The Evolution of ASC Joint Ventures: Key Trends for Value-Based Care
As healthcare moves toward value-based care and risk-sharing payment models, hospitals are more interested than ever in joint venture ambulatory surgery centers. Physician-owned and operated ASCs are often more efficient than hospital outpatient departments and provide a higher quality of care at lower costs because they’ve been forced to operate on lower margins for the past several years.

Now, they’re looking for hospital partners as well to leverage managed care contract rates. Traditionally, hospital executives and ASC physician owners have had an adversarial relationship, and some of these tensions remain even as healthcare moves toward more collaborative models of care. But there are a few key trends in the industry indicating the barrier between hospitals and ASCs may be coming down:

1. Hospital executives are more willing to allow employed physicians to own interest in a joint venture ASC;

2. Markets that were traditionally tough for ASCs to break through are suddenly a hotbed for joint venture ASC activity.

“Even three years ago, hospitals weren’t allowing employed physicians to operate at ASCs or have ownership in joint venture centers,” says Regent Surgical Health CEO Thomas Mallon. “But now hospitals are seeing it’s hard to recruit and keep good surgeons, and the ability to own interest in the ASC or obtain extra cash flow from the surgery center is attractive to new recruits, whether they’re experienced physicians in the market or those just coming out of residency. That’s the biggest change we’ve seen.”

Payers are driving cases into the outpatient setting whenever possible to lower costs, and hospital executives want to make sure those cases at least stay within their system. As spine surgeries and joint replacements are going into the outpatient setting, hospital ORs are freed-up for even bigger cases that make more sense for the inpatient setting, both clinically and financially.

This becomes especially important when hospitals become risk-bearing entities through accountable care organizations, bundled payments, narrow networks and even becoming an insurance company.

“With hospitals now in the business of taking risk, whether that risk be a capitated project for the fixed population through the Blue Cross insurance plan or making their own insurance plans and selling them to self-funded employers, their goal now is to get the care in the lowest possible cost and highest possible quality setting,” says Mr. Mallon. “For outpatient surgery, that’s the ASC. If they have employed physicians and a huge capitated population, they want the employed physicians to do as many cases as possible in the low cost, high quality setting.”

Physicians prefer the ASC as well for several reasons, including efficiency. Since room turnover is quicker, physicians can do more cases at the ASC in the same time period than they could at the hospital, and then...
Physicians need to lead the change or the ASC won’t figure it out. If you don’t have highly-motivated physicians who can give direction for efficiency and cost-savings, the ASC won’t be effective.

have more time to see patients at their clinic. There are also fewer complications at ASCs since patients are generally healthy beyond their need for elective surgery.

These trends are catching on even in traditionally difficult markets, such as New York, Connecticut and other southeastern states with certificate-of-need laws that kept physician-owned ASCs at bay for years. And the hospitals are realizing the need for physician partners.

“Without the physicians, there isn’t any efficiency,” says Mr. Mallon. “Physicians need to lead the charge or the ASC won’t figure it out. If you don’t have highly-motivated physicians who can give direction for efficiency and cost-savings, the ASC won’t be effective. That’s why hospitals have difficulty owning and managing centers 100 percent, because even when physicians are employed, they will tweak operations to show who is really in charge. That’s part of the mistrust between physicians and hospitals.”

In the past year, more hospitals have reached out to physicians and ASC companies to co-own centers in CON states, and there are many more in the works. Hospitals historically have balked at co-owning centers because they didn’t want to share profits on cases with another party; why would they send procedures out of the inpatient hospital where they’re reimbursed more and receive 100 percent of the reimbursement to outpatient centers where they make less per case and receive a fraction of the reimbursement?

Because healthcare is changing, and strategy is changing along with it.

“We are seeing more and more hospital administrators saying forget the loss we will experience with only owning part of the ASC; we’re going to experience that anyway,” says Mr. Mallon. “They are changing their mindset and looking at empty beds in the hospital as a good thing as opposed to thinking a full hospital is a good thing. With the full hospital, you have every patient inpatient, and that’s not a positive trend.”

Beyond just the ambulatory surgery centers, hospitals are looking to create entire ambulatory care campuses encompassing ASCs as well as imaging, physical therapy and other outpatient services. The hospitals are either employing those services or partnering with successful independent groups in the community to provide care on those campuses.

“We see our skill in administering multiple partnerships over a geography being beneficial for hospitals in the future,” says Mr. Mallon. “We believe we have the boots on the ground to deliver the care better, faster and cheaper. We think we’ll be in the business of creating ambulatory care centers and campuses within the next year, looking toward the local community with the best quality provider in each service area to provide care.”

Healthcare reform marches on — 5 key observations for 2015 & beyond

Healthcare reform had a rocky first five years, and the next five are equally uncertain in today’s political landscape. Here are five key observations on how future healthcare reform implementation could impact ambulatory surgery centers.

