STRATEGIC RESPONSES TO DRAMATIC CHANGES THAT EVERY ASC IS FACING

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PAST: THE GOOD TIMES

- ASC business was booming for years;
- Many ASCs were making a fortune with no end in sight;
- Volume practically guaranteed profitability;
- Out of Network was a legitimate & in many ways risk-free choice as ASCs routinely rejected or dropped managed care contracts;
- Start ups had easy access to funding from a variety of sources;
- Doctors controlled referrals;
- Largest ASC owners went public – and others planned to; and
- High multiples were paid to purchase a controlling interest in ASCs.

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These Days Are Gone

TODAY: UNCERTAINTY

- ASC industry is under an aggressive attack;
- Opportunities to take ASC companies public have disappeared & public companies have gone private;
- Development projects are being cancelled or postponed;
- Continuous downward pressure on reimbursements;
- Managed care networks are refusing to add new ASCs;
- Enormous regulatory challenges;
- Credit is difficult to obtain; and
- Overbuilding & underutilization is no longer an option.

CHALLENGES JEOPARDIZING YOUR BOTTOM LINE

- Continued downward pressure on reimbursements;
  - Overall decline in Medicare reimbursements for certain specialties
  - Adoption of internal fee schedules by insurance carriers
  - Implementation/reduction of workers' comp & no fault fee schedules
  - Insurance caps on patient benefits
- Insurance carriers offering incentives to physicians to perform certain procedures in their office & avoid utilizing an ASC or hospital;
- Insurance carriers tossing surgeons out of insurance networks for utilizing non-contracted ASCs; and
  - *e.g.* Medical Mutual of Ohio & BCBS of New Jersey
  - Likely to result in additional case flight from ASCs
- Looming healthcare reform threatening the viability of commercial insurance.

DOWNWARD PRESSURE ON REIMBURSEMENTS

- Workers' comp fee schedules;
  - States are shifting away from paying a % of charges & are adopting fee schedules based on Medicare rates
    - *e.g.* California (125% of Medicare) & Maryland (127% of Medicare)
  - In 2004, knee scopes in California were reduced by 86% from ~$17,000 to $2,296
- No Fault (PIP) fee schedules; and
  - In August 2009, New Jersey implemented a fee schedule slashing reimbursements by more than 80%
- Caps on reimbursements to non-contracted ASCs.
  - Blue Cross of California $380
  - Blue Cross Blue Shield of Kansas City $200

DECLINE IN MEDICARE PAYMENTS

Payment Changes
Highest Volume ASC Procedures

Specialty	CPT	Procedure	2009 Rate	2008 Rate	% Change
Ophthalmology	66984	Cataract	$ 965	$ 977	-1%
GI	43239	Upper GI	$ 392	$ 423	-8%
GI	45378	Diagnostic Colonoscopy	$ 399	$ 426	-7%
Ophthalmology	66821	After cataract laser surgery	$ 259	$ 288	-11%
GI	45380	Colonoscopy biopsy	$ 399	$ 426	-7%
GI	45385	Lesion removal colonoscopy	$ 399	$ 426	-7%
Pain	62311	Inject spine l/s	$ 307	$ 323	-5%
Pain	64483	Inject foramen epidural l/s	$ 307	$ 323	-5%
Pain	64476	Inject paravertebral l/s add-on	$ 213	$ 274	-29%

ADOPTION OF INTERNAL FEE SCHEDULES

- Certain insurance carriers apply internal "artificial" fee schedules to claims submitted by out-of-network ASCs.
- In Fall 2005, BCBS of New Jersey began reimbursing certain out-of-network ASCs based on an internal fee schedule equivalent to about 5% of UCR charges.

	Knee Scope
Medicare	$1,031
BCBS NJ – Contracted Rate	$1,335
BCBS NJ – Out-of-Network Policy Subject to Artificial Fee Schedule	$787
BCBS NJ – Good Out-of-Network Policy	$12,744

STEPS TO DEVELOPING STRATEGIC RESPONSES

- COMPILE: Gather data on critical aspects of business
- ANALYZE: Use reports to focus on key areas
- RESPOND: Use flexible approach to maximize revenue & minimize expense

COMPILING DATA BEGINS AT THE ONSET OF A PROJECT

- Focus on revenue and expense data (actual v. budgeted)
- Research & analyze critical variables
  - Who are the dominant insurance carriers?
  - Are they allowing new ASCs to contract with their insurance networks?
  - Will they give the ASC a fair contract?
  - Is there a workers' comp fee schedule?
  - Is there a PIP/No Fault fee schedule?
  - What is the anticipated payor mix?
  - How much can you expect to collect based on your anticipated procedure mix?
  - How many doctors will utilize the ASC & do you have verifiable volume & payor mix information showing expected reimbursement figures?

