



A PYA Healthcare Analytical Tools Case Study

Using Claims Data to Support Strategic Decisions

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As healthcare organizations strive to expand their facilities' footprints to meet the evolving needs of the communities they serve, they face a multitude of strategic decisions. These decisions encompass a wide range of considerations, including service offerings, physician staffing, facility logistics, location, and certification requirements. Navigating these complex choices requires a comprehensive understanding of the financial implications and reimbursement landscape associated with each option.

PYA brings nationally recognized subject-matter experts and world-class data intelligence tools to our clients faced with such challenges. The following case study demonstrates how the PYA Managed Care and Business Analytics teams assisted a health system with its strategic decision-making processes.

Background and Business Issue

A midsize community health system sought to expand its footprint in a growing service area. To achieve this goal, the organization needed to address several key strategic decisions including these:

- Services offered at the new site
- Physician complement to be included at the new site
- How to optimize efficiency for staff and physicians (logistical study)
- Facility location
- How to certify the facility

The health system engaged PYA to support its strategic decision-making process by analyzing the reimbursement implications associated with shifting services from the hospital to the proposed new facility. Specifically, PYA's focus was to help the organization understand expected reimbursement for services provided at an off-campus, free-standing ambulatory surgery center (ASC) or a micro-hospital. PYA's analysis was supported by historical claims data and related assumptions regarding the scope of services to be provided at the new facility.

Step One: Understanding Service Volumes

PYA extracted historical claims data from the existing hospital to understand which service lines and physicians desired relocation to the new site. The firm's initial focus centered on hospital outpatient surgical services, given the health system's goal of potentially establishing an ASC at the new location.

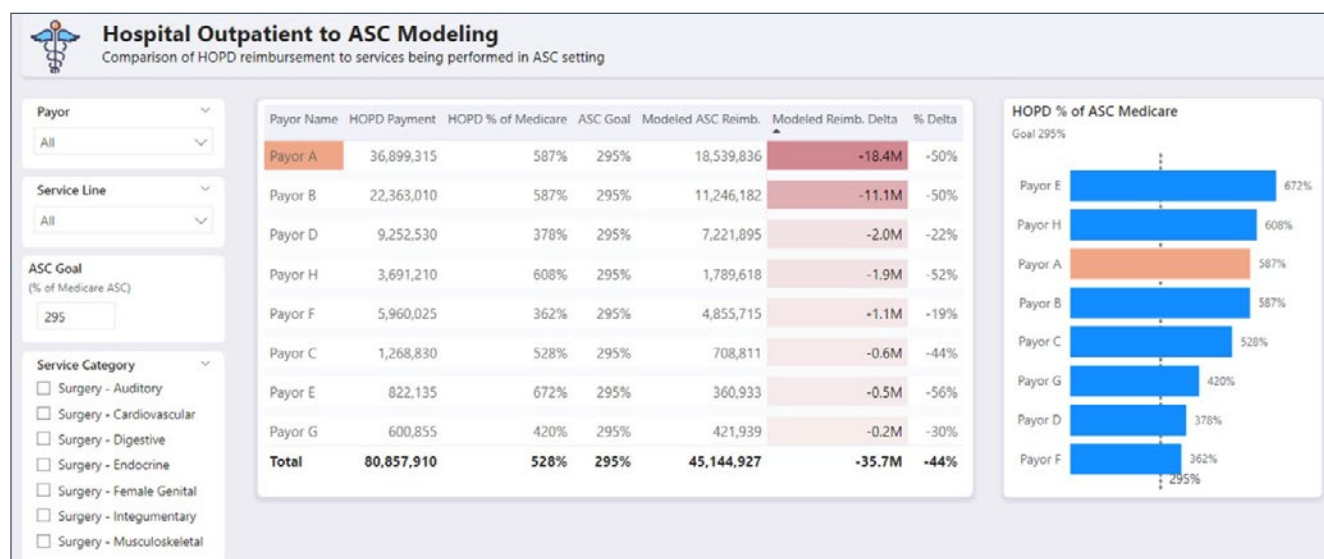
Claims were filtered for procedures that were eligible to be performed in an ASC, as well as certain carveout surgical services that could potentially be done in an ASC for commercial patients. Encounters involving complex diagnostics that were not expected to be duplicated at the new site were excluded from the potential encounters that could be relocated.

Step Two: Understanding Service Reimbursement by Site of Service

Next, PYA evaluated each encounter to understand current reimbursement levels by payer (commercial, Medicare, Medicare Advantage, etc.). The team then modeled these reimbursement levels to estimate future state reimbursement in an ASC setting, leveraging PYA's proprietary analytics tools to extract the claims data and model the reimbursement impact.

Initial Findings – As illustrated in *Figure 1*, PYA's initial analysis (assuming all eligible services shifted to the new ASC) reflected a negative reimbursement impact of 44% for top commercial payers overall, with a 30% to 50% reduction based on the initial goal to set ASC commercial payer reimbursement at 295% of Medicare ASC rates. This level of reduction in reimbursement was clearly unaffordable for this health system. Comparing current hospital-based reimbursement to actual ASC contracted reimbursement from these payers resulted in an even larger reimbursement reduction.

Figure 1



Resulting Considerations – These findings prompted further strategic considerations, including reevaluating the services that would shift to the new facility, renegotiating with commercial payers to create a more favorable resolution to the changing economics, and potentially delaying the opening of the ASC. The health system could certify the site initially as an offsite hospital department with the understanding that services provided to Medicare patients would be reimbursed at off-campus-based reduced levels. PYA evaluated the impact of that scenario, as well.

Of note, this shift in reimbursement levels also needed to be evaluated while considering potential volume shifts from competitors, reimbursement, and cost differentiators, should the facility be certified as a micro-hospital rather than as an ASC (thereby avoiding the reduction in Medicare and Medicaid reimbursement and potentially mitigating the reduction in commercial reimbursement).

Step Three: Understanding Backfill Opportunities at the Main Hospital Campus

The strategy to expand service locations comes with a cost—both in the initial capital outlay and the incremental operating expenses. This increase in cost, coupled with the reduction in reimbursement as services shift from the hospital setting to a lower-cost ASC setting, created a challenge for the health system.

To optimize the current hospital facility and offset the financial impacts, a well considered backfill plan was required. The backfill analysis has to date presented an opportunity for the health system to focus on key service lines that are Medicare-focused, optimizing governmental payer reimbursement opportunities and keeping hospital-based physicians on campus for efficiency.

In Closing

As many legacy health systems strive to provide more affordable care for patients and employers, they face difficult strategic decisions involving numerous variables, data, and analyses. PYA supports many health systems in addressing these and other strategic issues through *decision-ready analytics*.

At PYA, we leverage our expertise and proprietary healthcare analytics tools to help organizations navigate complex strategic decisions with confidence, ensuring their choices align with their financial objectives and the evolving needs of their communities.

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