

Evaluating Anesthesia Engagement Models for Hospitals

October 2012



“Financial challenges again ranked No. 1 on the list of hospital CEOs’ top concerns in 2011, making it their No. 1 concern for the last eight years...Healthcare reform implementation was again the No. 2 concern.”

American College of Healthcare Executives Announces Top Issues Confronting Hospitals: 2011 January 26, 2012 Press Release American College of Healthcare Executives

Financial challenges and healthcare reform continue to top the list of concerns for hospital executives. As a result, many are examining their organizational options to produce the optimal structure for efficient, cost-effective and high-quality healthcare.

Analysis of clinical and non-clinical services includes determining which provider engagement model for anesthesia services is the best fit for the hospital.

This resource document reviews provider engagement models for anesthesia services, including which factors hospital management should consider in selecting the ideal model for providing exemplary and accountable anesthesia services.

Types of Anesthesia Engagement Model

Generally, there are three anesthesia engagement models – independent anesthesia groups, hospital-employed or a combination of the two. Each of these models may be self-managed or professionally managed.

INDEPENDENT ANESTHESIA GROUP: In this model, the hospital contracts with an independent anesthesia group to provide anesthesia services. The service scope can be narrow, perhaps covering just the operating room, or might be more broad to include perioperative services such as preoperative evaluation and testing center, an acute pain management service, a chronic pain service and out-of-the-operating room activities such as the interventional radiology room, endoscopy suites and pediatric MRI. Another characteristic of the independent model is unified or outsourced management. In a unified model the group may be responsible for clinical duties as well as all of the administrative needs such as contracting with payers, recruitment, enrollment, billing and collections, quality management, and financial variance reporting.

As an alternative, contracting with a national anesthesia management company for all anesthesia-related services is a growing trend in anesthesia engagement models.

HOSPITAL-EMPLOYED: Another engagement model option is one in which the hospital employs the anesthesia providers. The hospital pays their salaries and may or may not delegate non-clinical services to the anesthesia team.

COMBINED HOSPITAL-EMPLOYED/INDEPENDENT GROUP: The last engagement model is a combination of the independent anesthesia group and hospital-employed models.

For example, the hospital contracts with an independent anesthesia group but also employs mid-level providers, such as certified registered nurse anesthetists (CRNAs) and/or anesthesia assistants (AAs), to provide anesthesia services.

Anesthesia Staffing

Regardless of the engagement model, anesthesia staffing is typically one of the following arrangements.

- Physicians (anesthesiologists) only
- Anesthesia Care Team with anesthesiologists, CRNAs and/or AAs (medically directed or supervised)
- CRNAs only

Other Aspects of Anesthesia Services

The clinical aspect of anesthesia services requires unique skills and training. However, with the emphasis on cost-effectiveness, as well as performance, it is important to consider both clinical and business aspects of anesthesia services (as illustrated below) when evaluating engagement models.



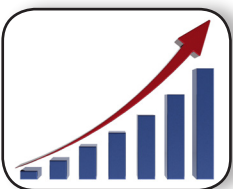
CLINICAL

- Provides optimal coverage for all locations
- Demonstrates effective operating room (OR) management
- Remains current with clinical advancements



QUALITY IMPROVEMENT

- Develops/implements quality improvement program
- Maintains compliance with accreditation agencies
- Prepares for healthcare reform and other legislative changes



FINANCIAL MANAGEMENT

- Manages payer and anesthesia contracting
- Oversees billing/collections and ongoing audits
- Manages anesthesia subsidy and pay-for-performance initiatives
- Helps develop new service lines
- Helps develop, implement and maintain cost containment strategies



Anesthesia Labor Markets

Urban location

- 95% anesthesiologists
- 44% CRNAs

Rural location

- 56% CRNAs
- 5% anesthesiologists

Regional

- Anesthesiologists more likely than CRNAs to work in Northeast and West
- Comparable distributions in Midwest and South

