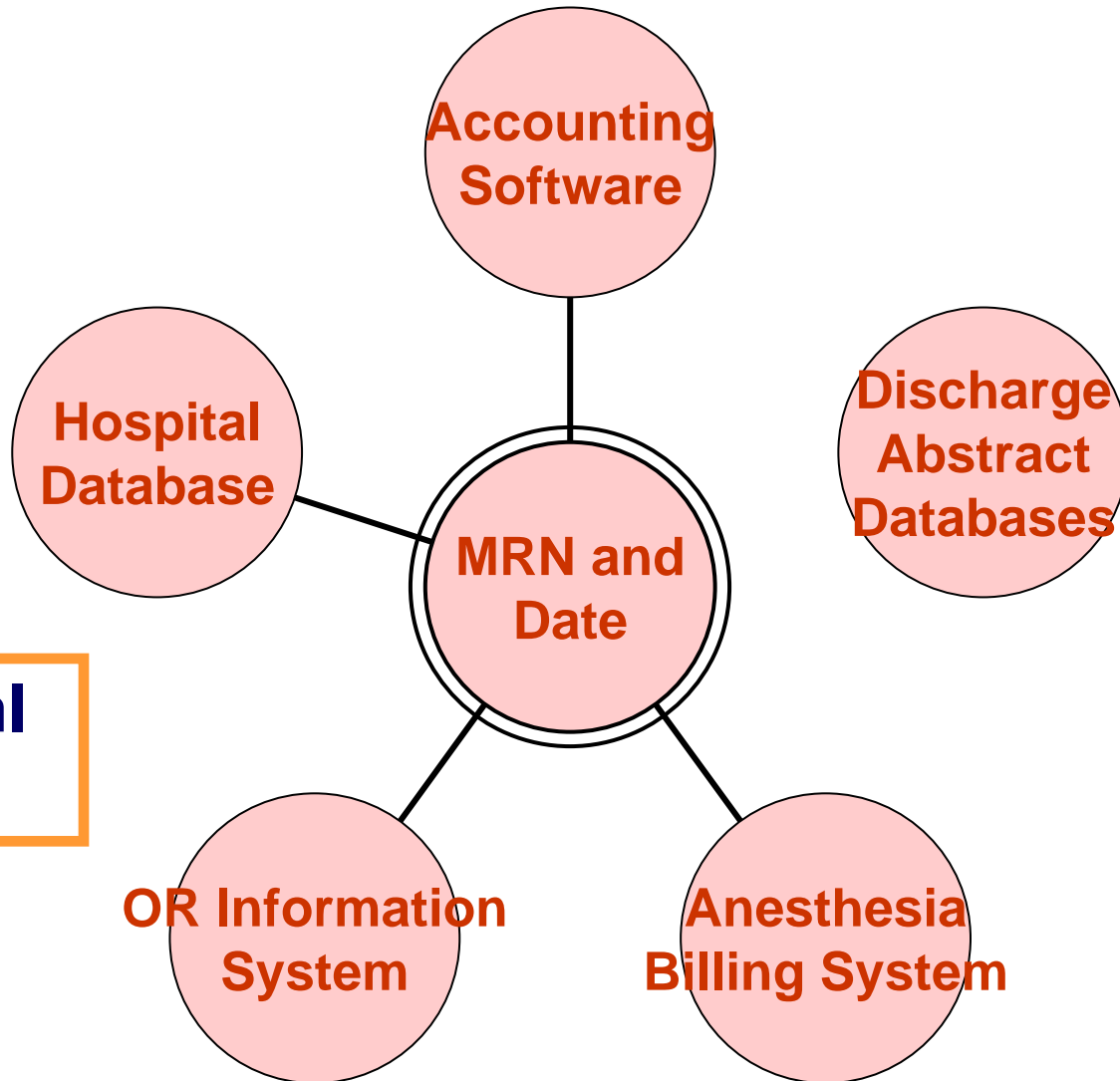


***CM/OR hour***

OR times,  
CPT codes

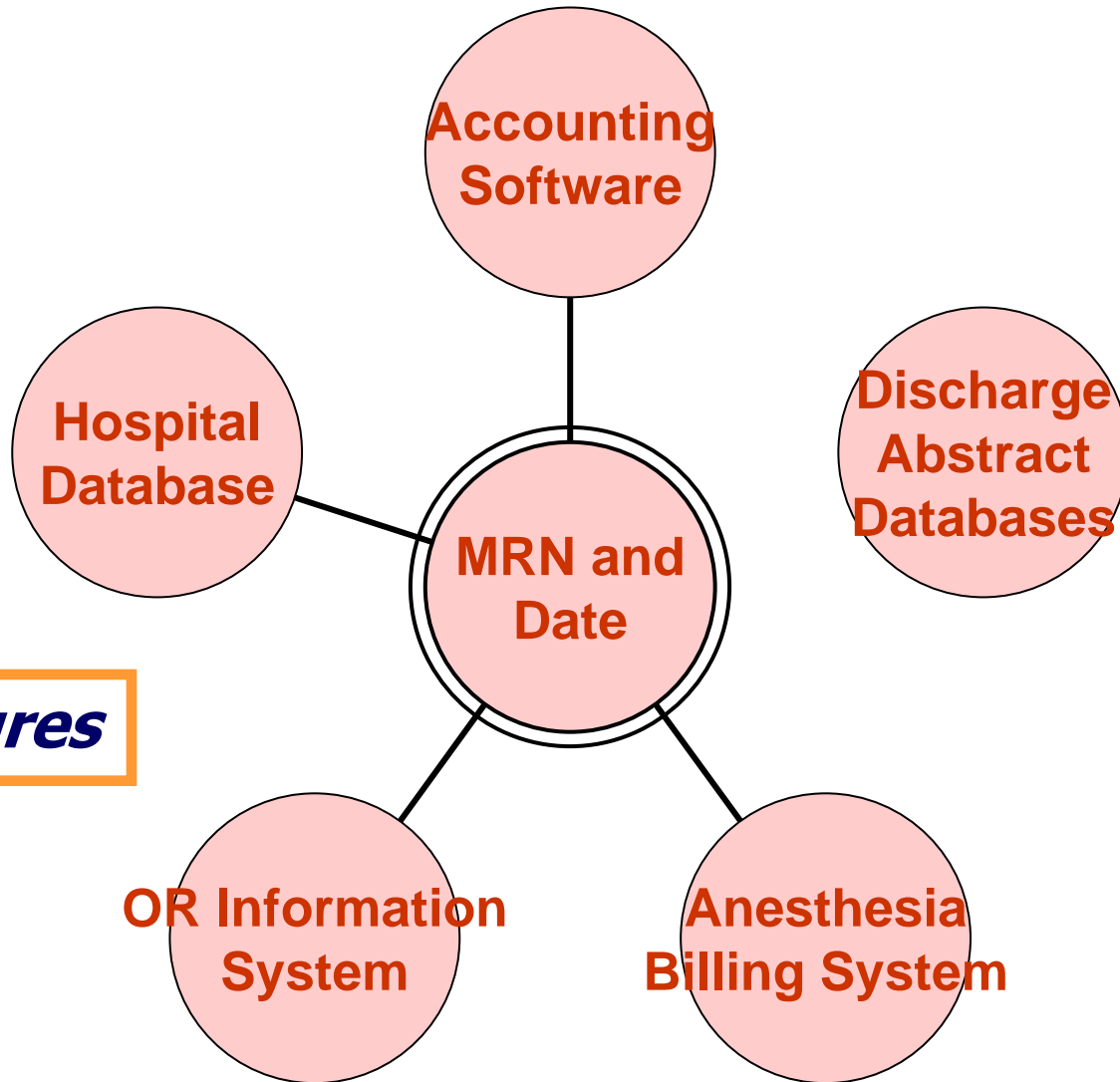


**physiological  
complexity**

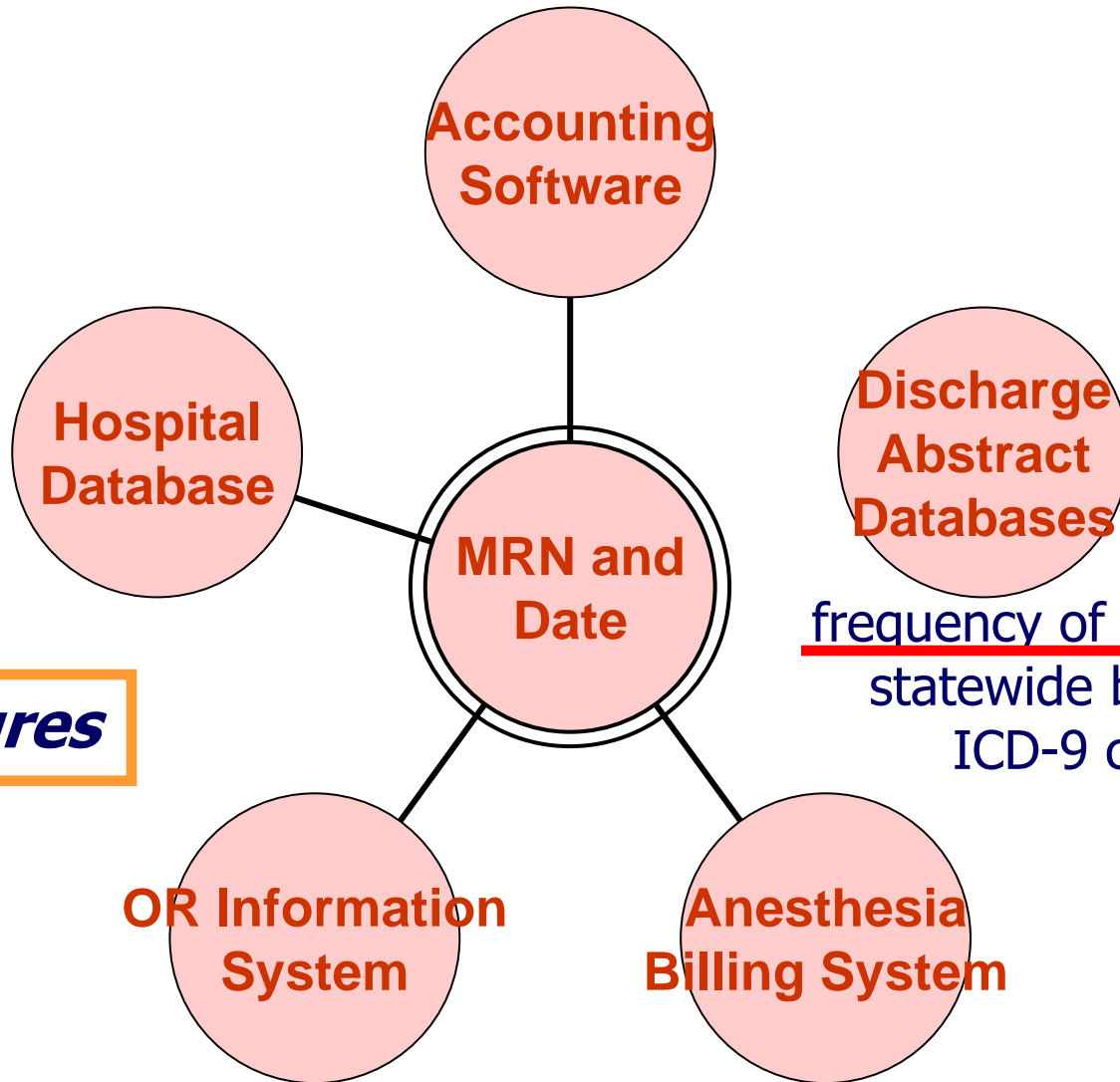


**physiological complexity**

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



# 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 ( $\geq 8$  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 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 (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

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



# Examples of Reimbursement

## 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  
Reimbursement/OR hr – Implant costs/OR hr
- For professional services, the only term is  
Reimbursement/OR hr

Dexter F et al. Anesthesiology 2002

Toyabe S et al. Health Policy 2005



# Other Facilities – Reason #4

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



# Review – Summarize the Facts of the Talk

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](http://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](http://www.FranklinDexter.net)
  - Comprehensive bibliography of peer reviewed articles in operating room and anesthesia group management