

Implant Costs: Why Physician Collaboration Makes Sense

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Our Discussion Today

- Discuss how political and economic changes will continue to increase reporting and financial pressure on providers – **Consumer and Financial Challenges**
- Material Management and Administrators working with Physicians to Achieve Excellence in Supply Chain through high dollar supply projects – **Implant Technology and Registries**
- Physician engagement opportunities to improve quality and reduce operational cost – **Physician Collaborative Incentives**

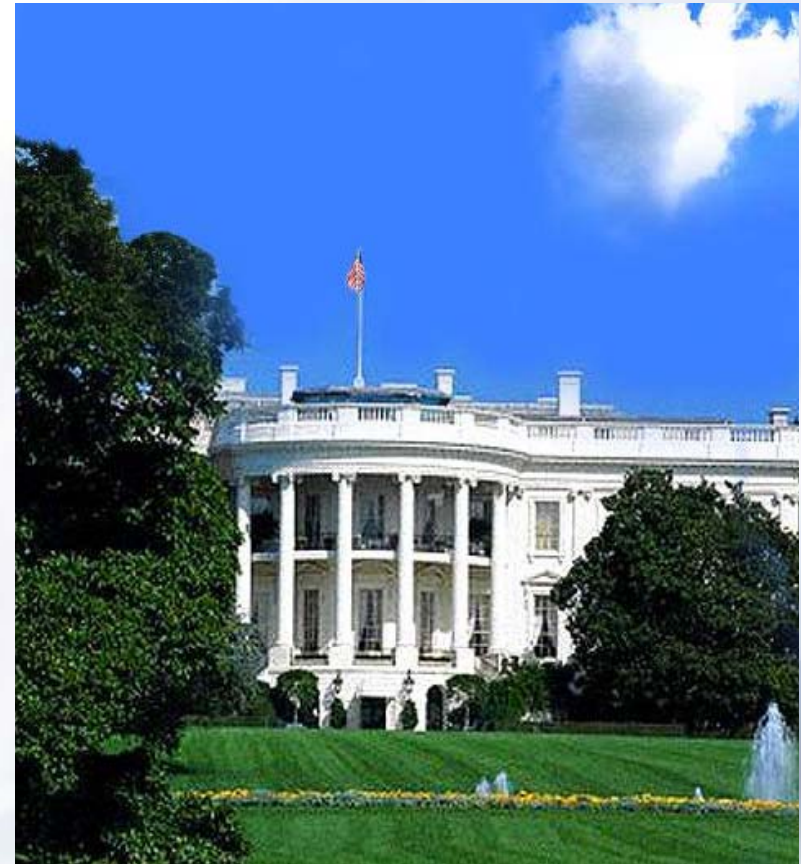


Consumer, Political and Financial Challenges

Healthcare Reform

“Let there be no doubt, healthcare reform cannot wait, it must not wait, and it will not wait another year”

President Barack Obama



Health of Hospitals

Hospitals are ailing due to the economy with data showing:

- Declines in overall admissions and elective procedures
 - 67% saw “some” drop and 6% saw significant drop*
- Significant jump in un-insured patients
 - 8% increase in uncompensated care*
- Losses on investments due to Wall Street turmoil
 - Loss of \$832 million compared to gain of \$396 million a year earlier*
- More expensive to borrow money.
 - Interest paid on borrowed funds in 3rd qtr 2008 jumped by 15% compared to 3rd qtr 2007*