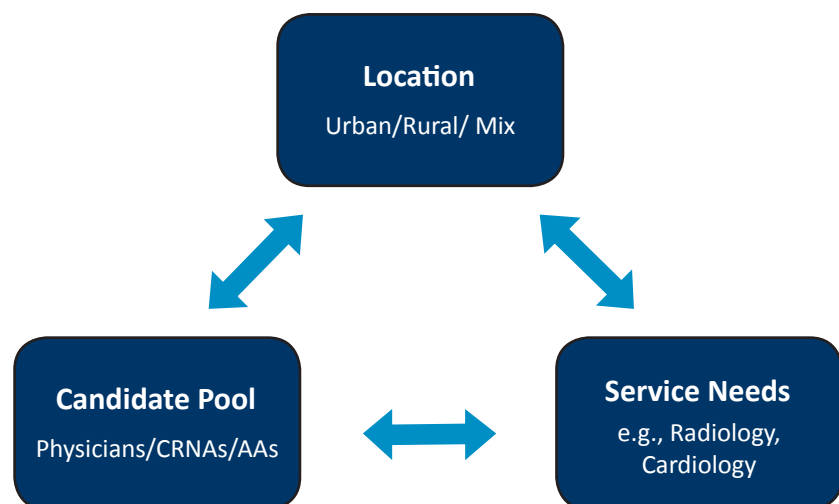
An Analysis of the Labor Markets for Anesthesiology
RAND Health report, 2010

LEADERSHIP

- Aligns anesthesia and operating room's goals with hospital's goals
- Participates in appropriate committees
- Manages personnel staffing/recruiting, training
- Collaborates with surgeons, nurses and other hospital personnel

Important Factors in Selecting an Anesthesia Engagement Model

The following identifies factors for consideration when selecting the engagement model that best suits the hospital's anesthesia needs.



MARKETS: Markets play a key role in the selection process for anesthesia engagement models. However, an independent or employed model, whether integrated or professionally managed, will pay the same for a given clinician. This is why a market compensation report analysis is a reasonable expectation and should be provided by the individuals managing the anesthesia models.

Factors such as location, type of hospital, work hours, work scope, frequency of call and day-off post-call, type of cases, available candidate pool, patient mix and anesthesia service needs influence the viability of the selected model.

As documented in the RAND study (see sidebar), location affects the anesthesia candidate pool. Generally, there are more anesthesiologists located in urban areas, while rural locations attract relatively more CRNAs.

The region's demographics generally direct anesthesia service needs; however, access to a candidate pool encompassing experience in various anesthesia-related specialties also offers the hospital the opportunity for additional services and revenue.

REQUIRED RESOURCES: Another consideration in selecting an anesthesia engagement model is the amount of resources required by the model.

As illustrated earlier under *Other Aspects of Anesthesia Services*, there is more to running an efficient and effective anesthesia department than just clinical services.

For example, a hospital may not have the resources or expertise for billing complex anesthesia claims or for other administrative functions described above. Similarly a local anesthesia provider group may or may not have the administrative infrastructure for managing non-clinical anesthesia services, such as information technology to optimize revenue management, employee hours, enrollment and quality management.

It is important to analyze the resources and capabilities of each organization offering anesthesia services to evaluate cost, effectiveness, and compliance with hospital and regulatory requirements.

MODEL EFFICIENCY/COST-EFFECTIVENESS: Analysis of markets and required resources helps to determine which anesthesia engagement model provides the greatest efficiency and cost-effectiveness. Preparing for worst-case scenarios identifies potential obstacles in implementing a specific model.

For example, a hospital with limited access to a pool of anesthesia providers may think the hospital-employed model gives the facility greater control over the market. However, if there is turnover or inadequate coverage, the hospital's only option may be the high cost of hiring locum tenens and the angst of surgeons who yearn for a stable and consistent team. In this scenario, a more cost-effective model could be outsourcing to an independent anesthesia group with a larger provider pool.

“Anesthesia can no longer afford to operate in a silo, detached from the acute and ambulatory care facilities they rely on for financial viability and success.”

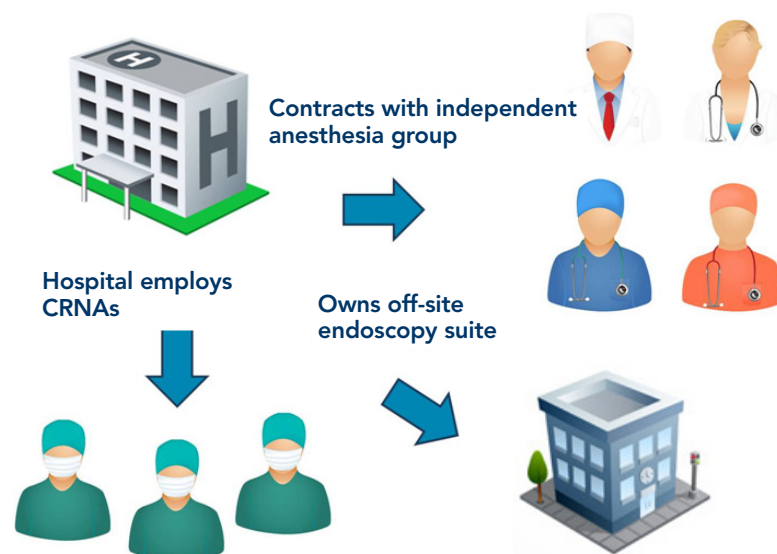
**The Role of Anesthesia in
Accountable Care Organizations
Somnia Resource Document**

