

## Executive Briefing

# CMS Encouraging Greater Alignment Between Hospitals and Physicians: Which Specialties Are Next?

By:

James P. Donohue & Matthew S. Nolan  
ECG Management Consultants, Inc.

While policy makers struggle with health reform initiatives, there is agreement on one basic point: the trends in healthcare costs are unsustainable. The Centers for Medicare & Medicaid Services (CMS) has long been aware of the need for fundamental change and has used different approaches in its attempts to contain costs, including reducing reimbursement levels to offset increases in utilization and sponsoring demonstration projects to explore alternatives to the current system.

Less well understood is CMS's role in encouraging greater alignment between hospitals and physicians by manipulating reimbursement levels for high-cost services.<sup>1</sup> Recently, we performed a series of analyses to examine trends in Medicare payments for selected services and the differences in payment levels when those services are provided in a physician's office as compared to a hospital outpatient setting. The results show some startling changes during the past 5 years and give an indication of which specialties may have compelling incentives to seek greater alignment with hospitals.

### The Cardiology Case Study

Cardiology has been most obviously impacted by changes in Medicare reimbursement and illustrates how certain specialists are being incentivized

to transition from a private practice model and seek greater alignment with hospitals. Over the past 5 years, CMS has significantly reduced reimbursement levels for select diagnostic cardiology services when these services are provided in an office-based setting – most notably echocardiography and nuclear studies. This is significant because these procedures represent a large share of a typical practice's revenue: 14 percent and 26 percent, respectively, based on 2009 data.<sup>2</sup> CMS has decreased office-based reimbursement rates for these

(continued on page 17)

<sup>1</sup> Alignment, in this case, refers to employment agreements or PSAs.

<sup>2</sup> Information was derived from an analysis of the total cardiology allowable payments in an office setting as reported in the 2009 Physician/Supplier Procedure Summary Master File (PSPSMF), which includes data from all Medicare Part B carriers. This data represents procedure-specific billing data for all physician/supplier services rendered to all Medicare beneficiaries during the calendar year 2009 and processed by the carriers through the 6 months of the following year. CPT code 93306 was used for echocardiography, and codes 78465, 78478, 78480, A9500, and A9502 were used for nuclear studies.

Is your hospital's revenue cycle the picture of health?

It can be.

The Outsourcing Group provides a full range of revenue cycle management services for hospitals and other healthcare providers.



- Early Out/Self Pay
- Insurance Resolutions
- Third Party Liability
- Medicaid Eligibility
- Physician Billing & Collection
- Business Office Outsourcing
- Bad Debt
- Complete RCM Outsourcing
- Underpayment Audit/Recovery

Christopher Spring, Vice President-Sales  
7 Audubon Road • Wakefield, MA 01880  
614-395-1977 • theoutsourcinggroup.com

(continued from page 16)

services by reducing payment levels for the technical portion of the studies, which is reflected in the practice expense (PE) component of the relative value unit (RVU).<sup>3</sup>

At the same time that office-based payments were reduced, hospital outpatient reimbursement rates for the same procedures were increased. It is this combination of factors that has led to the sharp increase in the number of alignment agreements between cardiologists and hospitals. Statutes and regulations prevent hospitals from sharing their technical revenue with independent physicians such as cardiologists, but if the physicians sell their practices to the hospital and enter into employment arrangements or Professional Services Agreements (PSAs), the much larger total

revenue can be reflected in compensation arrangements. This is a trend that we expect will spread to other specialties and continue for several years.

### *Which Specialties Are Next?*

Watching this scene unfold in the cardiology market naturally leads to asking which other specialties are primed for hospital alignment. To answer this question, we analyzed recent reimbursement trends and evaluated the current payment differential between office- and hospital-based procedures. The following table provides a high-level summary of our analysis results:

(continued on page 18)

<sup>3</sup> Accounting for approximately 45 percent of the total payment associated with a particular service, PE RVUs represent the costs incurred by a physician group for maintaining the practice and include cost items such as renting office space, buying supplies and equipment, and covering staff costs.

