Hoag Orthopedic Institute

Physician Owned Specialty Hospitals-Time for Change?

Dr. James Caillouette
2019

Hoag Orthopedic Institute

Disclosures

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AHA Opposes Physician-Owned Hospitals

AHA to CMS: Keep physician-owned hospital ban in Stark Law

Written by Laura Dyrda | August 28, 2018 | Print | Email

Last Friday, the OIG requested public input on regulatory provisions that are barriers of coordinated care, or value-based care, including the anti-kickback statute, which prohibits self-referral for federal healthcare businesses.

The agency has already accepted comments and feedback on ways to improve Stark Law, which addresses self-referral by a physician to a healthcare facility where the physician has financial ownership.

The American Hospital Association made its comments to CMS Administrator Seema Verma on Stark Law public on behalf of its nearly 5,000 members. While the organization supported modifications to Stark Law to promote collaboration within value-based payment models, it urged CMS not to alter the ban on physician-owned hospitals.

"We urge that compensation exceptions to the Stark Law be created or adapted to enable hospitals and physicians, working together, to coordinate care and improve patient outcomes. We urge that no changes be made to the regulations implementing the Stark Law's ownership ban. That ban is carefully developed policy that is working as Congress intended."

The AHA did not address CMS quality rating of physician-owned hospitals. In August 2016, 31 percent of the agency's 5-star hospitals were physician owned, and in 2017, 38 physician-owned hospitals earned the highest possible rating for quality. Last year, Sen. James Lankford (R.-Okla.) introduced legislation to the Senate that would repeal the ACA's moratorium on physician-owned hospitals, citing data that shows they could save Medicare $3.2 billion over a 10-year period. A companion bill was also introduced in the House.

BECKER'S ASC REVIEW

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Ezekiel J. Emanuel MD

Physician Owned Hospitals- Time for Change?

"To motivate performance and career satisfaction we must consider these intrinsic human elements-
Autonomy-Our desire to be self directed
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Daniel Pink, Drive

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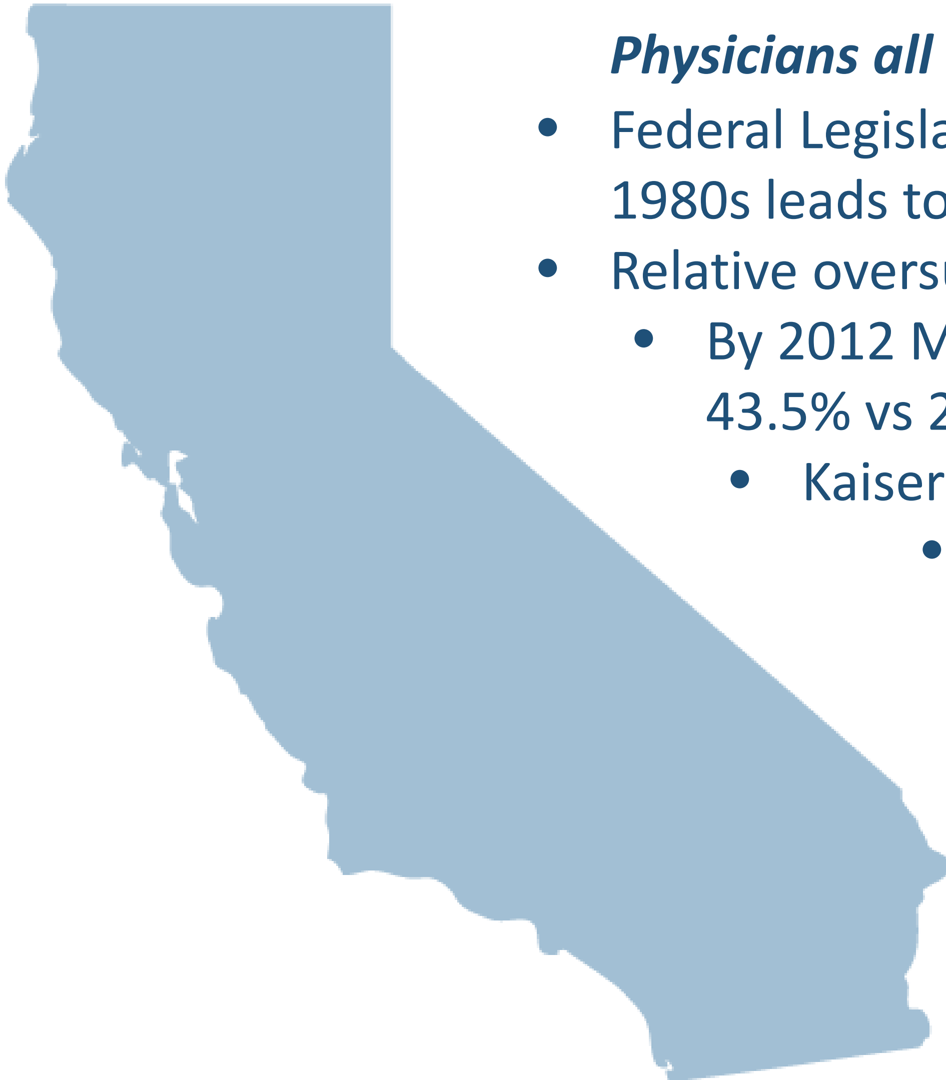
Our Journey As A Teaching Tool…



- Kaiser's healthcare model in WWII-***Payer + Facilities + Physicians all aligned-*** **Integrated Delivery System**
- Federal Legislation + Insurance Products in California 1970s and 1980s leads to HMOs and capitation
- Relative oversupply of MDs in California urban centers
  - By 2012 Managed Care penetration in California is 43.5% vs 23.3% in the US
    - Kaiser controls over 33% of the market in California
      - Surgeon reimbursement drops dramatically-and never recovered

Can we develop a model to survive and thrive in the private practice of medicine?