One must take into consideration the efficiency and cost-effectiveness of the model, combined with labor and non-labor resources needed to meet the clinical and business objectives of both the hospital and the anesthesia services.

TRANSPARENCY: At the heart of any engagement model is its people. Success in today’s shifting healthcare environment requires a team culture of collaboration.

In order for hospital executives to make fiscally sound decisions, there must be complete transparency in the information and data received from anesthesia partners. A lack of transparency blindfolds decision-makers to critical data needed to make sound assessments.

Consider the following case study:



- 3,000 endoscopy cases/year
- \$250 average cost/case reimbursement
- \$750K million/annually
- Independent anesthesia group covers all cases
- No hospital-employed CRNAs assigned to endoscopy cases
- Revenue from cases not included in anesthesia subsidy requests

In the above case, the lack of transparency of the revenue generated from the endoscopy suite does not provide the hospital with the complete picture.

By covering all endoscopy cases, the group collects all of the revenue. If a hospital-employed CRNA covers an endoscopy case, the hospital shares a portion of the revenue with the anesthesia group to provide required medical supervision.

Without volume and revenue information from the endoscopy suite, hospital management is unable to make informed decisions about the management of those cases. In this case, integrating the anesthesia revenue and expenses will likely diminish the overall subsidy.

For example:

- Should the endoscopy revenue to the group reduce the amount of additional compensation provided in the anesthesia subsidy?
- Would it make better financial sense to assign certain endoscopy cases to the hospital-employed CRNAs?

Strategic partnerships depend on complete transparency to ensure effective management of all anesthesia services.

Benefits of Outsourcing

Hospitals have a history of outsourcing business functions, such as information technology, document storage and janitorial services. The increasing pressure from rising costs and performance regulations has executives reviewing the benefits of outsourcing clinical services.

The following identifies the strategic benefits of outsourcing anesthesia services.

REQUIRES FEWER HOSPITAL RESOURCES: The complexity and the high cost of internal support offer compelling reasons for outsourcing the information technology function. The same is true of anesthesia services.

When considering outsourcing anesthesia's clinical services, hospital administrators also want to review the administration of non-clinical services.

"Outsourcing clinical services can be an excellent strategy for hospitals. It can enable them to expand into new practice areas, save costs, and reduce administrative hassles."

Ten Outsourcing Myths That Raise Your Risk
Healthcare Financial Management:
Journal of the Healthcare Financial
Management Association,
61(6), 66-72.

For example, options for services like recruiting, enrollment, billing and collections, quality management and human resource management include:

1. Administration by hospital staff
2. Administration by the independent anesthesia group
3. Outsourced administration to a third-party vendor

Either the hospital or the independent anesthesia group may outsource the administration to the third party. Hospitals focusing on core competencies or who are worried about the many complexities involved in successful management often elect to have non-clinical anesthesia services outsourced as well.

BUILDS MORE EFFICIENT/COST-EFFECTIVE STRUCTURE: Outsourcing clinical and non-clinical anesthesia services can provide a more efficient, cost-effective structure for hospitals. The following are some of the advantages of outsourcing.

“More hospital leaders see the scale and independent management that such programs offer as key to meeting quality and patient satisfaction targets.”

**Coordinating Care Through
Outsourcing
HealthLeaders, February 2011**

Leverage

The experience, quality of service and reputation of the independent anesthesia group extends credibility and leverage in the marketplace.

One benefit of contracting with a reputable and experienced national anesthesia management organization is its leverage for negotiating economies of scale, such as the following:

- Sharing logistical expertise in the anesthesia supply chain such as medication, equipment, and supply procurement and deployment
- Reduced malpractice insurance rates
- Resources for contingency planning
- Payer contracting expertise
- Access to more robust, effective and sophisticated IT solutions
- Access to sophisticated reports

Recruiting/Staffing Resources

With a hospital-employed anesthesia model, the hospital absorbs the cost of recruiting, salary and benefits, and other human resources management functions. Hospitals in rural areas or with high turnover may find this particularly burdensome.

