

ANESTHESIA SUBSIDY SURVEY 2008



HEALTHCARE
PERFORMANCE
STRATEGIES



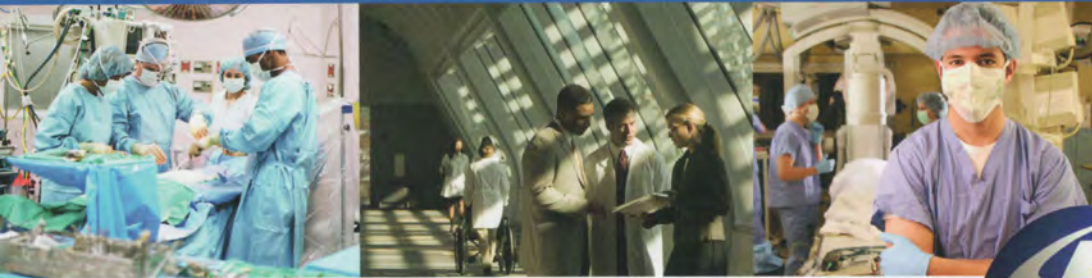
ANESTHESIA SUBSIDY SURVEY 2008

Executive Summary

Driven by increased surgical demand and significant compensation growth for anesthesia providers, hospital subsidies to assure access to anesthesia care have escalated since the mid 1990s. This survey was designed to estimate the dollar amount of anesthesia subsidies among U.S. hospitals with more than 25 hospital beds. Surveys were sent to 2,340 facilities in the 2008 American Hospital Association database with more than 25 beds.

112 responses were returned, representing a total of 3.37% of total U.S. hospital facilities with more than 25 beds. The average subsidy per staffed anesthesia location was \$141,428. A positive correlation was shown between the subsidy per anesthetizing location and requirement for coverage for both Cardiac and Obstetric anesthesia. The total amount of subsidy for these facilities was \$140 million. Extrapolation of this figure based upon total number of beds yields an annual anesthesia subsidy of \$4.2 billion for U.S. hospitals having more than 25 beds.

HEALTHCARE PERFORMANCE STRATEGIES



Introduction

Several trends in the dynamics of the anesthesia marketplace in the U.S. have led to rapidly escalating anesthesia subsidies since the mid 1990s. These factors have led to an increase in anesthetizing locations leading to reduced OR utilization, yielding reduced revenue (Figure 1) generated per staffed location⁽¹⁾, as well as a rapid increase in anesthesia provider compensation (Figure 2).

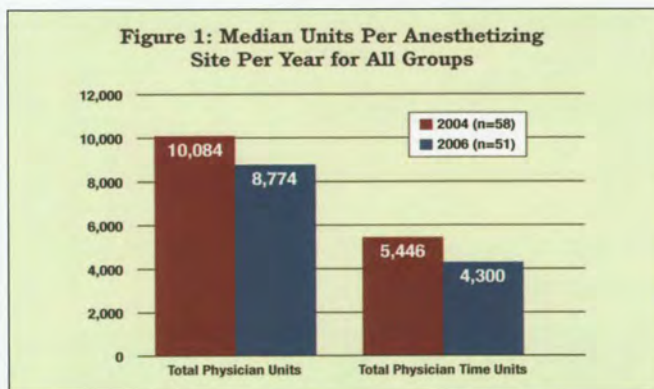


Figure 1



Figure 2

Contributing factors include:

- Dramatic increases in the number of surgical centers, resulting in increased anesthetizing locations
- Substantial reductions in the number of graduates from provider training programs in the mid 1990s
- Migration of anesthesiologists into full time practice of Pain Management
- Increase in surgical cases performed in surgeon offices

In response to these dynamics, it was documented several years ago that 78% of hospitals pay anesthesia subsidies⁽²⁾. However, to our knowledge, the overall cost of anesthesia subsidies to hospitals has not been defined. The current survey was undertaken to assess the total cost of anesthesia subsidies to hospitals with more than 25 beds, excluding government-run and psychiatric hospitals. 4,312 U.S. facilities met the inclusion criteria⁽³⁾. Surveys were mailed to Chief Financial Officers of 2,340 hospitals with more than 25 beds. Survey questions inquired about the total subsidy amount, number of anesthetizing locations, cardiac and obstetric (OB) requirements, and the use of Certified Registered Nurse Anesthetists (CRNA's).