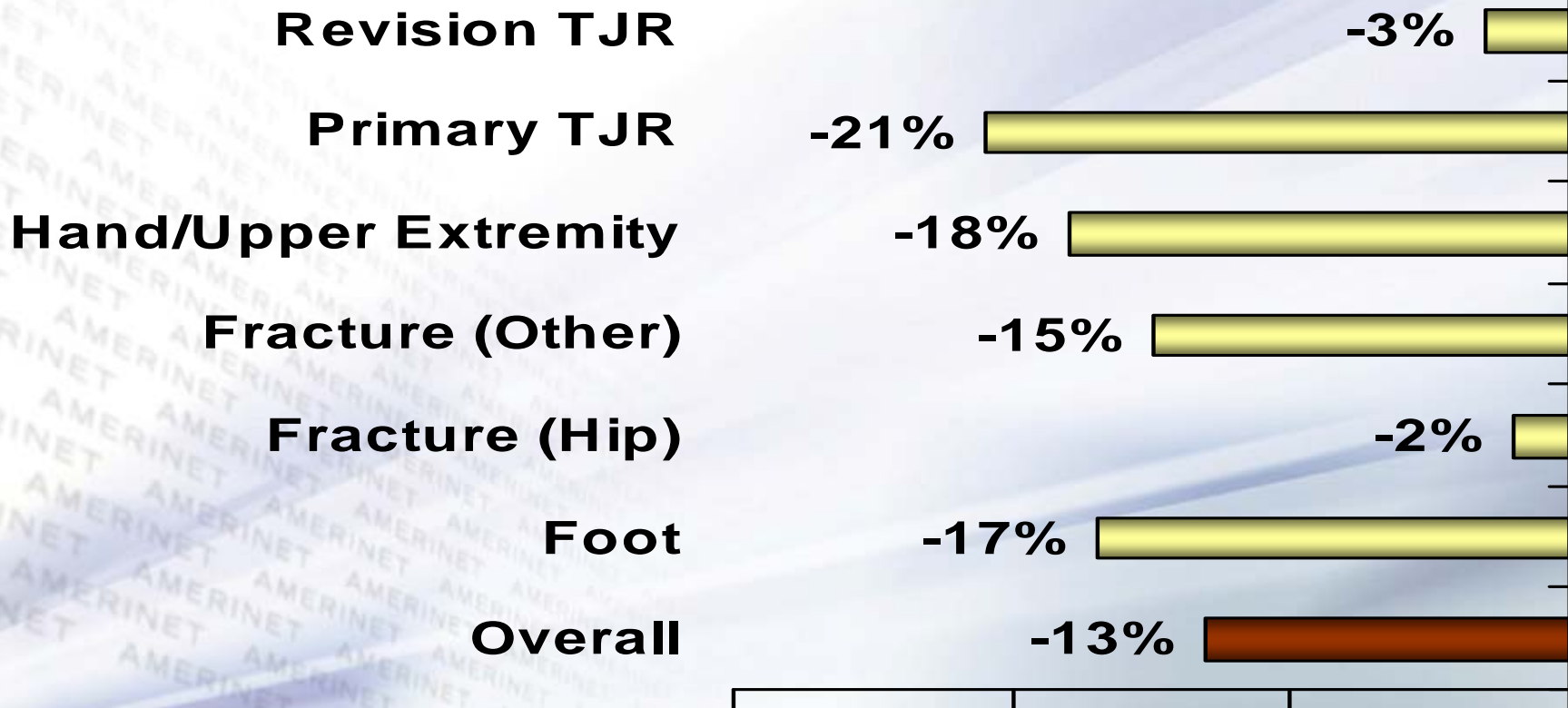
* According to survey by AHA where 736 hospitals responded and 557 submitted financial data.

Source: Sick economy not helping health of hospitals. Associated Press. Johnson, Linda. November 20, 2008.



Consumer, Political and Financial Challenges

Orthopedic Volumes Change in Discharges, 1st Qrt 2008–2009





Consumer, Political and Financial Challenges

Slowing the growth of ASCs and Specialty Hospitals

The New Jersey Codey Law

For nearly a decade, the New Jersey Codey Law — the state's version of the Stark Act — had been read to permit physician-ownership of ASCs. However, in recent cases unrelated to the Codey Law, judges have opined that the **Codey Law prohibits physician-ownership of ASCs in the traditional sense.**

Consumer Expectations

- Expectations are higher.
- Shop for the best value and price.
- Interact as an educated consumer of non emergency services.
- Expect to be treated as a valued guest.