COMPILE TO DETERMINE FEASIBILITY

- Detailed & accurate forecasts can persuade lenders & partners that the project is viable.
- Credit is hard to come by.
  - Personal guaranties are a standard requirement;
  - Higher equity; and
  - Higher rates with shorter terms.
- Comprehensive financial model is critical not only for investment purposes, but for planning purposes as well.
  - Determine # of ORs needed by calculating the breakeven point, capital requirements, debt requirements, & equipment costs.

COMPILE & ANALYZE: REVENUE

- Once an ASC is open, stay ahead of the curve & identify trends before they affect your bottom line.
- Run a variety of utilization reports on a monthly & quarterly basis.
  - Volume;
  - Billings;
  - Collections; and
  - Collection percentages.
- Break down the data on multiple levels:
  - Payor;
  - Specialty;
  - Procedure; &
  - Surgeon.

ANALYZE: REVENUE

- Once you have the data, what are you going to do with it?
- What to look for? Prepare customized reports showing:
  - Trends
    - Track seasonal trends (e.g. surgeon vacations, volume dips, etc.);
    - Slow paying payors; and
    - Track physician utilization.
  - Watch profit drivers
    - Track reimbursements by procedure, payor, physician, etc.; and
    - Identify delays between dates of service and bill date.
  - Avoid profit pitfalls
    - Track & decline insurance policy pre-fixes that underpay; and
    - Avoid high cost procedures with low reimbursements.

ANALYZE EXPENSES: CASE COSTING

- How do you really know you are not losing money on a case?
- Complete case costing is critical
  - By specialty;
  - By payor;
  - By procedure; and
  - By surgeon.
- Compare costs of procedures by surgeons
  - Utilize past data to determine the criteria for accepting future cases.
  - Without interfering in medical judgment, understand why one surgeon is using 11 anchors on a shoulder case while another surgeon only uses an average of 3.
- Know your contracts & educate your staff & surgeons
  - Are you reimbursed for hardware?
  - Can you renegotiate your contract for more favorable terms?

RESPOND: REDUCE EXPENSES

What are your biggest expenses?

- Rent
  - Can you renegotiate your lease for more favorable terms?
- Staffing
  - Can you flex staff?
  - Can you utilize per diems?
  - Is every position absolutely necessary?
- Supplies
  - Are you negotiating the best rates? Consider a GPO.
  - Do you order based on the whim of physicians or do you consolidate like type items?

RESPOND: REDUCE EXPENSES (Cont.)

- Management fees
  - Can you renegotiate the fee?
  - Is your management company performing?
  - Are you bearing costs that are the responsibility of the management company?
  - What are they doing to combat the attack on your ASC?
  - Are there certain management functions that you can bring in-house?
- Outsourced billing fees
  - Can you renegotiate the fee?
  - Are they collecting as much as they can?
  - Do they stay abreast of the changes in the regulatory & insurance markets?
  - Are they successful at appealing underpaid claims?
  - When your collections drop, what are they doing about it?

RESPOND: UTILIZE REPORTS

- Determine whether your ASC's surgeon & specialty mix is still appropriate;
- Explore adding new specialties & surgeons; and
  - Identify specialties & procedures through data analysis that will positively impact your bottom line.
- Meet with surgeons to:
  - Share the results of the data analysis; and
  - Stimulate volume.

RESPOND: UTILIZE REPORTS (Cont.)

- Luxuries are no longer viable in this economic environment.
- Are your staffing levels lean & warranted?
- What can you do to improve scheduling & OR turnover times?
- Increasing volume is not necessarily the answer.
  - Educate your staff & physicians;
  - Evaluate case mix and payor mix to determine which cases to avoid & which cases to pursue; and
  - Drop unprofitable payor contracts.

CONCLUSION

- Everything is on the table.
  - Review your top 5 expenses to determine whether any can be reduced.
  - Explore whether it makes sense to bring outsourced services in-house.
- Even drastic measures must be considered: Consolidation.
  - With reimbursement pressures & a declining supply of unaffiliated surgeons, consider a merger instead of competing with nearby ASCs.
- A strategic comprehensive approach is required to combat the challenges ASCs are facing.
- Flexibility & quick responses differentiate ASCs.
- Don’t just sit back & watch your profits dwindle.
- Be proactive.