ANESTHESIA SUBSIDY SURVEY 2008

Results

Surveys were received from 112 hospitals. Based on geographic region, the respondents are categorized in Table 1.

REGION	RESPONSES	SUBSIDY PER ANESTHETIZING LOCATION (\$)
Eastern Section	11	159,929
Midwest Section	9	181,135
Southern Section	76	141,674
Western Section	16	98,784
Grand Total	112	

Table 1

(Based on Medical Group Management Association[®] Geographic classification)

Characteristics of facilities by bed size and the number of staffed anesthetizing locations are shown in Tables 2 and 3.

Bed Size	Facilities
25 - 100	13
101 - 250	58
251 - 500	34
501+	7

Table 2

Anesthetizing Locations	Facilities
1 - 5	26
6 - 10	58
11 - 15	18
16+	10

Table 3



HEALTHCARE PERFORMANCE STRATEGIES



For the 112 facilities, the total reported subsidy was \$140,438,291. This yields an average of \$1,253,913 per facility. The average subsidy per anesthetizing location (including OB locations) was \$141,428. Of the 112 respondents, 15 (13.4%) reported no anesthesia subsidy. The number of facilities reporting subsidies in various total dollar amounts is shown in Figure 3.

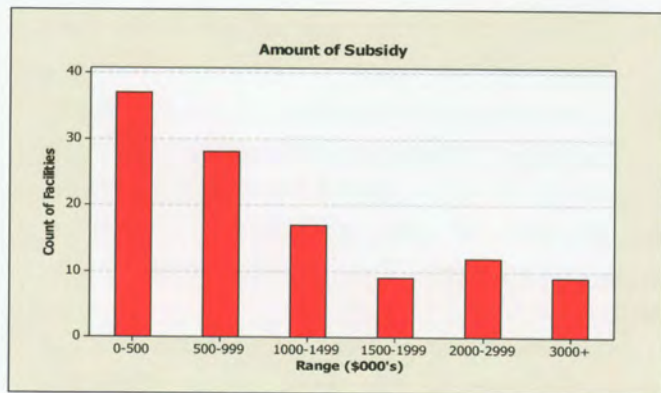


Figure 3

The overall results may be used to quantify the dollar amount of anesthesia subsidies on all facilities with more than 25 beds in the United States. The 112 responses represent 3.37% (26,235 of 777,826⁽³⁾) of hospital beds for all such facilities. Extrapolation to all facilities yields an estimated impact of anesthesia subsidies of \$4.163 billion.

The impact of subspecialty (Cardiac and OB) coverage requirements were compared based upon the subsidy per anesthetizing location. Results are shown in Tables 4 and 5.

Cardiac Coverage Required?	Subsidy/Location (\$)	Facilities
NO	135,677	44
YES	145,237	68

Table 4 - Cardiac Impact

Obstetric Coverage Required?	Subsidy/Location (\$)	Facilities
NO	126,297	55
YES	149,481	57

Table 5 - Obstetric Impact

22 of the 112 facilities (19.6%) did not use CRNAs to provide care. There was a lower subsidy requirement per anesthetizing location for these physician-only anesthesia coverage models as shown in Table 6.

CRNAs Utilized?	Subsidy/Location (\$)
NO	114,804
YES	146,753

Table 6

ANESTHESIA SUBSIDY SURVEY 2008

Discussion

Potential data bias

An escalating frequency of anesthesia subsidies has been documented, but to our knowledge, the overall financial impact on U.S. hospitals has not previously been estimated. While this survey places the impact at \$4.2 billion, several sources of potential error may exist. First is the risk of selection bias, whereby executives at facilities who are in fact subsidizing anesthesia services in any amount would be more likely to respond to the survey. That risk may also be extended to a potential greater propensity for response among facilities which are paying larger subsidies. There may be a geographic bias in the data, given that the responses were predominantly from the Southern region of the country.

In addition, given that a significant business of Healthcare Performance Strategies is consultation related to anesthesia subsidies, it is possible that facilities with whom we have worked may be more likely to respond to our survey. This may also add an upward bias to the results.

Applicability of results

Nonetheless, with a sample size representing more than 3% of the facilities in our target group, representative dispersion in bed size and anesthetizing locations, and 13% of respondents reporting no anesthesia subsidy, we feel that the results are representative of the financial impact of anesthesia subsidies.