Consumer, Political and Financial Challenges

Financial Challenges: Inpatient Prospective Payment System (IPPS) Reform

Medicare Reimbursement Inpatient Prospective Payment System

- Goal of reform was to:
 - Adjust payment to better account for severity of illness
 - Incentivize hospitals to report quality measures
 - Increase transparency in public reporting



Consumer, Political and Financial Challenges

Present on Admission (POA) Indicators Can Dramatically Impact Payment

POA Case Example

Principal Diagnosis: Intracranial hemorrhage or cerebral infarction with MCC

Secondary Diagnosis: Stage III pressure ulcer

Payment Codes: 064,707.23

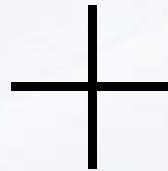
POA?	Final Payment
Y	\$ 8,030.28
N	\$ 5,347.98
Difference	\$ 2,682.30

Physicians must make sure to document the presence of MCC conditions and whether they were present on admission.

Hospital-Acquired Conditions (HACs)- Never Events

FY 2008 HACs

- Foreign object retained after surgery
- Air embolism
- Blood incompatibility
- Severe pressure ulcers
- Falls and Trauma
- Catheter-associated UTI
- Vascular catheter-associated infection

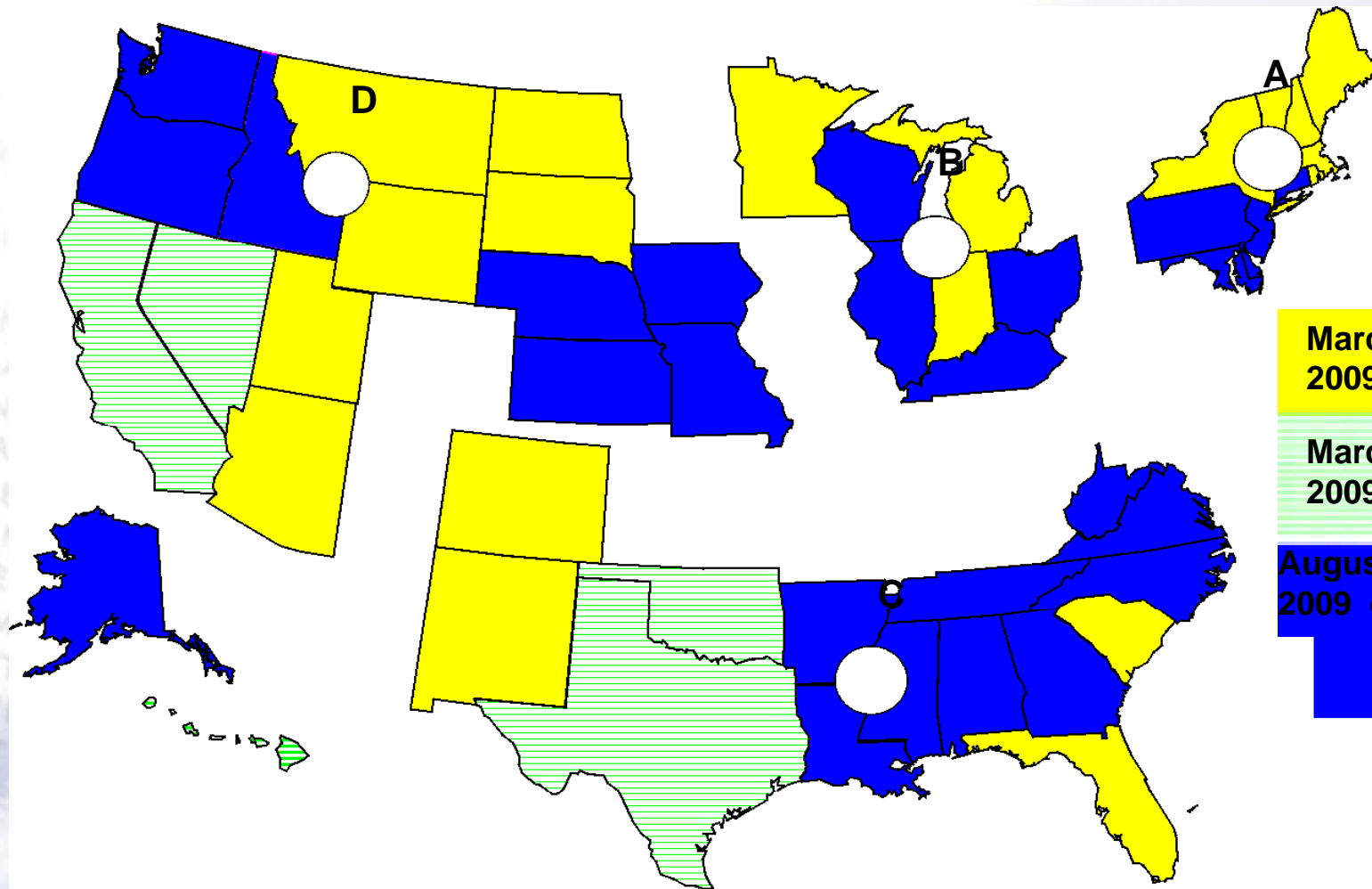


FY 2009 HAC Additions

- Manifestations of poor blood sugar control
- Surgical site infections
- Deep vein thrombosis and pulmonary embolism following certain orthopedic procedures
- Surgical events:
 - Wrong body part
 - Wrong patient
 - Wrong surgery



RAC Is Back and Here to Stay Phase In Schedule



March 1, 2009

March 1, 2009

August 1, 2009 or later



Consumer, Political and Financial Challenges

Future Project: Acute Care Episode (ACE) Demonstration

- Medicare will make one bundled payment for the following procedures:
 - Cardiac Valve Procedures
 - Cardiac Defibrillator implant procedures
 - Coronary bypass procedures
 - Cardiac pacemaker procedures
 - Percutaneous cardiovascular procedures
 - Hip and knee replacement surgery
- Three year project limited to 15 sites in four states
 - Texas, Oklahoma, New Mexico and Colorado
- Sites announced Jan 6, 2009



Physicians Hospital Collaboration Will Not Be Optional

Payment Today

MSDRG -2 to 3 days of care

Part A Hospital

- Implant
- Supplies
- Room and Board
- Fixed Costs

Part B Physician

