Enhancing Clinical and Financial Continuity

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Empowering Healthcare

Stipends Strengthen Hospital-Anesthesiologist Partnership

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Anesthesia groups and hospitals are finding they must align more closely than ever in today's unforgiving healthcare environment to ensure continuity of care, operational efficiency and shared financial risk. For a growing number of organizations, these mutually beneficial goals are being achieved through an annual subsidy, or stipend, paid to the anesthesia practice by the hospital or its affiliated entities.

Properly constructed, subsidies benefit both parties. Additional cash helps the physician group defray rising expenses and the costs associated with expanded coverage. The hospital benefits by knowing that anesthesia coverage is consistently available and of high quality.

Few doubt that stipends improve clinical continuity and financial stability, yet determining an appropriate subsidy can be complex. A detailed understanding of the physician group's financial condition, staffing patterns and collection capabilities, along with data about the hospital's current and future anesthesia service requirements, are just some of the elements required to accurately formulate an equitable stipend amount.

A Range of Benefits

The methodology for calculating an appropriate subsidy is known as a subsidy verification assessment and is a prerequisite to any subsidy negotiation. In large part, this effort entails examining all relevant data to determine how to optimize the practice's revenue and minimize expenses. Once this analysis is complete, a mutually acceptable subsidy can be assigned.

As with the subsidies themselves, subsidy verification benefits both the anesthesia practice and the hospital. Physicians gain the empirical data needed either to negotiate a new subsidy or boost an existing one. For the hospital, subsidy verification represents the only legitimate way to ensure that the amount paid to the practice is appropriate given the hospital's anesthesia service requirements.

Beyond the peace of mind that comes with knowing that the subsidy amount is fair, the verification process can also serve to help illuminate key structural impediments, including collection problems, inaccurate documentation and coding of services, inappropriate staffing levels and inefficient operating room utilization. Once identified, these issues can be addressed and resolved. In addition, strategic planning tools, such as revenue projection and utilization models, are created and can be used to adjust staffing and stipends in response to future expansions or contractions in service.

Subsidy verification provides a way to objectively assess, refine and streamline the clinical and financial interactions between the hospital and anesthesia group. The net outcome, improved operational and economic efficiency, serves the long-term interests of both parties.

Physician Shortage, Rising Costs Drives Subsidies

Hospitals traditionally have paid subsidies to certain specialty groups to ensure consistent, continuous coverage despite sporadic demand for services. OB-GYN, cardiology, trauma and neurology are specialties where stipends have traditionally existed. Anesthesiology, in contrast, historically has been considered a secondary specialty and an adjunct service to surgeons, the primary source of revenue for most hospitals.

A number of factors have converged in recent years, however, to alter the economic landscape for most anesthesia groups and create the need for additional financial support. Perhaps most importantly, a shortage of anesthesiologists has continued to exert upward pressure on salaries and benefits. Through the 1990s, the assumption that managed care would lead to an overall reduction in operative procedures led to a commensurate decrease in the number of anesthesia residencies and individuals selecting anesthesiology as their specialty.

In fact, demand for services has increased, with one outcome being a chronic shortage of anesthesiologists. A 2004 study by Armin Schubert, M.D., chairman of general anesthesiology at Cleveland Clinic Foundation, found that the national supply of anesthesiologists fell short of demand by 3,870 physicians. As with any shortage, bidding wars have developed for both anesthesiologists and certified registered nurse anesthetists (CRNAs), and salaries have moved steadily higher. The proliferation and relative deep pockets of ambulatory surgery centers (ASCs) have further increased demand for anesthesia providers and added to salary pressure.

Along with rising payroll, anesthesia groups – like all physicians – have experienced significant increases in operating expenses, most notably health and malpractice insurance. At the same time, an increase in the number of Medicare, Medicaid and uninsured patients has contributed to a worsening payer mix and falling reimbursements. The deteriorating payer mix has been exacerbated by the emergence of ASCs and their ability to redirect the best-paying patients.

Finally, the long-standing dilemma of maintaining 24-hour anesthesia coverage, despite frequent operating room downtime or inefficient OR throughput, has contributed to higher personnel costs for the physician practice. This situation often is made worse by a proliferation of new services that must be covered with existing staff and resources. New sites and services can include endoscopy suites, interventional radiology, MRI, CT and cardiac catheterization suites.

A Growing Trend

To help compensate for these challenges, a growing number of practices are seeking – and receiving – hospital subsidies. According to a 2005 survey of hospital contracts by the Englewood, Colo.-based Medical Group Management Association (MGMA), 57 percent of hospitals provided some kind of subsidy to anesthesiologists in 2004, up from approximately 50 percent in 2000. Experts say that difficulty recruiting and retaining both anesthesiologists and CRNAs typically is a key factor in compelling practices to seek a subsidy.

