

Utilize Spine to Improve Profitability of Underperforming Surgery Centers

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Surgery Center Industry Challenges

- 2010 volume decline (VMG Intellimarker 2010)
- Flat facility reimbursements
(Medicare increase of 1.6% in 2012... 0.2% in 2011)
- ½ of ASC's are marginally profitable or worse
- Physician Medicare reimbursement cut by 30% in 2012 or 2013?
- Sizeable % of MD's employed by the hospital

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Why Spinal Surgery?

- More than 65 million Americans experience low back pain every year, and 80% of adults experience low back pain sometime during their lifetimes.
- The medical costs for treating back pain in the US approach \$25 billion each year. The cost to the economy is about \$85 billion each year, including medical care and loss of productivity.
- Spine surgeons have not yet invested in ASC's!

Minimally Invasive Spine Surgery (MIS)

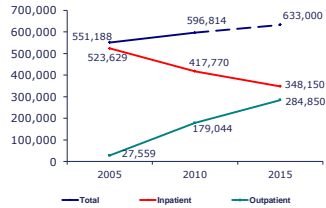
- With the minimally invasive approach, the procedure has become less traumatic and leads to less pain, shorter hospital stays and recovery times.
- The potential for minimally invasive spinal surgery can be seen in how the number of spine fusion procedures in the US exceed 500,000 per year.

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Spine is “Hot”

- 300+% growth of outpatient spine volumes

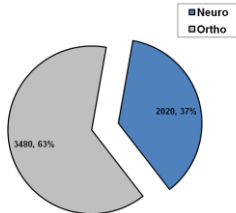


Note: Inpatient Spine Procedures defined on historical base of DRGs 4, 496-500, 519-520. Source: Solucient (Traditional) and NeuroSource/NeuStrategy, 2005

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Spinal Surgeon Breakdown by Specialty

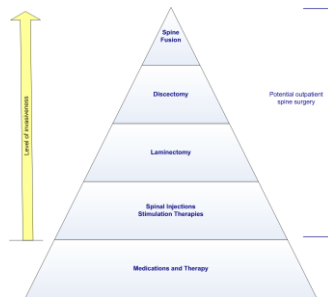


There are approximately 5,800 spine surgeons in the US

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Trends & Drivers – Clinical



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Trends & Drivers – Demographic

- Baby-boom bubble:
 - Overweight = increased potential of spine problems
 - Desire for “active” lifestyles
- Growing acceptance of outpatient surgeries
- Spine surgeon population remains relatively flat

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Trends & Drivers - Financial

- Declining physician reimbursement
- MRI and CT facility reimbursements falling
- Surgical Hospital development is dead
- Minimal regulatory risk - large number of ASC operating rooms across the country difficult to replace and....Medicare supports transition to ASCs
- ASC cost effective vs. hospital
- Solid profit margins on spine procedures

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Surgical Costs is 30-60% Less

Lumbar Microdiscectomy	Inpatient	Outpatient
Procedure Cost	\$7,000 - \$24,000	\$3,500 - \$11,500
Length of Stay	2 days	3 Hours
Infection Rate	1%	0.25%
Patient Satisfaction	88-94%	98%

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Managed Care Spine Trends

- Eager to push lower acuity spine cases out of the more expensive hospital setting to ASC
- “Progressive” Insurers have been reimbursing specific ASC spine codes for 3-5 years
- Targeting high cost hospitals performing spine to stimulate development of ASC’s
- Procedural reimbursement to include implants shifts risk to ASC
- Bundled payments?

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Attracting Physician Interest

Performing spine in a surgical center offers physicians opportunity to achieve important objectives

- Increased practice volume.
- Improved professional experience / efficiency.
- Attractive ROI.
- Important recruiting chit for attracting prospective surgeons.
- A tool for professional collaboration – clinical and business.
- Managed Care will drive spine to lower cost setting.

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Integrate Spine in 5 Steps

1. Financial assessment & ROI model
2. Thorough review of Clinical Practice
 - Do surgeons have the cases?
 - Are relevant procedures being performed as outpatient in hospital?
3. Consider payer & benefit plan mix
 - Medicare, Workers Comp., HMO, PPO
4. Capital start-up costs: equipment, instrumentation
5. Case costing: average reimbursement per procedure

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1. ROI Analysis– Business

- Financial model adding roughly 75 spine cases per spine surgeon to existing orthopedic ASC
 - Capture pain procedures... legally
- Figure an average of 200k in capital equipment investment to add spine specialty to existing orthopedic ASC
- Build 2nd model adding neurosurgeons
- Overnight stays allowed?

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1. ROI Analysis– Business

3 OR 1 Procedure Room Orthopedic ASC

- 3,000 outpatient ortho cases
- 2,000 outpatient pain cases
- 2 million debt
- 10,000 square ft at \$22

Add 225 spine cases (3 spine surgeons)

- Margin Increase of 5%
- Profit Increase of 600k
- See Handout

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2. Clinical Practice

- Identify cases appropriate for ASC setting
- Does MD perform outpatient spine at hospital currently?
- Does patient need to remain overnight at hospital or does MD simply use this option due to ease?
- Anesthesia
- Start slowly and ramp up volume considerably
- 7:30 a.m. spine start
 - ACDFs always go first

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3. Contracting

- Concerns?
 - No groupers (not Medicare ASC approved)
 - Hospitals set the community pricing standards
 - Understand hospital reimbursements
 - In network vs. out of network
 - In network presents problem
 - Out of network increases leverage
 - Implants, Stimulators
- Opportunities?
 - Substantial procedural savings (Implants??)
 - Lower infection rates
 - No overnight stay
 - Bundled Payments?

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4. Capital Requirements

Mayfield Head Piece	1	\$13,000
Wilson Frames	1	\$7,500
C-Arms	1	\$140,000
K-ray aprons	6	\$1,275
Mobile Apron Rack	1	\$439
Extended Stay Stretchers	2	\$8,000
Video Tower	1	\$40,000
3 view recessed x-ray box (2 per room)	2	\$690
Recliners	2	\$3,000
Cervical retractor	1	\$17,500
ACDF Instruments	2 sets	\$19,000
Lumbar Laminectomy Instruments	2 sets	\$18,000
Basic Neuro Instruments	3 sets	\$14,000
Lumbar retractor	1	\$6,000
Microscope (refurbished)	1	\$60,000 - \$140,000
Bipolar Cautery	1	\$10,000
Headlights	1	\$5,000
Minimally Invasive Spine Surgery Instrumentation, Dilators and Disposables	1 set	\$35,000
Cervical Implants & Instrumentation	multiple sizes	n/a
ADONIS PAIN		
Pain Table (refurbished)	1	\$15,000
Radio Frequency Generator (Pain)	1	\$35,000
SUBTOTAL		\$388,400
SALES TAX ADDED	6%	\$23,304
SHIPPING CHARGES	6%	\$19,420
TOTAL EQUIPMENT		\$431,124

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5. Case Costing

- Record supply expense for each case
- Calculate your average cost per OR minute using all expenses except supplies
 - \$18 per minute average?
- Match reimbursement for case to determine net profit per case and sort by payer
- Identify opportunities to standardize or enhance “best practice”
- Review monthly

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Questions?



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