- Anesthesia
- Surgeon
- Radiologist
- Specialist

Unplanned ReAdmission

- Additional Physician Payments
- Additional Hospital Payments

Payment Tomorrow

Shifting Risk to the Provider

- ACE-Part A and Part B, 30 day post op

Future Payment

- Bundled Payment for an Episode of Care
- Pre Op and 90 Days Post Op, Including ReAdmissions

Financial Challenges: Physician Fees

- Congress voted to block physician payment cuts until 2010
 - 2008 increase of 0.5%
 - 2009 increase of 1%
 - Reductions to resume in 2010
 - Veto from President Bush, July 14th
 - Overridden July 15th
- When cuts are blocked on one year, Medicare recoups the money by making deeper cuts in future years
- **Under passed bill, physicians would face a cut of 20%+ in 2010**



Orthopedic Physicians Engaging in Formal Relationships

Percent of Physicians Involved in Alignment Structures

- Payment for call -39%
- Gainsharing - 1%
- Directorships-19%
- CoMarketing-12%
- Comanagment-3%
- Joint Venture-34%
- Physician Employment-6%



Physician Collaborative Incentives

Physician Owned GPO

Surgical Implant Services

- Is solely owned by the implanting physicians or their practice groups and is used as a vehicle to invest into a Surgery Specific National Specialty GPO.
- Each LLC becomes an equity participant in the appropriate SIS GPO, at an aggregate of not more than 40%.
- Enables surgeons in the Local LLC to form a clinical Advisory Board and clinically qualify vendors for SIS to negotiate pricing on behalf of those participating hospitals.
- Provides physician owners with ancillary income.
- Can be utilized independently or in conjunction with other physician agreements

Consumer, Political and Financial Challenges

The Bottom Line for Finance

- Pay-for-reporting is quickly moving toward **pay-for-performance**.
- **Accurate clinical documentation and coding** will be critical to the reporting of present on admission indicators.
- **Packaging/bundling of payment** will continue to expand across different specialties and care settings.
- Momentum for health reform is building, but **policy makers are divided on the best approach**.
- **Changes in physician reimbursement** will likely fuel the physician employment and formal relationships trend.