Hoag Orthopedic Institute

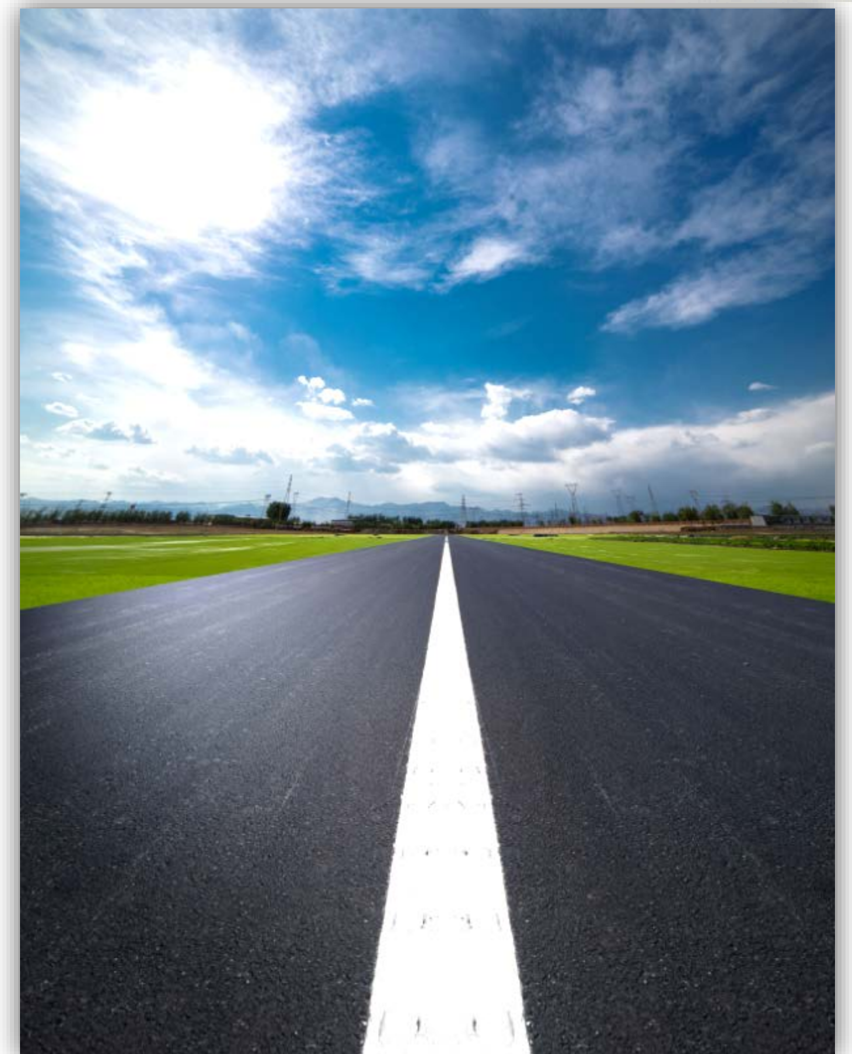
Our Journey 1998-2019

Can we develop a model to survive and thrive in the private practice of medicine?

The vision began in 1998 with our first Orthopedic JV ASC with our community hospital…

Driven by market force changes:

- Macroeconomics + Health care economics + Demographics
- Payer environment/Alternative payment models
- Consolidation of providers/systems
- Scarcity of $ demands efficiency
- ***Efficiency demands alignment of physicians and hospitals-shared ownership and governance and the ability to evolve***



Spectrum of Alignment

The greatest opportunity for hospitals and doctors in alignment is a frictionless combination that harnesses the deep knowledge of both entities in the enterprise of care delivery.

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Our Plan…2006

- **Align all elements of care delivery – Community NFP Hospital and Private Practice Doctors - eliminate waste**
- **Build a JV Physician Owned Specialty Hospital**
- **Shared equity, risk and governance - 50/50 partnership – "skin in the game"-eliminate "friction"**
- Best practices for best outcomes
- Evidence drives care excellence and controls cost
- **Value** (outcome X experience/cost) is our Cultural Mantra-**Be transparent with data**
- Unique partnership – ***shared*** physician/management driven enterprise – a bold experiment…

- **Our task is to deliver value to our patients**
- **We opened HOI in late 2010**

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Outcomes-Transparency

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The Results of JV POH- VALUE

2019 JOA- The Specialty JV Hospital- Rothman

- Focus- Value
  - Lower 90 day EOC Cost
  - Considerations for Legislation

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ELSEVIER

Health Policy & Economics

A Novel, Synergistic Model in Total Joint Arthroplasty: A Report of 2 Specialty Hospitals With Joint Ownership Between Physicians and Healthcare Systems

