Specialty Hospitals
Preparing Now for Future Changes in the Healthcare Landscape

J. Robert Wyatt MD, MBA
System Chief Medical Officer, Managing Director
Forest Park System

- Family of hospitals with a common management company and shared services infrastructure
  - All owned (70% or more) and governed by the local physicians
  - Dallas, Frisco, and Southlake hospitals are operational
  - Fort Worth, San Antonio, and Austin hospitals are under construction and will open in 2014
Unique Circumstances

- We are unable to meet the ACA’s Whole Hospital Exception, so our physician investors are prohibited from referring their Medicare and Medicare patients and the Hospitals are prohibited from billing for such prohibited referrals.

- Physicians are not prohibited from referring their private pay and privately insured patients.

- Since the law prohibits us from accepting Medicare and Medicaid, our future success depends on alignment strategies with our physicians, patients, employers, and managed care companies.

What Troubles CEOs

Top Five Financial Concerns/Percentage of Respondents

- Medicaid Reimbursement: 69%
- Government Funding Cuts: 61%
- Medicare Reimbursement: 50%
- Bad Debt: 47%
- Decreasing Patient Volume: 61%

Source: American College of Healthcare Executives
What Troubles CEOs
Top Five Safety and Quality Concerns/Percentage of Respondents

- Engaging Physicians in Improving the Culture of Quality: 83%
- Redesigning Care Processes: 81%
- Redesigning Work Environment to Reduce Errors: 72%
- Pay for Performance: 47%
- Public Reporting of Outcomes Data: 40%

Source: American College of Healthcare Executives

Preparing for the Future

- Patient care value
- Adapting to new payment structures
  – Integrated Care Organization (ICO)
- Physician relations
- Managing Growth - building a low cost, high value, flexible and adaptable structure
- Compliance
Patient Care

• Measure and Track Value
• Value = Outcome / Cost
• Crucial for Specialty Hospitals
• Must prove higher value than the “hospital around the corner”

Defining Value

• True outcomes must be measured by medical condition
  – Joint Replacement
  – Cervical and Lumbar Spine disease
  – Other MSK
  – Bariatrics
Outcome Measures

**Breast Cancer**
- Survival rate (1-year, 5-year, 10-year, lifelong)
- Remission
- Functional status
- Breast preservation
- Breast conservation surgery outcomes
- Time to remission
- Time to achieve functional and cosmetic status
- Nociceptor infection
- Neurotoxicity
- Fatigue
- Lovenox
- Breast reconstruction
- Discomfort, complications
- Depression
- Cancer recurrence
- Consequences of recurrence
- Sustainability of functional status
- Incidence of second primary cancers
  - Breast osteoporosis

**Primary Acute Knee Arthritis**
- Mortality rate (inpatient)
- Functional level achieved
- Pain level achieved
- Extent of return to physical activities
- Ability to return to work
- Time to treatment
- Time to return to normal activities
- Time to return to physical activities
- Time to return to work
- Functional recovery
- Ability to return to activities
- Need for remission/operation
- Long-term consequences of therapy (e.g., care-induced illnesses)
- Loss of mobility due to inadequate rehabilitation
- Risk of complications
- Susceptibility to infection
- Unrecognized complication
- Regional pain syndrome

**Dimensions**
- Degree of recovery / health
- Time to recovery or return to normal activities
- Disability of care or treatment process (e.g., treatment-related diarrhoea, complications, adverse effects, diagnostic errors, treatment errors)
- Sustainability of recovery or health over time
- Long-term consequences of therapy (e.g., care-induced illnesses)
Metrics for Major Bariatric Surgery

<table>
<thead>
<tr>
<th></th>
<th>FPMC</th>
<th>COE Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average OR time</td>
<td>80.2 minutes</td>
<td>95.7 minutes</td>
</tr>
<tr>
<td>Average Length of stay</td>
<td>1.8 days</td>
<td>2 days</td>
</tr>
<tr>
<td>Cases Successfully followed up at 30 days</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>Surgical Death Rate</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Resolution of Co-morbidities at 6 months

<table>
<thead>
<tr>
<th></th>
<th>FPMC</th>
<th>COE Benchmark</th>
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</thead>
<tbody>
<tr>
<td>1 or more comorbidities</td>
<td>86.6%</td>
<td>73.7%</td>
</tr>
<tr>
<td>Hypertension</td>
<td>66.8%</td>
<td>41%</td>
</tr>
<tr>
<td>Diabetes</td>
<td>80.1%</td>
<td>54.8%</td>
</tr>
<tr>
<td>Hyperlipidema</td>
<td>76.8%</td>
<td>47.8%</td>
</tr>
<tr>
<td>Sleep Apnea</td>
<td>84.3%</td>
<td>48.9%</td>
</tr>
</tbody>
</table>

