

The Surgery Shift from Inpatient - Assessing the Financial Impact

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Surgery has long been a key driver of hospital profitability. Effectively handling the new Medicare outpatient surgery rule¹ and subsequent care shift to outpatient settings is critical to long-term financial success.

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 fully eliminated.

Many hospitals and health systems calculated the lost income from inpatient cases that would shift to HOPD, and HOPD to ASC. But that's just the beginning of the evaluation. There are additional analyses hospitals and health systems should do to better prepare themselves for these changes:

1. Assess backfill opportunities, particularly for inpatient surgical procedures.

After assessing the baseline impact, the next phase is determining the margins and associated downstream revenue generated by, and investment needed, for each surgical specialty under different future state scenarios and prioritizing the types of surgical cases that should be targeted as backfill cases. Findings from these analyses may lead to an evolution of your current inpatient surgical volume strategy and could involve reconfiguring spaces, developing new programs, and focusing physician recruitment on selected surgical specialties.

Larger academic and community systems should assess if shifting lower-acuity surgical care to other community hospitals and retaining only the most tertiary patients at a flagship entity would have a net positive impact. There may be unmet need that is currently missed due to lack of capacity and scheduling delays. In



¹ Hospital Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System Final Rule (CMS-1736-FC), which was effective January 1, 2020.

addition, regionalizing resource intensive tertiary surgical services could enhance quality and improve market position and financial performance.

2. Apply a two-pronged approach to increase margins.

There are two opportunities to increase margin:

- a. reduce the cost per case by shifting lower margin cases to community settings and
- b. use the capacity freed-up to conduct higher margin cases.

For example, one organization based in the east with a high HOPD surgical Medicaid population took advantage of a newly developed ASC to shift multiple high-volume, low-acuity procedures to this care setting, which was not previously available. This allowed the capacity constrained hospital outpatient ORs to gain significant capacity for higher acuity and higher margin patients. The optimal strategy will depend on each organization's market dynamics, physician alignment and current ambulatory footprint, and is not a one-size-fits-all approach.

3. Prepare for commercial payer moves.

Another consideration for organizations is the likelihood of commercial payer policy changes, particularly site-of-service reviews. This is already happening in New York State, where Empire (BCBS) is implementing reviews for procedures to be performed in a HOPD, subsequently redirecting care to an ASC. Payer shifts in policy for pre-procedure reviews and or subsequent payment denials for procedures in certain settings will not only necessitate additional administrative spending, it will also increase the speed of shift to lower cost care settings.

4. Reconfigure capacity to gain efficiencies.

The shift of cases to ASCs will necessitate expanding community-based OR capacity which could be achieved through acquisition of existing sites from other parties or construction of new facilities. Either/both may require significant capital investment. Thus, another critical step is to assess options for financing the new capacity, including the potential of forming joint ventures with physicians and/or third-party surgical center management companies, and completing a comprehensive financial analysis.

The complete financial impact of this rule extends far beyond the initial analysis of lost income. Do the deeper dive financial analysis on these four topics now to inform key decisions and time-sensitive strategic initiatives. ●