Check for updates

Alexander J. Rondon, MD, MBA, Yale A. Fillingham, MD, David Janiec, MBA, Chris Vannello, RN, Matthew S. Austin, MD, P. Maxwell Courtney, MD *

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ABSTRACT

Background: In 2010, the Affordable Care Act introduced new restrictions on the expansion of physician-owned hospitals (POHs) due to concerns over financial incentives and increased costs. The purpose of this study is to determine whether joint ventures between tertiary care and specialty hospitals (SHs) allowing physician ownership (POHs) have improved outcomes and lower cost following THA and TKA.
Methods: After institutional review board approval, a retrospective review of consecutive series of primary THA and TKA patients from 2015 to 2016 across a single institution comprised of 14 full-service hospitals and 2 SHs owned as a joint venture between physicians and their health system partners. Ninety-day episode-of-care claims cost data from Medicare and a single private insurer were reviewed with the collection of the same demographic data, medical comorbidities, and readmission rates for both the SHs and non-SHs. A multivariate regression analysis was performed to determine the independent effect of the SHs on episode-of-care costs.
Results: Of the 6537 patients in the study, 1936 patients underwent a total joint arthroplasty at an SH (29.6%). Patients undergoing a procedure at an SH had shorter lengths of stay (1.29 days vs 2.23 days for Medicare, 1.15 vs 1.86 for private payer, both $P < .001$), were less likely to be readmitted (4% vs 7% for Medicare, $P = .001$), and had lower mean 90-day episode-of-care costs ($16,661 vs $20,579 for Medicare, $26,166 vs $35,222 for private payers, both $P < .001$). When controlling for the medical comorbidities and

- 2015 JOA – The Specialty JV Hospital -HOI
  - Focus on Bundled Payment
  - Focus on Alignment

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ELSEVIER

Practical Tips for Implementing Bundled Payments in Your Practice Hoag Orthopedic Institute – A Joint Venture Model for Value-Based Care Delivery

CrossMark

James T. Caillouette, MD

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The movement to managed care began early in California with Kaiser's development of an employer-based model for healthcare insurance and care of their shipyard workers during the Second World War. The combination of federal legislation in the late 1970s along with innovative insurance products being developed in Southern California led to an aggressive shift in the market by the late 1980s. This has never abated in California, nor has it had the same impact throughout the US. By 2012, California had a managed care penetration rate of 43.5%, well above the national average of 23.3%. Kaiser Permanente controlled just over one third of the California market, in essence reducing the supply of patients to the market and thus increasing the competition among those providers outside of the closed Kaiser system. The insurance payers saw a market with a relative oversupply of providers and thus began to drive reimbursement down compared to the remaining US through the introduction of "Narrow Networks" where a captured population of patients could see only those physicians within their network, or pay a high premium to go outside the network.

The macroeconomics of the market were clear and we saw a trend line of lower reimbursement and limited access to patients for the

destructive. The challenge was to create alignment in a way that both sides could embrace. Education, at the fundamental level, held the key. The private physicians were small businessmen and women. They needed patients coming to see them to survive in business. The hospital required patients to perform its business. The relationship is symbiotic; the struggles for power and control between the two were not.

A joint venture involving equal equity and governance was created by a group of orthopedic surgeons initially for our orthopedic ASC (OSCOC), and after seven years the level of trust and alignment was such that the next larger step could be taken. If we could maintain a "frictionless relationship" between the physicians and the hospital we could exploit each other's strengths to the fullest. By 2007, talks were underway to create a joint venture orthopedic specialty hospital. A second, similar size orthopedic group with their own ASC was invited to join the effort. In November 2010, Hoag Orthopedic Institute, a 70-bed inpatient specialty hospital and 2 ASCs opened for business. The concept was simple:

- Align all elements of care delivery in a new model
- Shared equity and governance – 50/50 partnership – "skin in the

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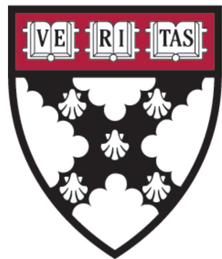
Value Based Healthcare

Harvard Business School



HARVARD BUSINESS SCHOOL

- Better Outcomes
- Lower Cost
- Better Patient Experience

HARVARD | BUSINESS | SCHOOL

N9-115-023

REVISED: JULY 9, 2015

ROBERT S. KAPLAN
JONATHAN WARSH

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> We know that healthcare reform is happening and we understand why. Our goal is not simply to survive in a world of cost containment, but to leverage our core capacities in a way that actually gives us a strategic advantage. How well we do that will be the story of the next 10 years.
>
> Dereesa Purtell Reid, CEO

Hoag Orthopedic Institute (HOI) was a specialty for-profit orthopedic hospital located in Irvine, California. HOI treated patients for the full spectrum of orthopedic conditions: total joint replacements, sports medicine injuries, orthopedic cancers, spine conditions, and orthopedic trauma. The hospital opened its doors in 2010 after the creation of a unique joint venture between Hoag Memorial Hospital Presbyterian, a Newport Beach, CA 500-bed non-profit community hospital, and two prominent orthopedic surgeon practice groups. The 70-bed, 9-operating-room hospital (see **Exhibit 1**) was used for orthopedic surgeries that required inpatient care. HOI's physician groups provided outpatient orthopedic services at two free standing ambulatory surgery centers (ASCs), in Newport Beach and Orange (see **Exhibit 2**). The hospital had approximately 80 surgeons on staff and 300 other physicians, such as hospitalists, anesthesiologists, and radiologists, to provide ancillary services (see **Exhibit 3**). Annual volume during 2014 was 17,070 surgical cases, 5,148 inpatient, and 11,922 outpatient and overall case volumes had been growing rapidly since HOI's founding in 2010 (see **Exhibit 4**) . Financial data on the privately-owned hospital were not publically available.