Multiple Skills Required to Set Subsidy Level

Whether the physician group or hospital initiates the effort, the first step in pursuing a subsidy arrangement is to identify qualified individuals -- either internally or externally – that are capable of conducting a thorough subsidy verification assessment.

Effective subsidy verification requires analysis and input from a variety of specialists. It is therefore important to retain a team that can deliver the appropriate breadth of expertise. Beyond a background in anesthesia-specific issues, those conducting the verification should be experienced in physician Part B revenue cycle management as well as sub-specialized coding and documentation knowledge. In addition, they should have access to strategic business expertise, specifically MBA and CPA skill sets. If an external vendor is used, the hospital or physician group should clarify the scope of the consulting engagement, including the process that will be followed, overall expectations and the approximate timeframe for completion.

Elements of the Verification Process

Subsidy verification begins with a financial and operational assessment of the physician's current practice. Factors that influence a subsidy level fall into three general categories. In each of these categories, a number of issues must be addressed. Some of the key questions include:

Accounts Receivable Management

- Is the billing office or billing agent optimizing collections for the services billed?
- Are managed care contract rates in accordance with market norms?
- Are payers complying with managed care contract terms?
- What are the payer mix and the average reimbursement per unit?
- What are the average days in accounts receivable?

Documentation, Coding and Compliance

- Are procedure and diagnostic codes being applied correctly?
- Is the group in compliance with both public and private payer regulations and requirements?
- Does the organization have an effective denial management process and reimbursement tracking process to systematically address and remediate incorrect payments and payment denials?

Staffing and Utilization

- How does the group's compensation and benefit package compare to local and regional market norms?
- To what extent does the group rely on overtime or locum tenens physicians and/or nurse anesthetists?
- What is the operating room schedule per anesthetizing location?
- What is the anesthesia staffing for each location?
- What is the most effective anesthesia resource-utilization model?
- What is the average number of hours worked per week per provider?

- What are the current and projected operating room anesthesia utilization levels?

Identifying Systemic Problems

A multidimensional financial snapshot of both the hospital and practice group emerges following a detailed review of each key performance issue. This overall picture, in turn, can provide insight into existing or potential operational deficiencies.

In addition to examining the financial operations of the practice, the utilization patterns and processes in place at the hospital and its satellite care sites must also be evaluated. Frequently, this process uncovers major inefficiencies in the operating room throughput. Because anesthesiologists typically cannot control the surgery schedule, they can be penalized if chronic and lengthy downtime occurs between cases. It is therefore important that the hospital operations be assessed as part of the verification process. When appropriate, deficiencies that reduce staffing efficiencies should be identified.

This analysis can lead to significant shifts in hospital strategy. In one instance, it was determined that a major portion of a hospital's anesthesia subsidy was due to coverage required for the hospital's cardiac service line. Because the hospital was already losing money on its cardiac care, it decided to eliminate the service line by consolidating cardiac cases at a sister hospital. In so doing, the hospital reduced both operational losses and anesthesia subsidy payments.

The Final Number

Once subsidy verification analyses are complete, both the practice and hospital should have a clear understanding of the factors influencing the subsidy level. Those that can be immediately controlled, such as coding or billing shortcomings or OR throughput, become action items for the respective organizations. Depending on the outcome of those efforts, a qualified consultant or internal expert should be able to develop an appropriate stipend amount.

One of the benefits of subsidy verification is the ability to identify the specific subsidy amounts required to support individual service lines. As in the aforementioned cardiac care example, this process can lead to larger strategic service line modifications that benefit the hospital as a whole.

Financial projection and resource-utilization models should be constructed based on the accumulated data. These models can help improve the precision and accuracy of business planning. For example, when a hospital requests that a practice extend anesthesia coverage to a new satellite facility, the practice can run financial and resource-utilization models to determine how much additional staffing will be required to meet demand and whether projected revenue will cover the expense. Depending on the answers, an adjustment in the stipend amount may be necessary.

A Stronger Partnership

Properly conceived and executed, stipends are a vital leveling tool that can boost economic resilience for the anesthesia group and improve the continuity of care for the hospital. The objective analysis at the heart of the subsidy verification process helps ensure that an equitable stipend amount is achieved. The process also provides an effective way to uncover inefficiencies and problems within either the group or hospital operations.

Addressing these shortcomings, establishing a legitimate stipend amount and creating modeling mechanisms that allow both parties to quickly adjust to future expansion or contraction enhances mutual understanding, respect and the working partnership between an anesthesia group and hospital.

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