Physician Collaborative Incentives

Engaging Physicians in Sustainable Savings

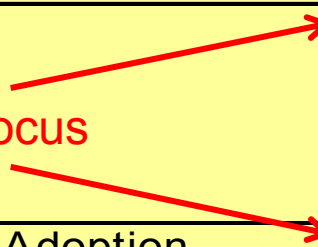
- Medicare's is taking a closer look at the true value they get from their purchases
- Private insurance companies will speed this trend as they begin to adopt pay-for-performance models of their own
- **Our strategies for physician relations to improve quality and reduce costs need to include new technology evaluation**

Chasing Pennies...

The Misdirected Efforts of cost savings

Time Spent	Area of Focus	Savings / Avoid Opportunity	Examples
75%	Price	3% - 18%	<ul style="list-style-type: none"> • Suture • Gloves • Med/Surg
10%	Volume	0% - 5%	<ul style="list-style-type: none"> • Service line expansion, new physician
10%	Utilization	25% - 50%	<ul style="list-style-type: none"> • Tubing Lengths • SCD Lengths • Drape Technique • Generics
5%	Technology Adoption	100% - 500% (Cost Avoidance)	<ul style="list-style-type: none"> • CRM • Spine • Ortho • Pharma

Areas of Focus





New Implant Technology and Benchmarks

Implants – Rapidly Increasing in Volume and in Variety

- Around 1 million total joint procedures performed per year.
 - Projected to double in next 2 decades
- About 2 million worldwide have pacemakers/ICDs
 - \$6 billion global worldwide market
- 100,000 have cochlear implants
- Others have artificial hearts, valves, elbows, spinal disks, teeth
- In development:
 - Artificial hands, eyes, lungs, pancreases, “bio-artificial” kidneys
- **Collectively 3 corps. that specialize in implantable devices Medtronic, Stryker, Zimmer match the combined market value of General Motors, Ford, Sears, Dell, and Sony.**

Changes in Technology

Established Technology

Polyethylene-on-Metal Hip Implants
\$4,624



30% higher device cost

Emerging Technology

Polyethylene-on-Metal Hip Implants
\$6,000
Cutting Blocks \$650-\$1,200

Metal-on-Metal Hip Implants
\$6,531



63% higher device cost

Hip Resurfacing Implant
\$10,625

Cemented Knee Implants
\$3,894



51% higher device cost

Increased Motion Knee Implants
\$5,866

Total Knee Arthroplasty



\$150,000 to \$250,000 capital investment

Computer-Assisted MIS Knee Arthroplasty





New Implant Technology and Benchmarks

National Joint Registry

National Joint Registry

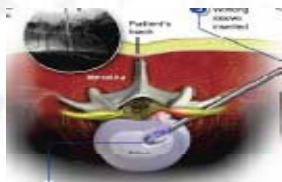
- Modeled after Swedish and Australian Registries
- AAOS Support limited efforts
- Issues:
 - Privacy
 - Litigation
 - Ownership and Management
 - Funding

Needed to:

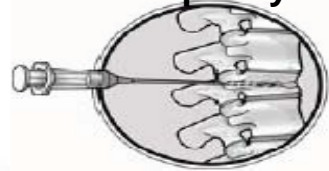
- Monitor Pre –Post Functional Outcomes
- Selection Criteria
- Best Practice
- Change Behavior and Improve Outcomes