## What does it take to meet today's healthcare challenges?

### The vision to dream big.

At Siemens, we are devoted to bringing you the science you need to dream big—redefine early detection, develop innovative treatments, deliver truly personalized care. We are dedicated to improving the health and well-being of patients. And we're committed to helping you every step of the way. Siemens is a Corporate Sponsor of HFMA Massachusetts—Rhode Island Chapter. [www.usa.siemens.com/healthcare](http://www.usa.siemens.com/healthcare) 1-888-826-9702

Answers for life.

**SIEMENS**

A9124-11916-A11-4A00

Corporate Office: 51 Valley Stream Parkway, Malvern, PA 19355-1406 USA +1-888-826-9702  
© 2011 Siemens Medical Solutions USA, Inc. All rights reserved.

## Reimbursement Trends and Payment Differentials

Specialty	2006 to 2011 Changes in Reimbursement		2011 Office-/Hospital Based Payment Differential
	Office Based <sup>4</sup>	OPPS <sup>5</sup>	
Orthopedic Surgery	8.6%	18.0%	76.4%
Urology	-32.5%	17.5%	68.4%
Cardiology	-16.5%	30.1%	56.9%
Pulmonary	-15.0%	17.0%	22.6%
Gastroenterology	-1.6%	27.3	7.2%
Neurology	-10.4%	9.1%	-18.1%
Vascular Surgery	-15.0%	22.2%	-20.6%
Diagnostic Radiology	-16.3%	5.0%	-21.7%

- The office-based column summarizes the changes over the past 5 years in Medicare reimbursement for some of the most commonly utilized services, excluding E&M codes, in the non-facility setting by select specialties.<sup>6</sup>
- The OPPS column shows the 5-year reimbursement trend for those same services as billed under the OPPS payment methodology.
- The last column illustrates the overall payment differential, on an average percentage basis, between billing the services in an office-based setting versus a hospital-based setting, as predicated on the 2011 Medicare Physician Fee Schedule (MPFS) and OPPS. A positive percentage means that it is more profitable to perform these services in a hospital-based environment, while a negative percentage means it is more profitable to provide these services in an office setting.

(continued on page 19)



## Feeley & Driscoll, P.C.

Healthcare Services Group | [www.fdcpa.com](http://www.fdcpa.com)

Feeley & Driscoll's Healthcare practice reflects the three major forces in the industry - hospitals, physicians and senior care providers. We are one of the largest regionally-based providers of accounting and business advisory services to the healthcare industry in New England. Our experience in the field covers an extensive and diverse range of clients and engagements.



**Helping you solve the puzzle.**

Douglas J. McGregor  
Director of Healthcare Services  
[DougM@fdcpa.com](mailto:DougM@fdcpa.com) | (617) 456-2402

Stephen J. Doneski  
Director of Healthcare Audit  
[SteveD@fdcpa.com](mailto:SteveD@fdcpa.com) | (617) 456-2449

W. Karl Baker  
Director of Healthcare Audit  
[KarlB@fdcpa.com](mailto:KarlB@fdcpa.com) | (617) 456-2524

Feeley & Driscoll, P.C. | 200 Portland Street | Boston, MA 02114 | 617 742 7788 | [www.fdcpa.com](http://www.fdcpa.com)

(continued from page 18)

## 2011 Non-Facility/Hospital-Based Payment Differential – CPT Code Level

Specialty	Office-Based Reimbursement		Hospital Based Reimbursement		Variance		Description
	Global		Technical Portion				
	Code	Amount	Code	Amount	Amount	Percentage	
Cardiology	93306	\$232.74	93306	\$402.39	\$169.65	72.9%	Tte w/Doppler complete
Orthopedic Surgery	20610	\$76.79	20610	\$183.78	\$106.99	139.3%	Drain inject joint/ bursa
Pulmonary	94060	\$60.82	94060	\$98.62	\$37.80	62.2%	Evaluation of wheezing
Urology	52000	\$213.71	52000	\$512.48	\$298.77	139.88%	Cystoscopy