The Southern California and Orange County Market

U.S. Congressional legislation in the 1970's included significant economic incentives to create managed care plans.[1] By 2012, California had a managed care penetration rate of 44%, well above the national average of 23%, and second only to Hawaii's 58%. Kaiser Permanente, a vertically-integrated managed care plan, controlled about one-third of California's health care market. Kaiser competed

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Value

- Results of the physician owned JV Specialty Hospital Experiment – VALUE
  - HOI and Rothman demonstrate lower complication rates
  - Higher patient satisfaction scores
  - Lower 90 Day EOC Cost
- Result of the JV POH Experiment – **TRUST…..*Alignment***

Top 6 Highest Reconciliation Amount CMS CJR PY1

(April 2016 to December 2016)

Provider Number	Facility Name	State	Quality Performance Category	Number of Episodes*	Reconciliation Amount (waged)
330270	Hospital for Special Surgery	New York	Excellent	850	$1,293,224.52
310015	Morristown Medical Center	New Jersey	Excellent	540	$831,052.60
050769	Hoag Orthopedic Institute	California	Excellent	598	$815,621.29
310001	Hackensack University Medical Center	New Jersey	Good	413	$700,584.77
050195	Washington Hospital	California	Excellent	448	$669,406.47
330106	North Shore University Hospital	New York	Good	316	$550,122.87
310052	Ocean Medical Center	New Jersey	Good	267	$446,627.45

Regional Pricing

REGION	469/no fracture	469/with fracture	470/no fracture	470/with fracture
(1) New England	$39,709.98	$56,467.63	$22,904.94	$42,225.77
(2) Middle Atlantic	$41,403.62	$58,875.99	$23,881.84	$44,026.71
(3) East North Central	$38,612.99	$54,907.71	$22,272.19	$41,059.28
(4) West North Central	$36,136.37	$51,385.96	$20,843.66	$38,425.76
(5) South Atlantic	$38,649.51	$54,959.64	$22,293.25	$41,098.12
(6) East South Central	$38,544.50	$54,810.31	$22,232.68	$40,986.45
(7) West South Central	$40,429.77	$57,491.16	$23,320.12	$42,991.16
(8) Mountain	$36,371.47	$51,720.26	$20,979.27	$38,675.75
(9) Pacific	$36,218.38	$51,502.56	$20,890.96	$38,512.96

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Ezekiel J. Emanuel MD

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Model of Transparency

Ezekiel J. Emanuel MD

Zeke Emanuel: Why this for-profit, physician-owned hospital is a model of transparency

'All medical facilities' should be required to follow lead, Emanuel says

10:15 AM - November 17, 2015

Hoag Orthopedic Institute's "totally transparent" approach to quality and price data should become standard in the industry, prominent health policy expert Zeke Emanuel writes in *Fortune*.

Background

Emanuel, an oncologist and chair of the Department of Medical Ethics and Health Policy at the **University of Pennsylvania**, says that Orange County, California-based Hoag should by all accounts "have a terrible reputation."

It's a for-profit, physician-owned specialty hospital—the kind, he says, that typically only focuses on high-profit procedures, while "dumping" patients who are uninsured, on Medicaid, or high-risk to community hospitals.

Hospitals tell Congress: Keep restrictions on physician-owned facilities →

But Hoag's model is different: It's a joint venture established between the physicians and a not-for-profit community hospital in the area. Last year, Hoag provided more than $1 million in charity care, and it's estimated to provide over $2 million by the end of 2015.

An industry leader

Emanuel says the hospital is also unique across the entire industry as a leader in publicizing its price and quality data. Every year, Hoag produces an Outcomes Report, which is "filled with graphs, charts, and data that would thrill a policy wonk," Emanuel says.

