VERALON

HEALTHCARE MANAGEMENT ADVISORS

3 Questions Every System Should Answer Following the Medicare Hospital Outpatient Prospective and ASC Payment System Final Rule

Lynda Mischel, Principal

Meredith Inniger, Manager

One of the most impactful final rules released by CMS in recent months is the CY 2021 Medicare Hospital Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System Final Rule (CMS-1736-FC). This rule includes several important policy changes, most notably **the elimination of the Inpatient Only List** on a phased schedule through CY2024 (when it will be eliminated). Approximately 300 (primarily musculoskeletal-related services) will be phased out in the first year.

This rule has far-reaching consequences for healthcare providers that need to be analyzed quickly and mitigated where applicable. Three questions your organization should answer today, along with an overview of the analytics required to develop a mitigation plan, are discussed below.

1. **What is the financial impact of these changes?** Each organization's current service mix will make the rule's potential impact vastly different. As a first step, a comprehensive 4+ year financial model should be developed, detailing the phased approach with which the procedures will move off the Inpatient Only List. Consideration should be given to the estimated proportion, by procedure, that will likely still occur on an inpatient basis vs. the proportion of that care that will move to an outpatient setting (HOPD and/or ASC) and the associated costs, revenues, and margin for each. In order to complete this analysis, a capacity analysis will also be necessary in order to identify the level of care and the location for the displaced procedures.

2. **What is the optimal future relationship with our physicians?** Unless all surgeons are employed, this new rule will significantly change the hospital–physician relationship dynamic, as it will increase the decision-making authority of physicians (and patients) to direct care to the optimal setting for an individual patient. Some of these patients will remain in the hospital for care, but they are likely to be the highest acuity patients. Health system leaders need to consider their relationships with proceduralists and plan for closer affiliations, joint ventures and employment to assure participation in outpatient volume as more and more cases become ambulatory.

3. **How does this change our facility plan?** Hospitals and health systems should be prepared for this rule to reduce inpatient volume and increase their overall case mix index as lower-acuity patients move to the outpatient setting. Leaders should consider these changes and revisit their facility plans in light of the potential volume shifts. A comprehensive capacity analysis for inpatient and outpatient settings will be critical to ensuring the organization has the appropriate (and financially sustainable) complement of beds and ORs at the appropriate level of care and location(s) to thrive in the new payment environment.

Since surgical procedures are a key source of hospital margin, each of these three impact areas will drive hospital/health system future strategies and financial position. The next three blogs take a deep dive into specific potential impacts and analysis to perform immediately so your organization is best prepared for the short and long-term implications of the rule.