1. The cost containment counsel will convene for the first time. The counsel charged with making recommendations on Medicare payments — with the
goal of eliminating waste and overspending — will convene for the first time next year. For the first two years, the counsel can only make changes to physician and ancillary reimbursement as well as drug costs; after 2018, the counsel can also focus on hospitals.

“We don’t know who will be on the counsel and there is no direct Congressional oversight,” says Mr. Mallon. “We are exposed to their decision-making, but we don’t know who they are or how they will impact reimbursement.”

Hospitals receive around $0.40 for every healthcare dollar Medicare spends; ASCs are just 2 percent of Medicare spend. “What they do to us in cutting costs will not be hugely material,” says Mr. Mallon.

2. Hospitals will continue to acquire physician practices for the next five years. For the past few years, hospitals have been acquiring physician practices at a high rate as healthcare reform went into effect.

“In anticipation of what healthcare reform will look like, more than what reality may or may not occur, hospitals have acquired physician practices,” says Jeffrey Simmons, CDO of Regent Surgical Health. “There are physicians who heretofore were not interested in relationships with hospitals, but now they are partnering because they’re afraid they’ll be left out otherwise.”

But many of the original contracts will come due, and some employed physicians won’t renew their contracts. “There will be some who come back into the independent market, but that will be difficult because they don’t have their former Medicare numbers or payer contracts,” says Mr. Mallon.

3. The Supreme Court and/or a new president could make significant changes to the current healthcare legislation. A decision is expected late spring in the King vs. Burwell case challenging federal subsidies for the health insurance exchanges, which could dismantle a huge portion of the ACA and have a negative ripple effect across the industry. A Republican — or even a new Democrat — as president could also make changes healthcare reform’s current trajectory.

“The good news is, ASCs still represent a strong value for Medicare and Medicaid systems,” says Mr. Mallon. “We are less at risk than the high cost academic medical centers or high cost regional health systems.”

4. Physicians in specialties that can be independent likely will remain so. Five years ago, many cardiologists were independent, but the independent practice became unsustainable today because professional fee reimbursements were cut so significantly. Could other specialists suffer the same fate?

“A mistake was made in a cost study for Medicare reimbursement for physician-owned cath labs and various tests cardiologists owned that enabled them to stay independent despite their professional fees being fairly low,” says Mr. Mallon. “That’s what pushed the cardiologists into a hospital-employed mode. Unless the cost-containment panel does something similar to orthopedic surgeons or ENT physicians, the groups that want to be employed have already done their deals and the rest want to remain independent as long as they can.”

5. ASCs could be part of accountable care organizations in the future. ACOs are still in their infancy in most markets, but the focus on improving quality and lowering costs could make them, or similar initiatives, more pervasive. ASCs could align with hospitals or large medical practice groups that have risk contracts under the new health plans.

“If more ACOs come to fruition, I see ASCs having exclusive relationships with large medical groups that would have ownership or exclusive contracts,” says Mr.
Simmons. Currently, however, Regent centers haven’t been hugely impacted by narrow networks or ACOs.

5 key trends in hospital/physician joint venture ASCs — And how to make sure yours is successful

Ambulatory surgery center joint ventures with hospitals and health systems is a huge opportunity as the healthcare system encourages collaboration to provide the best quality care at the lowest cost.

For the past 12 years, Regent Surgical Health has perfected a three-way hospital-physician-management company joint venture ASC. At the Becker’s Hospital Review 6th Annual Meeting, Mr. Mallon and Mr. Simmons gave a presentation titled “How to Structure a Hospital/Physician ASC Partnership the Right Way.”

Under Regent’s typical ownership model, the hospital and management company together own the majority share of the ASC, while the physicians together own a larger percentage than either the hospital or management company individually. This model has been successful, and Mr. Simmons sees the model continuing to grow.

“In the past, we’ve seen hospital-physician joint venture ASCs have issues because hospitals wanted to control the operations,” said Mr. Simmons. “It’s different today. Hospitals are willing to partner with physicians. Around four out of every five hospitals we talk to are willing to work with physicians.”

Five key trends Mr. Simmons sees in the market include:

1. There are 70 percent of ASCs in the market today that are single physician-owned centers; that number will likely fall significantly over the next five years.

2. In the next five years, there will be a significant movement toward hospitals entering into joint ventures with ASCs, eventually acquiring them.

3. The number of Medicare-certified ASCs has been flat, which will likely continue.

4. Hospitals that need to save as they take on more risk will want to embrace the ASC joint venture strategy instead of performing cases in the hospital’s outpatient department.

5. Out-of-network opportunities for ASCs are dwindling, and affiliating with a healthcare system can help ASCs access patients who are fully contracted.