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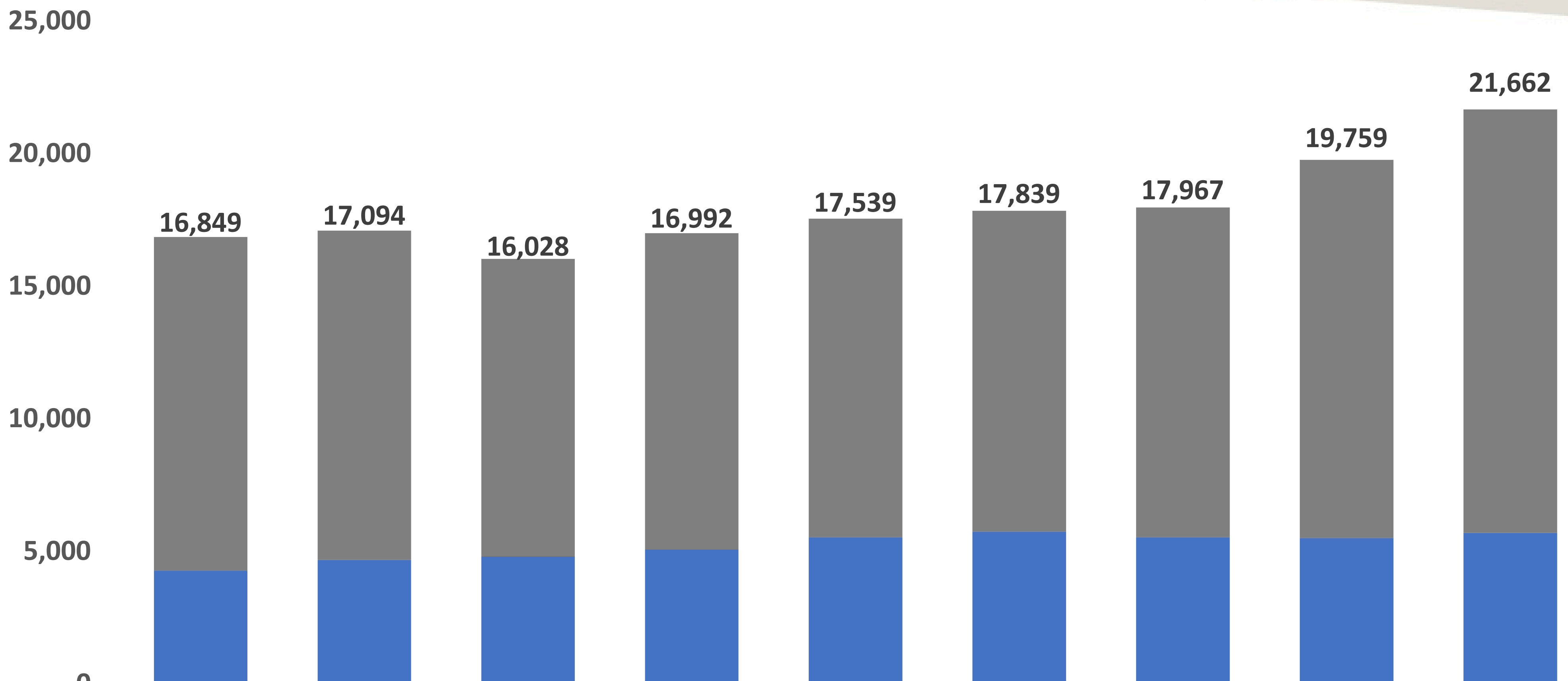
HOI Enterprise Volume

CY2011 – CY2019 Ann'l



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Enterprise Volume	16,849	17,094	16,028	16,992	17,539	17,839	17,967	19,759	21,662
Ambulatory	12,573	12,415	11,219	11,922	12,002	12,090	12,435	14,250	15,964
HOI Hospital	4,276	4,679	4,809	5,070	5,537	5,749	5,532	5,509	5,698

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Autonomy-Our desire to be self directed

Mastery - Our desire to improve our skills

Purpose - The desire to do something that has meaning and is important"

Daniel Pink, Drive

The projected outpatient volume for joint replacement, including partial and total joint replacements, for the next nine years is as follows:

- 2016: 15 percent
- 2018: 25 percent
- 2020: 32 percent
- 2022: 37 percent
- 2024: 43 percent
- 2026: 51 percent

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ASC REVIEW

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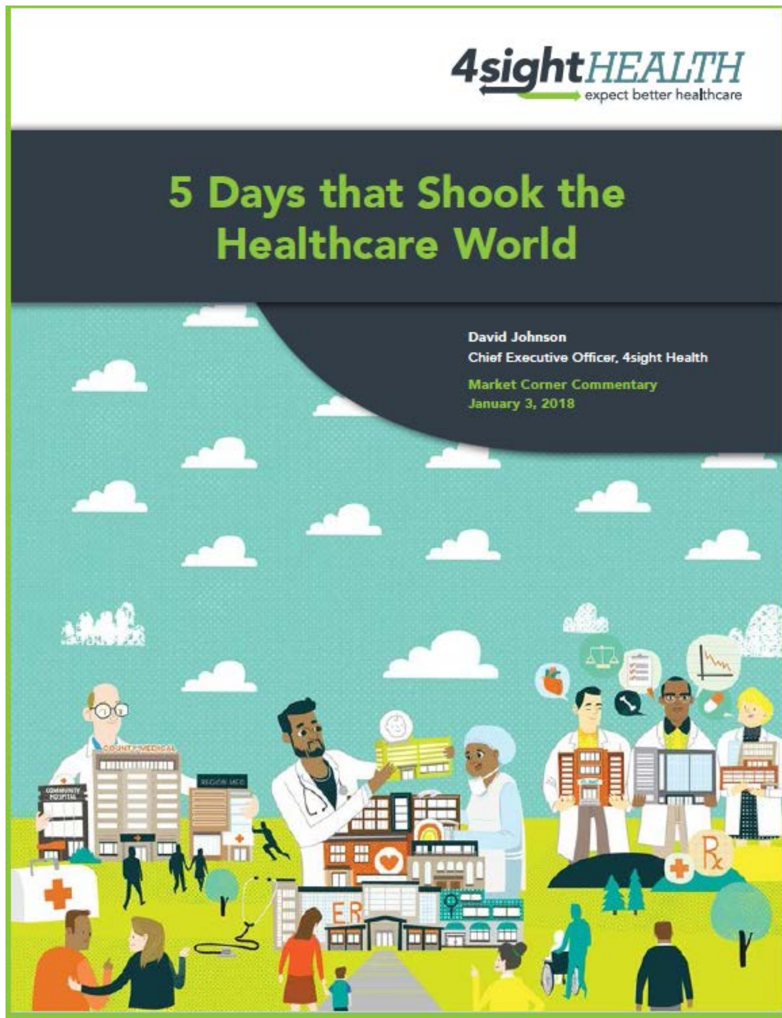
Institute