Technology Will Enable Outpatient Shift of Increasingly Complex Case Types

Endoscopic Spine Surgery



Kyphoplasty & Vertebroplasty



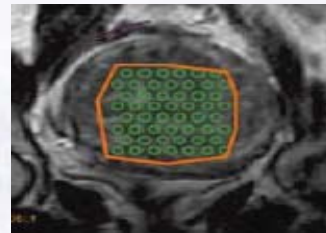
Laparoscopic Fundoplication



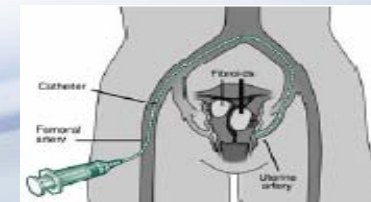
Ambulatory Surgery Center

Laparoscopic Myomectomy

RF for BPH



HIFU for Fibroids



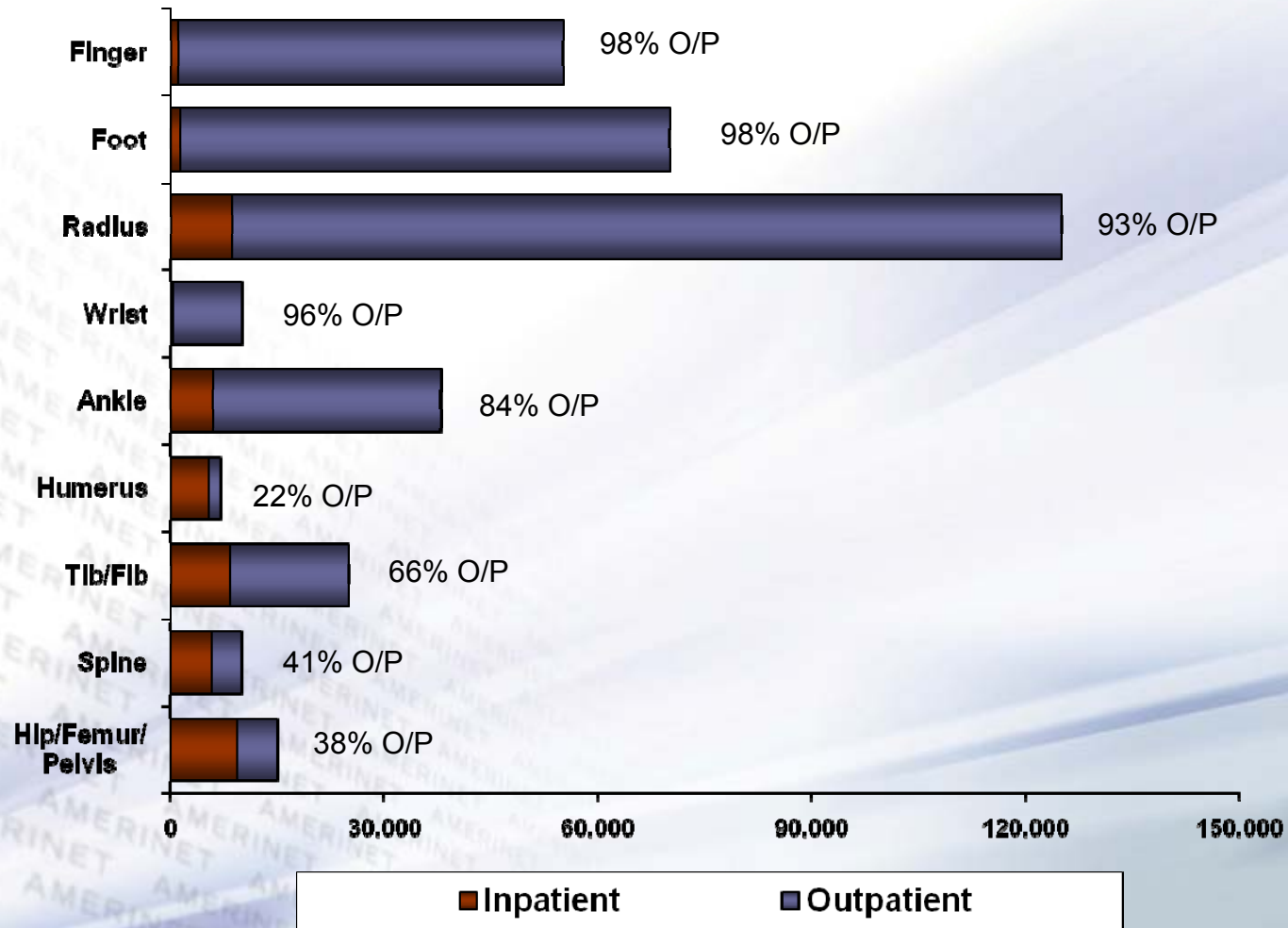
Uterine Artery Embolization

BPH = benign prostatic hyperplasia; CT = computed tomography; HIFU = high-intensity focused ultrasound; LVRS = lung volume reduction surgery; RF = radiofrequency; VATS = video-assisted thoracic surgery.



