



Benefits of Converting an ASC to an HOPD

Economics explain why more surgeons and hospitals are joining forces.

Many surgery center owners who thought their hospital days were behind them are now doubling back to the institutions they walked—and sometimes ran — away from to form joint ventures. These physician-hospital partnerships are largely matters of circumstance, not choice, driven by reimbursement and regulatory pressures on ASCs. As you'll see, though, life isn't so bad for ASCs that morph into hospital outpatient departments when you consider the benefits that they enjoy.

1 Economies of scale. Perhaps the biggest benefit an ASC can gain through its partnership with a hospital is the economies of scale from sharing operations. The greater purchasing power and leverage a hospital can bring to bear on medical equipment will slim down your supply budget.

There are also economies of scale involving real estate, especially in the case of startup ASCs. A hospital partner might deliver an in-kind capital contribution to a venture in the form of real estate to be used in the development and operation of the ASC. In situations where this type of contribution isn't avail-

able, a hospital's presence may help the venture secure more financing and lower interest rates than the physicians would be able to obtain on their own.

What might be of particular interest to physicians planning an ASC is the fact that many hospitals are currently suffering

underutilization of their physical plants. With so many services gravitating to freestanding facilities, some hospitals have existing space — namely, underutilized ORs and procedure rooms — that could be readily adapted for use in a properly structured hospital-physician joint venture. The availability of such resources can result in significant savings with regard to startup costs and time.

2 Contracted services. ASCs can contract with the hospital for such services as pathology, imaging and information technology systems (including electronic medical records), as well as the specialists supporting these services. The hospital might naturally be inclined to provide contracted services to the ASC at a discount, but be careful. The price paid for such services can't be less than the fair market value, or else the arrangement may violate federal and state anti-kickback laws. Even at fair market value, the ASC will benefit from contracting the services from the hospital, since the hospital is incentivized to provide only truly essential services.

3 Managed care credentialing. ASCs that decide to participate in a hospital's managed care plan must first be credentialed by that plan.

Credentialing is the process by which an insurance carrier evaluates the background and qualifications of the ASC and its respective physicians, if applicable, before entering into a managed care contract with them. This credentialing is always required, but because the physicians and hospitals who take a joint-venture ASC in-network are often already individually in-network with the carrier, only the ASC is left to be credentialed.

Out-of-network ASCs, on the other hand, don't need to be credentialed in order to bill a carrier for out-of-network benefits. It's quite common among out-



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Why are more and more surgeon-owned ASCs pursuing hospital-physician joint ventures?

of-network ASCs for individual physician-investors to participate in a managed care plan at their private practices and for the hospital partner to do the same for services performed at the hospital, while their joint-venture ASC remains out-of-network.

There is no legal requirement that physician-investors who are individually in-network take their ASC in-network as well. But such arrangements have recently met harsh resistance from certain carriers, whereby the carriers have begun terminating the managed care contracts of physicians who refer patients to an out-of-network ASC. While the carriers' justifications for terminating individual physicians' contracts have been dubious at best, such action may harm a physician's patient base and pose a business risk to other physician-investors by impacting their ability to refer patients to the ASC.

The hospital partner may face an entirely different problem. While the hospital doesn't refer patients to the ASC, it does typically participate in managed care plans, and the termination of a contract could seriously harm its own reimbursement.

4 Managed care negotiation. ASCs that go in-network forfeit the higher reimbursement rates they earn by billing a carrier under a patient's out-of-network benefits in exchange for a higher volume of patients. For an ASC that ultimately makes this transition, the level of reimbursement that it obtains under the managed care contract is critical to its success. Don't simply agree to a carrier's standard managed care contract. To maximize the benefits of going in-network, an ASC must be ready to negotiate.

A hospital partner's leverage may help here. Because the hospital likely already participates in managed care plans, it usually has longstanding relationships with those serving its geographic area. These relationships can make a big difference in securing better reimbursement rates, as long as the hospital part-

ner is a willing participant in the contract negotiations. In advance of the negotiations, the ASC should consider the following suggestions:

- **Ask for carveouts for high-volume procedures.** Depending on the specialties that make up the bulk of your case mix, you may be able to negotiate a separate fee schedule from the standard and customary facility fees for surgeries that use special implants or are more expensive. Carveouts are usually arranged for orthopedic procedures, but they may also apply to GI or urology cases.

- **Avoid "most favored nation" clauses.** Each carrier's managed care contract should stand on its own. Don't agree to a provision that lets a carrier adjust its reimbursement rates down if you should negotiate lesser rates with another carrier.

- **Ask for "preferred" status.** If your ASC stands out from the crowd, that should earn you higher rates than the rest. Bring your advantages to the table — your physicians' unique qualifications, the breadth of your services, the size of your center, your geographic location, the quality of your care — and request special consideration.

Changing landscape

Perhaps the most compelling reason to pursue a hospital-physician joint venture is the simple fact that the model for delivering health care is, without question, going to continue to change drastically in the coming years. Lower reimbursements will be a certainty, and cost containment and efficiency will be a necessity. Hospitals and physicians need to begin discussions now on joining forces in the future to deliver care to the communities they serve. **OSM**

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