THE RACE FOR SCALE AND CHANGE-2017 and Beyond



- December 3rd CVS Health and Aetna
- December 4th Advocate Health Care and Aurora Health Care
- December 6th UnitedHealth Group and DaVita Medical Group (aka HealthCare Partners)
- December 7th Dignity Health and Catholic Health Initiatives
- December 10th Ascension and Providence St. Joseph Health
- December 19th Humana and Kindred Healthcare
- January 2018- JPM+Amazon+Berkshire Hathaway

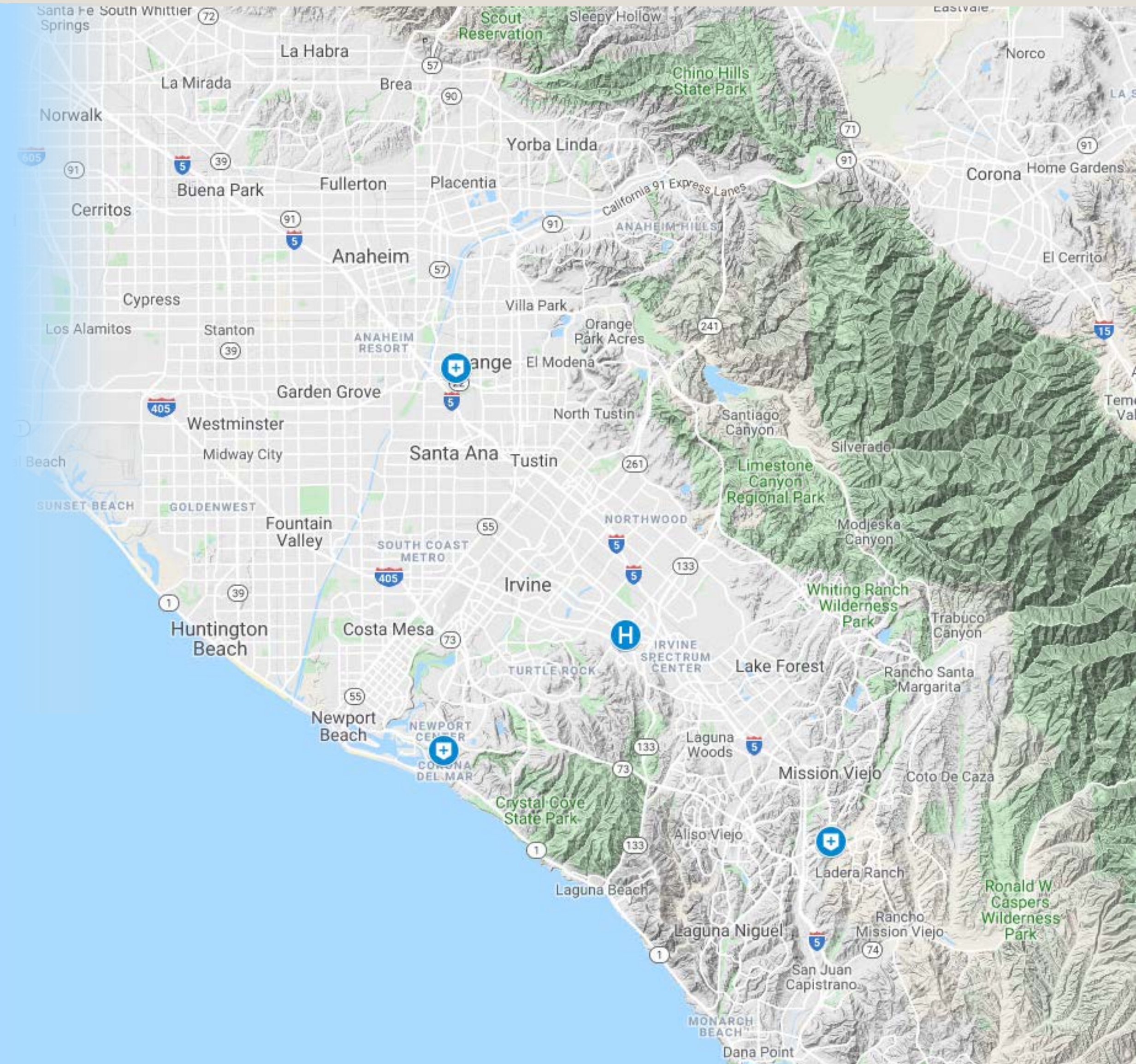
Facilities only

Orange County

Why Change the Model? *We need to be relevant*

California is a Payer dominated market- you can be “networked out”