Regent conducted a survey on why physicians want to have their own ASCs and what motivates them. Financial returns weren’t at the top of the list; the most important reason was control followed by efficiency and then economic return.

“Create a business model that allows the physician to have control and achieve better reimbursement,” said Mr. Simmons. “Under the arrangement, hospitals can contract for the ASC even though the hospital owns less than 100 percent.”

The ASC physician partners can also look for hospital partners that will leverage their contracting power. Without that leverage, the ASC isn’t going to be successful.

Another important issue to consider is the board of directors. At Regent joint venture centers, physician owners typically have four seats on the board and hospital representatives have two seats; Regent has one seat. Typically, Regent asks hospital executives to fill seats on the ASC’s board.

“Don’t make the joint venture ASC be the hospital’s first joint venture,” said Mr. Simmons. “You want the
hospital to have a past relationship, even if it’s an MRI partnership. Then they are familiar with negotiating with physicians.”

How to go “All-In” with ASC joint ventures — And make sure your partner is too

There is a huge opportunity for physicians to partner with hospitals on joint venture ambulatory surgery centers today.

But not every partnership is a good match. Both sides want to make sure their partner is “all-in” for the center’s success. Here are three key qualities for hospital systems to look for in their physician partners:

• Willingness to make a financial investment in the center
• Maximum facility usage for appropriate cases
• Willingness to save money on physician preference items

“If it’s the physician’s only surgery center joint venture, the center’s success is extraordinarily critical to their investment,” says Mr. Simmons. “If it’s their second or third ASC, then they’re doing it for political reasons and you have to question their commitment and whether the cases they say they can contribute would be accurate.”

Additionally, the size of the investment is critical. If the surgeon is young and can’t afford a huge investment, that may not be a red flag. However, if the surgeon is more experienced and still wants small ownership, the surgeon is treating the ASC as a stock deal which could lose money.

“How to go ‘All-In’ with ASC joint ventures — And make sure your partner is too

For physicians, three key qualities to look for in hospital partners are:

• Hospitals that already have partnerships with physicians
• Willingness to give physicians operational control
• Hospitals with strong market positions

“One red flag for physicians is hospitals that have lawyers on the front line of business decisions. “Working with lawyers is a necessary part of making the transaction happen, but it has to make good personal and strategic sense, and then the lawyers can make sure it makes legal sense,” says Mr. Mallon. “The physicians should control the day-to-day environment they work in and the hospital has to control the ASC from a financial standpoint so they can contract for the facility.”

As more higher-acuity cases are going to the outpatient setting — including total joint replacements —
joint venture ASCs will make sense for hospitals. This is especially true for hospitals with risk-sharing agreements or their own health plans.

“It’s hard for the hospital to agree with allowing higher acuity cases into the ASC where it pays less, but if the hospital has its own health plan or assumes risk, they’ll want patients in the low-cost venue,” says Mr. Mallon.

Consider why the hospital is entering into the partnership: is it for strategic gain in the future or are payers pushing them in that direction? Is the partnership an offensive or defensive move? “Hospitals that are truly interested in partnerships for the future produce the most successful ASC joint ventures,” says Mr. Simmons. “You can just ask them directly to figure out where the CEO is at. If the CEO doesn’t want the partnership to occur, you’re never going to be successful.”

Developing the trust necessary to become business partners may be difficult for some physicians and hospital executives, especially if the two groups have an adversarial past.

But bringing everyone together toward one goal—the ASC’s success—can be beneficial for both parties. Additionally, ASC boards that include both physician owners and hospital executives bring the two groups together and give physicians an audience with their hospital executives, which is extremely valuable.

“Most board members are physicians in our ASCs,” says Mr. Simmons. “We look for key physicians with larger practices to take leadership positions on the quality and management side. They add tremendous value to the center and the physicians also control most of the votes on the board.”

“The physicians can become good partners by working with the hospital executives to grow the ASC. To become even deeper partners, physicians can:

- Bring more inpatient work to their partnership hospital
- Give up unused block time for potential new partners
- Take call hours at the hospital
- Serve on additional leadership committees for inpatient departments

The physician partners can also be valuable in recruiting future partners. While administrative leadership can compile statistics and facts about new potential partners and forecast how they would impact the ASC, current partners will know whether the surgeon is actually busy and produces quality outcomes.

“Most of the time they also know the surgeon’s personality,” says Mr. Simmons. “Once we’re open and we get used to a certain way we operate, there is a pace to the decision-making and culture we like to instill. We want the physicians to fit that culture.”

Hospitals can become better partners by allowing employed physicians to perform cases at the center. “Hospitals are already getting revenue from those physicians because they’re employed, and they can use the ASC as a recruitment tool,” says Mr. Simmons. “Physicians like the ASC because they can get in and out quicker.”