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Healthcare

Better Ways ▲ Better Results

A NEWSLETTER FOR THE HEALTHCARE INDUSTRY

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Trends That Matter

Ambulatory Surgery Centers Gain in Popularity



Wolf & Company LLP, “ Many physicians have found that ownership in an ASC allows them to supplement income with technical fees associated with ownership. ASCs also offer more-generous reimbursement of professional fees than hospital-based surgery. “

Hospitals Get In On The Act

From surgery to diagnostic imaging, hospitals are moving into outpatient care with vigor – often partnering with doctors they once considered

competitors. These partnerships range from traditional hospital-physician joint ventures to block leasing and “under arrangements” where physicians provide a hospital with ancillary services on a per-use basis. Of course, choosing the right partner for a venture as capital-intensive as an ASC is crucial.

- **Hospitals** – Some 25 percent of ASCs involve a hospital partner. An active hospital partner can bring true value to the table by helping with managed care contracting.

Ambulatory Surgery Centers (ASCs) have become a huge business. In fact, one-third of the more than 50 million surgeries performed in the U.S. each year occur in an outpatient surgical clinic. ASCs have boomed, in part, because patients like them – they're often more cost-effective, convenient and less stressful than a big hospital. And they now offer much more than Lasik surgery and mole removal. The wide range of surgeries includes cosmetic, gynecological, urological and dental procedures, as well as some cardiac and orthopedic surgeries.

Of course, physicians have become increasingly interested, too – both from a practice and an investment standpoint. Some medical professionals are simply burned out on poor relations with their local hospitals and are seeking more control over their cases, scheduling and staff.

At the heart of a successful hospital-physician partnership is a solid joint operating agreement developed with the help of an experienced healthcare lawyer. Such an agreement should cover everything from clinical protocols and standardization of equipment, to commitment of a certain level of time and effort by all parties. It should also include

According to Steve Lutz, partner-in-charge, *Healthcare Services Group*,

Evolution of the HSA

What's the Potential Impact on Your Practice?

The spread of consumer driven health plans — most notably, Health Savings Accounts (HSAs) — is driving major changes in medical practices. In fact, this realignment of the patient as purchaser is the most profound change in healthcare financing since the creation of Medicare. In the past, patients paid a small copayment and received services. Now these patients are reaching into their own pockets or their HSA plans to pay. As a result, they're looking up cost and quality data on the Internet or through their insurer. In short, they are seeking care as educated consumers.

Changes On the Clinical Side

These newly empowered consumers may very well hit your office with new expectations of the doctor-patient relationship, having a substantial impact on how you and your staff interact with patients.

Prepare for sicker patients. Studies have shown that cost-conscious patients are likely to choose less extensive and less expensive treatments, and may delay visits or opt out of lab work. You will need to pay attention to situations in which the patient is declining care for cost reasons and have strategies in place to address this kind of noncompliance.

Establish follow-up protocols. Ensure that patients are receiving needed care by establishing effective follow-up systems. For example, establish a computerized list of all patients due for a diabetes checkup or a well-woman exam.

Be ready to answer the phone (or e-mail). Cost-conscious patients may also seek care via telephone or e-mail. You may need to begin charging a small fee for these "visits" and should take steps to educate

patients about the value of regular face-to-face contact.

Prepare for cost and quality questions.

Be prepared to provide tangible quality and service justifications for your fees. Likewise, be ready with data on less-expensive alternatives — including outcomes and rates of complications — for patients who ask for discounts, try to negotiate a lower price or bargain for less-expensive options.

On The Practice Side

You can also expect some significant changes in how you collect payment.

Get ready for co-pay headaches.

Many insurance plans at the heart of HSAs eliminate co-pays until the deductible has been met (or eliminate them entirely) and others forbid doctors from collecting deductible amounts at checkout. So in addition to verifying eligibility and benefits coverage, you'll need to pin down the deductible and how much has been met. Then find out the collection rules. Some preventive services may not count toward the deductible, for example, and you can bill the insurer for them right away. You may need to add questions to the insurance information section on your patient forms to inquire about whether the patient will be using an HSA, the funding status of the account, and how funds are accessed.

Make patients aware. Write and distribute an office policy making your case that payment at time of service is the norm in business, that it helps keep practice costs down,



and that insurance contracts obligate patients to make co-pays. Put it in your brochures, post it on your Web site and add it to recorded phone messages. Reiterate your point-of-service policy when patients call to make an appointment.

Prepare your staff. You and your staff will need to learn the fine art of point-of-service collection to professionally and sensitively solicit payment directly from patients. Train your staff to be matter-of-fact and assertive when asking for money, but never uncivil or threatening. Ask patients, "How would you like to pay your bill today? Credit card, debit card, check or cash?"

Think outside the box. If one of your insurer contracts does not allow you to collect at the time of service, ask these patients to provide their debit or credit card to be charged the amount due once the EOB arrives. However, you must assure patients that their data will be stored securely. As an alternative, urge your patients to enroll in automatic HSA debiting, which allows them to authorize money to be transferred from their HSA directly to your practice as soon as the insurer determines the patient's financial obligation. ■

provisions on how to determine the price of physician buy-outs upon retirement.

To remain in compliance with fraud and abuse regulations, the operating agreement must not, directly or indirectly, base a surgeon's potential payments on the volume of patients brought to the center.