Kaiser Permanente
Optum/Health Care Partners/ SCA
Anthem Blue Cross



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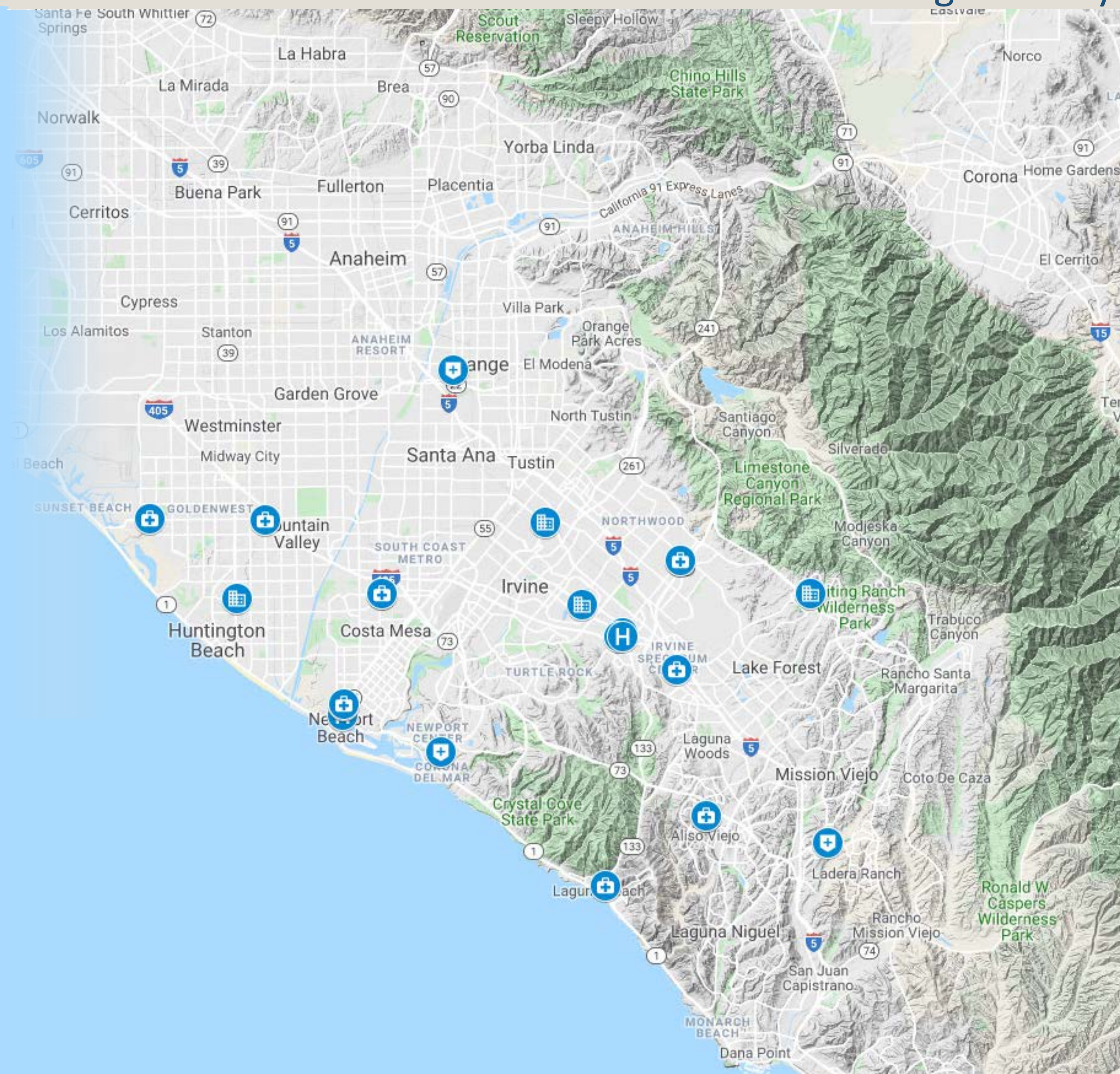
Develop a Clinically Integrated Orthopedic and Spine Network

Orange County

Physicians+ Hospital



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Strategic Partnerships Create Scale

