

The Four Steps to a Successful Anesthesia Subsidy Contract Negotiation

Over the past decade, the percentage of hospitals paying anesthesia subsidies has skyrocketed from 15 to 75 percent. In addition, the magnitude of subsidy requests has escalated dramatically, weakening the bottom line for many facilities. Although anesthesia providers are fundamental to a well functioning OR, abruptly replacing them is fraught with clinical and financial pitfalls.

Hospital executives often feel disadvantaged in anesthesia subsidy contract negotiations, typically because they are not fully aware of the key drivers that need to be addressed. These four drivers include fair market value, anesthetizing locations, a staffing matrix and billing and contracting performance. This article will highlight the four drivers or 'legs' and their influence on anesthesia subsidy as well as larger strategic initiatives of a facility.

The first leg, fair market value, is determined by supply and demand forces and varies by practice location, subspecialty expertise and workload requirements. The concept of 'fair market service' for fair market compensation should be introduced during contract negotiations because, successfully implemented, it creates a mechanism to align compensation with the Return on Investment (ROI) items. Although facilities or providers can't do a lot to impact this number, the contract negotiations present the opportunity for them to incorporate incentive pools. These incentive pools are designed to support a wide range of deliverables including clinical and customer service parameters.

Anesthetizing locations, the second 'leg' and considered the primary driver of anesthesia staffing requirements, is normally controlled by the facility and is a multi-factorial decision. Although administrators are often pressured by surgeon demand to open additional anesthetizing locations, adding additional locations without increasing the net number of surgical minutes in the OR suite decreases anesthesia utilization, leading to lower anesthesia provider productivity. In turn, this decreased productivity results in a reduction in the number of billable minutes per anesthesia provider and subsequent reduced net revenue per provider. In today's healthcare environment, this decreased productivity and net revenue dramatically increases the subsidy required to keep providers at fair market compensation.

The third driver or 'leg' involves the anesthesia staffing matrix, which usually is controlled by the group and used to cover the required anesthetizing locations. Many times, hospital administrators accept a staffing model because of unfamiliarity with reasonable anesthesia staffing. This reasonable anesthesia staffing is affected by a number of factors, the first of which involves the function of the group in a physician only model as opposed to utilization of CRNAs. In addition, considerations in designing staffing models must take into account many factors such as the volume and complexity of the cases, after-hours workload, call obligations and subspecialty coverage requirements. Expert review

of the proposed staffing matrix is recommended in subsidized arrangements as the addition of a single provider has a large financial impact.

The fourth 'leg,' billing and contract performance, represents an area of substantial exposure for many facilities. Administrators who subsidize anesthesia groups are directly or indirectly impacted financially by the ability of the group to bill and collect. The group typically controls the choice and oversight of the billing company, and this model can create a clear disconnect between the flow of revenue and the incentive to collect that revenue. Because anesthesia billing has a unique time component and is billed utilizing units rather than relative value units (RVUs), a majority of facility executives do not have enough expertise to assess the efficacy of their facility's collections.

To combat this lack of knowledge, it is recommended the billing performance through the entire revenue cycle be tracked in any subsidized anesthesia arrangement. Properly implemented, this tracking can proactively identify areas of underperformance, quantify the potential financial opportunity and benchmark against key billing performance indicators. Facilities also should ensure that the group has regular assessment and oversight of its contractual rates with payers.

Understanding these four drivers is integral in leveling the playing field in anesthesia negotiations. Also, because of the importance of access to quality anesthesia in determining local surgical market share, the cost-benefit analysis of each driver or 'leg' should carefully be considered. Retaining the services of subject matter experts who can successfully advise on complex OR utilization, anesthetizing location and staffing matters can make each of these steps easier to understand and address. Through focusing on and becoming educated about each of these drivers, hospital executives can spearhead successful anesthesia subsidy contract negotiations and take steps to mitigate the bite their bottom line.