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Putting Ambulatory Surgery Centers at the Center of Outpatient Strategy

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Fifty percent of something is better than 100 percent of nothing.”

This quote has been attributed to several individuals, including television host and producer Chuck Barris and personal finance guru Suze Orman. Regardless of its origin, it is a useful reminder that a compromise position is often better than an absolute one.

As hospital and health system leaders witness a steady drift of procedures from inside the hospital walls to outpatient settings, it is important to keep this quote in mind. Most health systems have hospital-based outpatient surgery departments (HOPDs), but standalone ambulatory surgery centers (ASCs) are steadily growing as the preferred choice for physicians, patients, and payers. As of 2020, the number of ASCs nationwide had already surpassed the number of community hospitals: the Medicare Payment Advisory Commission (MedPAC) reports that there were 5,930 ASCs, while American Hospital Association data show that there were 5,139 community hospitals. While procedures performed at ASCs are typically reimbursed at a lower rate than procedures performed at HOPDs (on average, 40% less), their increasing presence as a preferred site for outpatient care should make them a central component of any health system’s outpatient strategy.

The growing appeal of ASCs

The attraction of ASCs for payers is clear; they offer services at a lower cost than HOPDs. Several national insurers have made significant investments in ASCs. Optum acquired Surgical Care Affiliates, which now has more than 260 ASCs, in 2017, and in 2019, Humana added more than 100 ASCs owned by SurgCenter Development to its national provider network to support total joint replacement in an ASC facility for its members. Payers increasingly require that certain procedures be performed in an ASC unless a medical necessity review establishes the need for hospital care, or an ASC is not available within a defined geographic range.²

For physicians, ASCs offer several advantages over HOPDs. Physicians typically can buy equity in an ASC,

Key Facts About ASCs

Data from MedPAC¹ provide some key insights on common ASC characteristics:

- Since 2015, the number of ASCs has been growing by an average annual rate of just above 2.0%, reaching 5,930 ASCs in 2020 (up from 5,352 in 2015)
- 95% of ASCs in 2020 were for-profit facilities, and 93.4% were in urban settings
- Most ASCs have partial or complete physician ownership
- Most ASCs (64%) are single specialty; the remainder are multi-specialty
- Medicare payments account for just 20% of ASCs’ overall revenue
- Gastroenterology and ophthalmology are the most common single specialties, each representing 20% of all ASCs, while pain management and orthopedics are the most common multi-specialty combination, representing 4% of all ASCs
- Cardiology is the fastest growing single specialty, with a more than tenfold increase from 10 ASCs nationwide in 2015 to 106 in 2020

which provides them a share of revenue from facility payments as well as professional fees for the procedures they perform; they also benefit if the ASC increases in value. Because the typical ASC focuses on a limited range of specialties and procedures, the ASC can employ highly specialized staff and customize operating rooms (OR) to make them highly efficient and enhance productivity. The average ASC performs 1,200 cases per OR annually, as compared to fewer than 1,000 cases per OR in a hospital.³ And because ASCs are largely physician owned and operated, the physicians have a high degree of autonomy in managing clinical operations.

Patients also enjoy benefits at ASCs. They are often easier to access than HOPDs, and their efficient operations and ability to focus only on certain procedures translate

into shorter wait times. The lower cost of procedures performed in an ASC mean lower deductible payments for the patient. And with fears of infection heightened by the COVID pandemic, ASCs provide an environment where contact with other patients can be minimized.

Moving ASCs to the center of outpatient strategy

Many health systems have developed or acquired ASCs to help offset losses in hospital surgical volumes and revenue that have already occurred; two of the largest ASC networks nationally—Tenet Health's United Surgical Partners International (USPI) and HCA Health's Surgery Center Division—are owned by health systems. But all health systems should be moving ASCs to the center of their outpatient strategy. As our colleagues noted in an article published last fall, [challenges to HOPD reimbursement rates are coming from all directions](#). Not only are commercial insurers refusing to authorize certain procedures in HOPDs without a finding of medical necessity; all payers—including Medicare—are working to establish site-neutral payments. It is only a matter of time before the advantage of higher payment rates at HOPDs disappears. Given this trend, retention of volume should take priority over receiving a higher rate for a diminishing number of cases.

In the meantime, ASCs are finding many interested investors, and physicians who own or are seeking to develop an ASC have many options. In addition to the national insurers discussed above, these options include national ASC management companies such as USPI, AmSurg, and Surgical Care Affiliates (the five largest of these companies had just over 1,000 ASCs, or about 20% of the national total, in their networks as of June 2021⁴) and private equity investors who are playing an increasingly active role in the ASC market.

These investors offer a variety of partnership options. Both health systems and physicians should be aware of these options, their benefits, and their disadvantages. In some cases, these investors are potential partners: many of the national ASC management companies, for example, offer a three-way partnership between the management company, physicians, and a health system. A [recent example](#) is the partnership between ValueHealth, The Villages Health, and

Orthopedic Care Partners to develop a 28,000 square foot ASC in The Villages retirement community in Florida.⁵

For health systems that seek to partner directly with physicians on an ASC, key considerations will include:

- **Ownership structure:** Physicians will want an opportunity to have at least partial ownership of the ASC; whether they have a minority or majority ownership interest will be a key negotiating point.
- **Valuations:** Determining the fair market value (FMV) for any ASC involving a hospital owner is a legally required but often challenging determination. ASCs that do not involve a hospital owner are not required to meet the FMV test.
- **Autonomy:** In most cases, physicians will seek to maximize their autonomy over clinical operations and staffing decisions. Health systems should enter negotiations with a clear sense of how much autonomy they are willing to offer.

The continued growth of ASCs as more procedures can be performed in an outpatient setting is part of the [major realignment in healthcare](#) that we discussed earlier this year. That growth is moving into core service lines, including orthopedics and cardiology. As health systems look to the future, surgical volume will continue shifting from HOPDs to ASCs: it is not a question of "if" but "when." Health systems must be innovative and flexible to ensure that they participate in that growth with physician partners and others, recognizing that a share of something is better than all of nothing.

Endnotes

- ¹ Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2022.
- ² Dyrda, L.: "ASCs and Payers: New Best Friends?" Becker's ASC Review, May 4, 2021. <https://www.beckersasc.com/asc-coding-billing-and-collections/ascs-and-payers-new-best-friends.html>
- ³ Blasco, T.: "Can Your Hospital Survive the Growing Dominance of ASCs?" OR Manager, Jan. 13, 2020. <https://www.ormanager.com/can-hospital-survive-growing-dominance-ascs/>
- ⁴ Dyrda, L.: "10 of the Largest ASC Chains in the US | 2021." Becker's ASC Review, Oct. 1, 2021. <https://www.beckersasc.com/asc-news/10-of-the-largest-asc-chains-in-the-us-2021.html>
- ⁵ ValueHealth: "ValueHealth Expands Value-Based Care Network in Florida with The Villages Health and Orthopedic Care Partners." Press release, May 24, 2022. <https://valuehealth.com/valuehealth-expands-value-based-care-network-in-florida-with-the-villages-health-and-orthopedic-care-partners/>

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