Orange County

- Facilities
- Physicians
- Physical Therapy
- Imaging
- Urgent Care Centers

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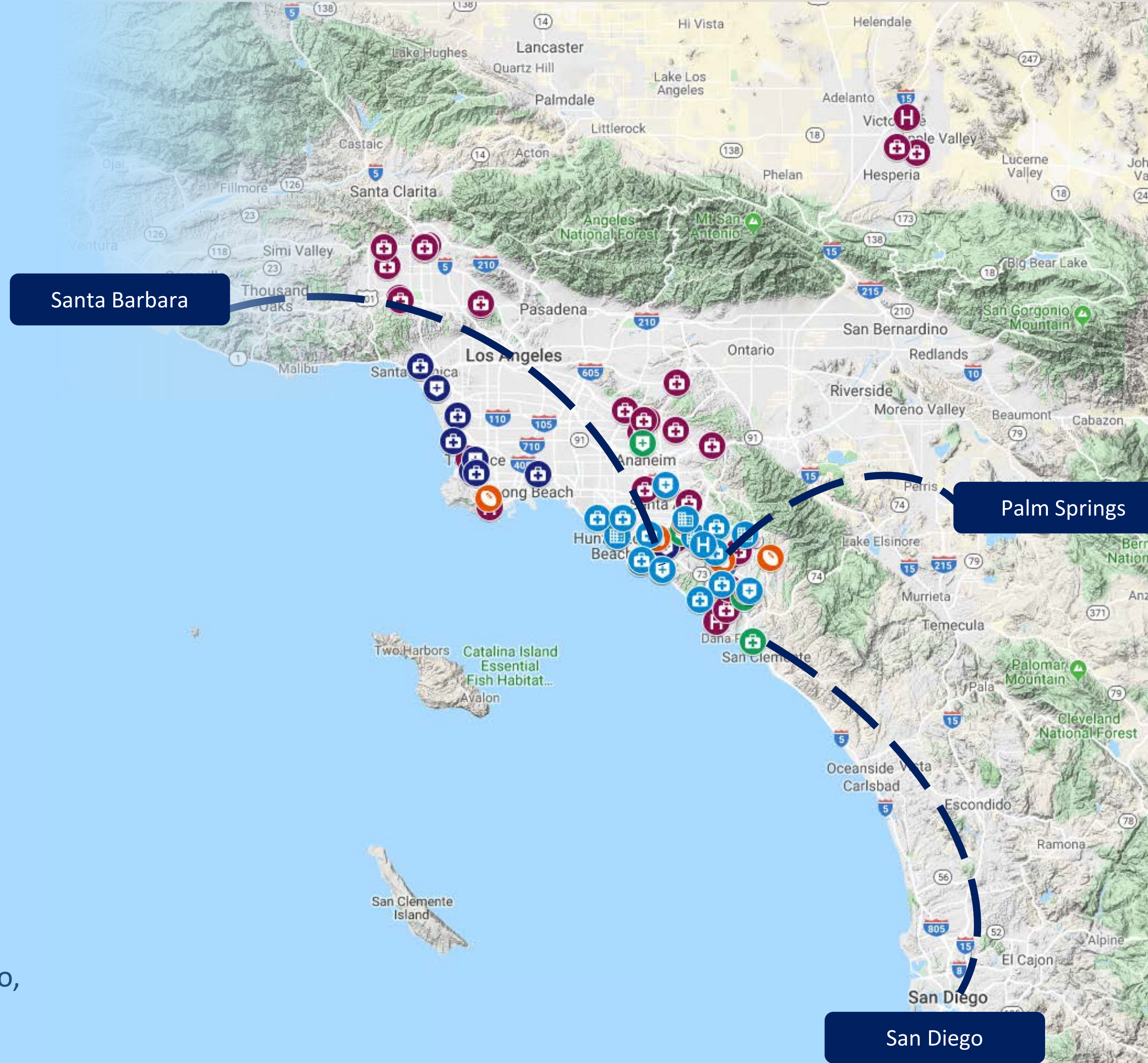
Within 100 mile Drive

Southern California

22,736,532

Southern California Population



Counties: Imperial, Los Angeles, Orange County, Riverside, San Bernardino, San Diego, Santa Barbara and Ventura. Source: census.gov (2018)

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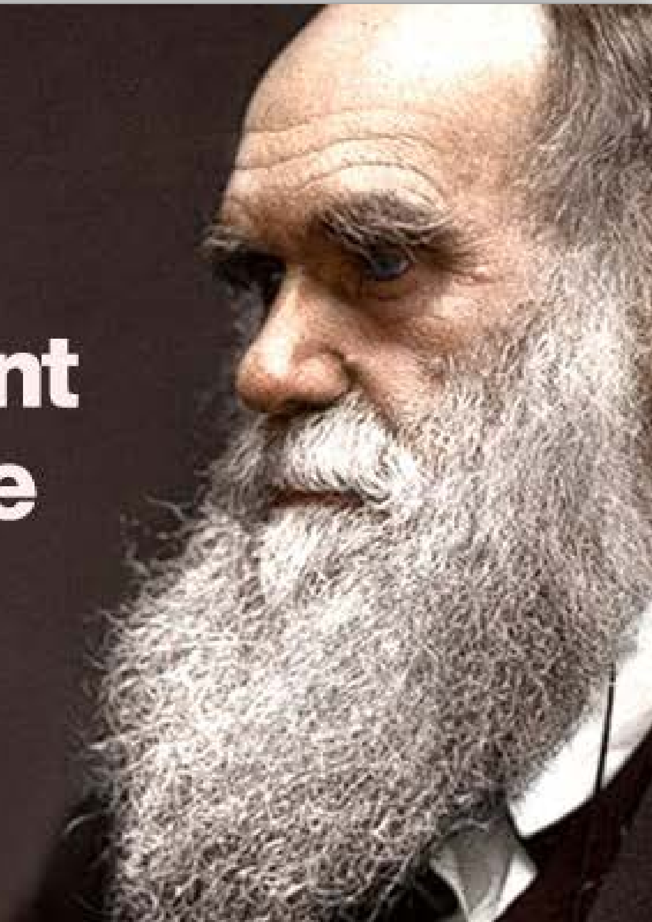
Why Change?

"It is not the strongest of species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

Charles Darwin



THANK YOU!