Significance of Findings

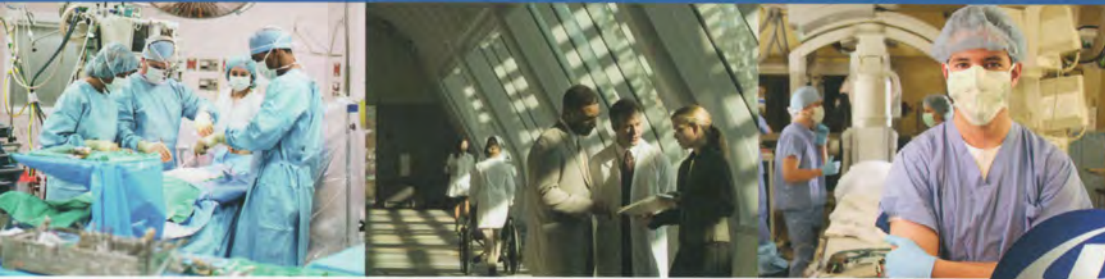
A positive correlation was independently shown between required cardiac and obstetric coverage and escalating subsidy per staffed location. This correlation is consistent with our

experience and explained by the fact that each of these areas of subspecialty coverage requires additional availability of resources both during normal operating hours and “on call” hours. In addition, with recent advances in anesthesia for cardiac surgery, providers for cardiac surgical coverage often have additional specialized training and command premium compensation.

The results show that physician only coverage resulted in a subsidy per location 21% lower than for practices utilizing CRNAs. While CRNA compensation has escalated at an even more rapid rate than that of anesthesiologists during the past decade, a number of factors discourage us from drawing broad conclusions from this particular result. Although a detailed discussion is beyond the scope of this report, the reality is that a number of interrelated factors affect the impact of CRNAs on subsidy per location: the staffing model in which CRNAs are deployed, regional compensation differences, MD compensation links to productivity, and operating room utilization. The decision to use CRNAs is multi-factorial and should be analyzed on a facility by facility basis.

Regardless of the coverage model chosen, the larger message of the current survey is that at over \$4 billion, anesthesia subsidies have a meaningful impact on the profitability of acute care hospitals.

Because anesthesia services are vital to maintain a functioning operating room, hospitals are forced to make up the difference between the cost of covering the required anesthetizing locations, and the revenue generated from payers for anesthesia services. As anesthesia compensation has escalated over the past decade, the cost of coverage per location has risen accordingly. At the same



HEALTHCARE PERFORMANCE STRATEGIES



time, reimbursement levels from payers have not kept pace with the rise in compensation.

If these trends continue, anesthesia subsidies will be expected to continue their upward trajectory. In an environment of narrow hospital profit margins, and numerous pressure points on the bottom line of facilities nationwide, \$4 billion which is not specifically compensated for, represents a substantial assault on the bottom line.

Potential mitigating factors to the rise in subsidies include an increase in payer reimbursement, better utilization of staffed operating rooms, or a reduction in the rise of provider compensation. While some of these factors appear to be stabilizing as we head into 2009, given the current magnitude of anesthesia subsidies, it appears they will be a financial reality for hospitals for the foreseeable future.

Conclusion

It is well recognized that anesthesia subsidies represent a substantial expense to the bottom line of acute care hospitals in the United States. The current survey estimates the overall impact to hospitals with more than 25 beds at \$4.2 billion. While the underlying drivers of anesthesia subsidies are multi-factorial, hospitals should familiarize themselves with opportunities to mitigate subsidies, and how to quantify the value of the services which are delivered in exchange for subsidy payments.

References

1. Abouleish, AB, Everson, TB. The Fallacy of the Field of Dreams Business Plan: A Downward Trend in Anesthesiology Productivity. *American Society of Anesthesiologists Newsletter*, 2007, Volume 71, Number 12
2. Bierstein, K. Anesthesiology Practice Costs, Revenues and Production Survey Data. *American Society of Anesthesiologists Newsletter*, 2007, Volume 71, Number 4
3. 2009 American Hospital Association Hospital Database
4. 2008 MGMA Physician Compensation and Production Survey

HEALTHCARE
PERFORMANCE
STRATEGIES



3471 North Federal Highway
Fort Lauderdale, FL 33306
Toll Free (855) 566-7590
Phone (954) 566-7590
Fax (954) 566-7591
www.hpsllc.com
info@hpsllc.com