- **Management company** — As an equity partner, an experienced management team can help with financial planning and analysis, Medicare certification, equipment planning, construction planning and physician recruitment. Partnering with an ASC management company can also improve a center's financing prospects (some lenders will not provide financing without an experienced management company being involved). Key items to negotiate include percent of ownership, management fees, services to be provided, personnel employed or provided, length of the management contract, board rights and reserve or veto rights of the management company.

- **Physician investors** — The average number of physician-owners in an ASC is approximately 15, according to Deutsche Bank's 2008 ASC report. The number of investors is a delicate balance. Too many physician partners can lead to a dilution of individual physician responsibility and ownership interests.

Questions To Ask

If you are considering investing in an outpatient surgery center, you'll need to get the answers to some critical questions.

Is it financially feasible? Start with a comprehensive feasibility study and pro forma based on conservatively projected case volumes, case mix,

scheduling preferences and expected reimbursement rates. As a general rule, it can take as little as 2,000 well-reimbursed procedures per year for an ASC to be profitable. (This can rise to 3,000 to 3,500 procedures with lower-reimbursement cases.) Annual revenues of \$5 million to \$10 million earn, on average, an operating margin of around 30 percent before deducting interest, taxes and depreciation. You'll need to consider whether such a return will be sufficient to satisfy investment partners.

What will reimbursement be? In the early stages, obtain a real sense of whether contracts will be available and at what price. Here, a hospital partner may be able to jointly negotiate reimbursement rates or include the center on the hospital's own payer agreements (although this is often legally restricted and subject to certain antitrust rules and regulations). You might also consider hiring a contracting consultant for guidance.

What are the payment trends? Medicare reimburses for procedures performed at an ASC at 65 percent of the price paid for the same surgical procedures at hospital outpatient departments. Of the top 20 procedures performed in surgery centers, approximately 17 have experienced an overall decrease in reimbursement, sometimes by as much as 20 percent to 30 percent for many gastroenterology and pain management procedures.

What will it cost? A typical stand-alone ASC, with tenant improvement, can easily run \$220 to \$250 or more per square foot, with additional costs for equipment. A good rule of thumb is to budget \$1 million per operating room to develop a new ASC. Of course, leasing space

and operating as a tenant is always an option. Nationally, rental rates average approximately \$27 per square foot. The three biggest costs for an ASC typically include staffing (about 20 percent to 30 percent of revenue), supplies (about 20 percent of revenue) and facility costs (about 10 percent of revenue). To cover fixed costs and become significantly profitable, ASCs typically require \$3 million to \$5 million in revenue.

How much capital is required? Capital requirements depend upon the size of the project, whether the ASC will be a "tenant" or own and develop the real estate, and the amount of debt to be secured. While the majority of construction and equipment costs is leveraged with debt financing, investors typically need to provide a minimum of 20 percent of the capital in cash.

Single- or multi-specialty? Single-specialty centers can be more efficiently staffed and built than multi-specialty centers. On the other hand, a multi-specialty center can help reduce reimbursement risk through a diversification of reimbursement sources and a mix of physicians. In addition, a multi-specialty center can provide for greater physical plant economies of scale.

Plan to Succeed

Despite their growth, a substantial number of ASCs still fail — mostly due to bad management, low volume of cases, poor reimbursement or overbuilding. Knowing the risks — and involving a competent team of advisors, builders and lawyers — can help to ensure that your ASC will prosper. ■

Be sure to include an accounting professional in the mix — contact Steve Lutz at 630-545-4550 for solid guidance on investing in an ASC.

Wolf & Company LLP

Certified Public Accountants

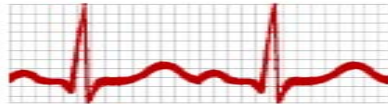
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Wolf Financial Group

Vital Signs



Non-clinical Staff Incentives

Billing and front-office staff are a crucial link in improving practice cash flow. The key is to set performance expectations and then reward staff for meeting bottom-line goals such as these:

- Collecting co-pays
- Submitting clean claims
- Managing no-shows
- Maintaining a high collection percentage

Create measurable standards.

Specific, measurable performance standards can profoundly impact productivity and efficiency. As part of a regular review process, have individual staff members identify the most logical performance standards for their position.

And make it specific. Asking staff to "treat each patient with respect" is too general. Requiring the receptionist to greet each patient within 30 seconds of arrival at least 95 percent of the time is focused and measurable.

Establish proper benchmarks. Set performance benchmarks that make sense for your particular practice, payers and staff responsibilities. Remember that not all tasks (or payers) are created equal – some carriers take more work than others. The person who handles workers' compensation should not be held to the same standard as the person working on Medicare.

Set up incentives properly. The old standby – the year-end bonus for

good work – is actually the least-effective incentive. Because it is already expected each year, it really does nothing to truly motivate performance. Instead, tie incentives to specific goals and make payouts quarterly, so people see a constant and tangible connection between work and reward.

Know what they really want. We all know the Golden Rule. But the "Platinum Rule" is to treat people as they want to be treated. Conduct a simple survey to determine which incentives your employees really value (money, time off, etc.). Popular Web tools such as <http://SurveyMonkey.com> let you create surveys and review results online for free or a small fee. ■