New Implant Technology and Benchmarks

Inpatient vs. Outpatient Treatment of Fractures, 2004 - 2007



Source: Orthopedic Network News Volume 19, Number 2, April 2008



New Implant Technology and Benchmarks

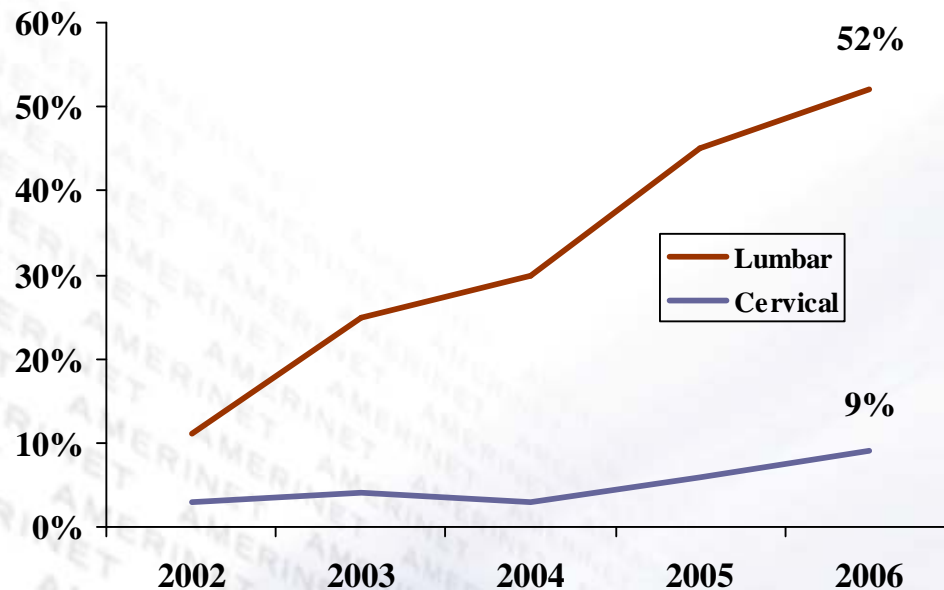
What is new in Spine

- Motion Preservation- Artificial Discs
- New Approaches to the Spine - XLIF
- MIS
- Explosion in the number of spine companies – Nuvasive, Globus, etc. etc.

New Implant Technology and Benchmarks

Biologics Market is Growing Rapidly

Percentage of Fusions with BMP



Fusion Market Size		
	Spine Hardware	Biologics (BMP-2 only)
2005	\$1.4 billion	\$800 million
2009	\$1.5 billion	\$1.6 billion

- Current spending on BMP-2: \$2 million to \$3 million/day.
- Biologics market will outpace spine implant market by 2009.

Surgeon Attitudes toward Cost Containment

- Survey of 35 Spine Surgeons at NASS
- 76% felt that prices were fair or underpriced
- 26% have been involved in cost containment processes
- 64% would assist in negotiations if incentivized
- 65% believe that savings invested in ORs or staffing is ethical

Materials Managers working with Physicians Can Achieve Excellence in Supply Chain...Excellence in Healthcare

- Improving Physicians Hospital Relations
- Improving Operating Margins
- Improving Quality



Physician Collaborative Incentives

President Obama's Inaugural Address January 21, 2009

“We remain the most prosperous, powerful nation on Earth. Our workers are no less productive that when this crisis began. Our minds are no less inventive, our goods and services no less needed than they were last week or last month or last year. Our capacity remains undiminished. But our time of standing pat, of protecting narrow interests and putting off unpleasant decisions—that time has surely passed.”

“Starting today we must pick ourselves up, dust ourselves off, and begin again the work of remaking America. For everywhere we look, there is work to be done”.



AHRMM Session, Tampa FL July 19-22, 2009

“With Data, Be Fearless in the
Face of Transparency”

Mary Beth Lang

President, Diagnostix LLC

Amerinet, Vice President Spend Analytics

Karen Barrow

Amerinet, Sr. Vice President Clinical Solutions and Business Development

See You There!