Outcomes: Generic

- Press Ganey Satisfaction
  - **Nursing**
    - Friendliness 99th percentile
    - Kept informed and skill level 99th percentile
    - Pain well controlled 99th percentile
  - **Physicians**
    - Courtesy and skill 99th percentile
    - Concern 99th percentile
  - **Hospital Overall**
    - Overall care 99th percentile
    - Recommend hospital 99th percentile
Bundled Pricing

- Preoperative Costs
- Inpatient Costs
- Post-discharge costs
- Costs of warrantee (if any)
Costing

• Four Major Components
  ▪ Direct hospital costs
  ▪ Surgeon(s) and assistants
  ▪ Other professionals (Anesthesia, Radiology, Pathology)
  ▪ Implants

Hospital Costs

• Most complex of the four components
• Staffing
• Resource consumption
• Indirect costs
**Hospital Cost - Staffing**

- Time Derived Activity Based Costing for everyone who “touches” a patient
  - Scheduling
  - Pre-registration
  - Admitting
  - Pre-op/ PACU
  - Clinical Staff
  - Case Management/ discharge planning

**Hospital Cost - Resource Consumption**

- Actual cost of consumables
  - Pharmacy
  - Supplies
- Department cost/ patient
  - Radiology
  - Pulmonary
  - Lab
Hospital Cost - Indirect Cost

• Hospital Administration
  ▪ C-suite
  ▪ Middle Management
  ▪ Staffing
• IT Resources
• Physical Plant

Surgeons

• Negotiated flat fees for range of procedures – CPT codes/ DRGs – based on existing market rates

• Included assistants
Anesthesia and Other Professional Fees

- Flat rates per case
  - Anesthesia
  - Radiology
  - Pathology

Implants

- Negotiated pricing with specific vendors
- Physicians were essential
Specific Joint Replacement Metrics

<table>
<thead>
<tr>
<th>CLINICAL</th>
<th>OPERATIONAL</th>
<th>FINANCIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complication Rate</td>
<td>Case Volume</td>
<td>Contribution Margin</td>
</tr>
<tr>
<td>- Surgical Site Infection</td>
<td>Length of Stay</td>
<td>- Direct Costs</td>
</tr>
<tr>
<td>- Urinary Tract Infection</td>
<td>DischargeDisposition</td>
<td>- Implant Costs</td>
</tr>
<tr>
<td>- PE Rate</td>
<td>- % Home</td>
<td>Reimbursement</td>
</tr>
<tr>
<td>- DVT Rate</td>
<td>- % Subacute</td>
<td>- % Commercial Insurance</td>
</tr>
<tr>
<td>- Hematoma</td>
<td>- % Acute Rehab</td>
<td>- % Other</td>
</tr>
<tr>
<td>- Blood Transfusions</td>
<td>- % Other</td>
<td></td>
</tr>
<tr>
<td>Readmission Rate</td>
<td></td>
<td></td>
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<table>
<thead>
<tr>
<th>OPERATING ROOM</th>
<th>SATISFACTION</th>
<th>FUNCTIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration Accuracy</td>
<td>Overall Satisfaction</td>
<td>SF = WOMAC</td>
</tr>
<tr>
<td>Prep Time</td>
<td>Likelihood to Recommend</td>
<td>Knee Society</td>
</tr>
<tr>
<td>Surgery Time</td>
<td></td>
<td>Harris Hip</td>
</tr>
<tr>
<td>Exit Time</td>
<td></td>
<td></td>
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<tr>
<td>PACU Time</td>
<td></td>
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Specific Joint Replacement Metrics

- Duration Accuracy
- Prep Time
- Surgery Time
- Exit Time
- PACU Time
## Managing Growth and Change

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## Health Care Providers (and all other enterprises) Need Two Different Cost Systems

<table>
<thead>
<tr>
<th></th>
<th>Departmental Costing and P&amp;L System</th>
<th>Time-Driven ABC System</th>
</tr>
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<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Measure Short-Term Departmental Performance, Monitor and Control Spending</td>
<td>Measure patient costs across multiple departments over a complete cycle of care</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Monthly, perhaps weekly</td>
<td>Annually, or upon changes in care process delivery</td>
</tr>
<tr>
<td><strong>Unit of Analysis</strong></td>
<td>Departments, Cost and Responsibility Centers</td>
<td>Medical condition; Individual Patients</td>
</tr>
<tr>
<td><strong>Cost Measurement</strong></td>
<td>Actual spending and expenses</td>
<td>Standard or Budgeted costs</td>
</tr>
<tr>
<td><strong>Cost Assumption</strong></td>
<td>Mostly fixed; Measures the costs of supplying resources; flexible budget for costs that vary with volume and mix</td>
<td>Long-term variable; Measures the costs of using resources. Separates the cost of used and unused resource capacity.</td>
</tr>
<tr>
<td><strong>Subjectivity</strong></td>
<td>None; report actual costs, no estimates or allocations</td>
<td>Considerable; estimates of the quantity and cost of direct (clinical) and indirect resources used in a patient's care cycle</td>
</tr>
</tbody>
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