Depending on its size and resources, an independent anesthesia group may face the same challenges. There is also the added challenge of anesthesia provider credentialing with varying expiration dates, and enrollment with payers, made even more difficult when there are multiple facilities.

A national organization has database access to a larger pool of anesthesia providers at every level including anesthesiologists, CRNAs, AAs and experienced anesthesia leaders.

Like many hospitals, national anesthesia management companies employ enrollment and credentialing specialists who keep current with changing requirements for state licenses, malpractice insurance, Advanced Cardiac Life Support (ACLS) credentials and Drug Enforcement Agency (DEA) certification. The independent anesthesia group model may assign this function to a non-specialist or outsource it to a third-party vendor.

Depending on the hospital's market and resources, access to a national provider database and outsourced recruiting and credentialing services could have a significant impact on cost and efficiency.

Uniform Quality Improvement Program

Healthcare reform initiatives and other regulatory changes make compliance a moving target. A national perspective helps integrate federal and state regulations with the hospital's bylaws to produce a uniform quality improvement program.

National anesthesia management companies with legal resources stay up-to-date with regulatory changes that affect healthcare and anesthesia services. Centralized management helps incorporate evidence-based medicine and best practices with regulatory compliance.

ALIGNS GOALS: Access to financial data is a common reason why hospitals employ anesthesia providers. It goes back to transparency and trust. The question for the hospital becomes, "Is it worth the added employment expenses or is there a cost-effective alternative?"

Contract Considerations for Outsourced Anesthesia

- Ensures terms satisfy all applicable regulations
- Establishes performance standards
- Provides terms for insurance requirements
- Attaches certificates of coverage
- Clearly defines scope of service

Greater Control for the Hospital

A national anesthesia company aligns the goals of the hospital and the anesthesia providers. Generally, when working with an anesthesia management company, the hospital has greater control over the terms and expectations to be included in the anesthesia contract than it would with a local anesthesia group contract.

For example, a local contract may have strict limits on the specific hours worked. As a result, the hospital can incur additional cost for non-peak hours or lack of anesthesia coverage for all locations.

When negotiating with hospital-employed anesthesia providers, facilities may find that the expectation for generous benefits that often come with hospital employment gives providers greater control in negotiation. A national anesthesia company provides the hospital with benchmark information for salary and benefits that hospital administrators may not have.

Provides Leadership/Oversight

Achieving clinical and business goals requires leadership and oversight of all anesthesia services. A fragmented management approach presents a tremendous challenge to aligning goals and balancing the interests of all anesthesia stakeholders.

For example, the hospital-employed anesthesia model may provide accountability for anesthesia services but lack the understanding of payer contracting with its multiple plans, different reimbursement rates and unique rules. Further, the decisions made by the independent anesthesia group (as illustrated in the endoscopy case study) may not be the most cost-effective for the hospital.

An anesthesia management company should be able to effectively partner with the hospital and local anesthesia group it puts in place by providing leadership support, succession planning and accountability, while remaining objective in its evaluations and response.

Choosing the Right Anesthesia Engagement Model

Selecting the right anesthesia engagement model for a hospital requires careful consideration of its markets, resources, and its clinical and business needs.

Ultimately, the best model offers a transparent partnership that meets the cost and performance demands of today's healthcare environment.

About Somnia Anesthesia

Somnia Anesthesia optimizes anesthesia services for healthcare facilities throughout the country by combining clinical excellence with unparalleled management acumen. Owned and operated by anesthesiologists since 1996, Somnia provides a turnkey, solutions-based approach to anesthesia management.

With an extensive in-house infrastructure and a single-minded focus on anesthesiology, Somnia builds and manages local anesthesia teams that consistently deliver the highest quality patient care, enhance operating room performance, increase revenues, and achieve full surgeon and patient satisfaction.

"Outsourcing firms have the ability to locate top talent and provide the necessary leadership training to ensure their clinical departments operate at their highest level and with lower overall operating costs." - Executive CNO, Cleveland Clinic Health System

Clinical Service Outsourcing: What Hospitals Must Know Before Choosing a Partner
HealthLeaders, November 2010



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