To more clearly demonstrate the potential hospital-based reimbursement advantage associated with those specialties that we believe are most likely to seek greater alignment with hospitals, we developed the following table, which illustrates, at the code level, the differential impact between office- and hospital-based payments:

(continued on page 20)



### Arcadia Solutions

Advanced healthcare technology and business experts

- Strategy and Business Consulting
- EHR Implementation and Optimization
- Health Systems Performance Management
- Central Site Operations and Support
- Infrastructure and Security

Arcadia Solutions is an Inc. 500 nationally recognized, leading healthcare consulting firm that engages with both payers and providers to design, implement, and manage their Health IT infrastructure and applications. Since 2002, Arcadia's focus on data-driven solutions has allowed clients to more efficiently and cost-effectively manage their information through the right blend of people, processes, technology, and strategy.

For more information, email [sales@arcadiasolutions.com](mailto:sales@arcadiasolutions.com) or visit [www.arcadiasolutions.com](http://www.arcadiasolutions.com).

**arcadia**  
arcadia solutions | Advanced healthcare simplified



The CCS Companies' two divisions, ClaimAssist and Credit Collection Services specialize in claim recovery services resulting from Motor Vehicle Accidents, Worker's Compensation injuries, General Liability cases, and

Self-Pay claims. We are happy to customize a presentation for your staff pertaining to state laws and regional demographics. Call us today to schedule an appointment!

All programs can be implemented quickly to jumpstart increased recoveries.

Let us show you how we can increase your net back, and improve your financial performance.

Contact: Chris Delgado  
Regional Vice President  
Phone: 857-636-1271  
E-mail: [cdelgado@ccsusa.com](mailto:cdelgado@ccsusa.com)

(continued from page 19)

## Conclusion

However it might be justified by CMS, our data suggests that the agency has a clear policy of centralizing select services in facility-based settings and does so through the manipulation of reimbursement rates. This has created a market wherein hospitals and physicians are financially incentivized to enter into more integrated relationships. There is nothing nefarious about CMS reimbursement policies. It is logical that CMS wants to centralize services as much as possible as part of a transition to value-based payment models and integrated delivery. In the next few years, it is likely that CMS will continue to use adjustments of fee-for-service reimbursement to promote integration. Orthopedic surgery, pulmonary, and urology appear to be prime candidates to join cardiology in a surge of hospital affiliation. Further out, when value-based reimbursement is more common, lowering cost will

replace maximizing revenue as the priority for providers, and integration will be based on efficiency and quality concerns. In the meantime, physicians and hospitals should monitor the reimbursement landscape and be aware that greater alignment may offer financial and operational rewards not possible in less integrated relationships. □

### (Footnotes)

- <sup>4</sup> Includes both technical and professional components and is based on national unadjusted amounts.
- <sup>5</sup> Includes only the technical portion and is based on national unadjusted amounts.
- <sup>6</sup> Most commonly utilized services were determined based on an analysis of the total cardiology allowable payments in an office setting as reported in the 2009 PSPSMF.

GET TO KNOW  
EMDEON BETTER:

[www.emdeon.com/more](http://www.emdeon.com/more)



### About the Authors

This article was written by **James P. Donohue** and **Matthew S. Nolan**. To learn more about this briefing and issues related to it, please contact Mr. Donohue in our Boston office at 617-227-0100 or [jdonohue@ecgmc.com](mailto:jdonohue@ecgmc.com) or Mr. Nolan in our St. Louis office at 314-726-2323 or [mnolan@ecgmc.com](mailto:mnolan@ecgmc.com).