Ambulatory Surgery Centers: Tool or Target in WC Cost Containment Efforts?

By Maddy Bowling & David Huth

Despite some indications that rate increases have begun to temper the upward climb of combined ratios in workers’ compensation, a deeper investigation makes it clear that we do not yet have our arms around our loss costs, particularly the medical costs. Nationally, according to the recent NCCI “State of the Line” report, medical costs in WC have been on the rise, increasing over 8% from 1996-2002, with 2002 increases at 12%, the highest rate since 1990.

There are, of course, many specific state WC systems driving these numbers, but none more than California, where the evidence suggests that rate increases alone have not solved the crisis. According to the state’s Workers’ Compensation Insurance Rating Bureau (WCIRB), total incurred WC medical costs will exceed $10 billion dollars in California this year and increase more than 20% to nearly $12.2 billion by 2004. Much of the blame for California’s rapidly increasing WC medical costs has been directed at the growing use of Ambulatory Surgery Centers (ASCs). Originally conceived of as a lower cost alternative to increasingly expensive inpatient hospital care, ASC use has exploded over the past decade.

National ASC Trends
Nationally, the number of Medicare-certified ASCs has more than doubled from 1,460 in 1991 to 3,371 in 2001. California has led the nation in ASC growth, acting as home to 15% of all Medicare-certified ASCs in 2001, or nearly double the number of the next highest state, Florida, with 8%. As medical technology has improved over the last decade, the number and type of surgical procedures that can be safely performed on an outpatient basis has increased. As shown in Figure 1-1 above, the total volume of procedures performed by ASCs nationally has mirrored the rapid growth in the number of ASCs.

The variety of medical specialties
represented in ASCs has also grown to include medical providers that have typically been associated with workers’ compensation claims such as: Orthopedics (represented in 38% of all ASCs); General Surgery (35%); and Pain Management (22%). As a result, it would appear that ASCs have begun to shift more workers’ compensation medical care away from inpatient hospitals and into outpatient settings. For example, as Figure 1-2 illustrates, the most recent data from the Workers’ Compensation Research Institute (WCRI) shows that although California WC claims had an average number of surgeries performed, they had the lowest number of claims with payments to inpatient hospitals of the 12 states studied—most likely due to the high

ASC penetration of the California market.

Do ASCs Actually Save Money?
While it is clear that ASCs have been successful in shifting care to outpatient settings, the question of whether that shift has actually resulted in any savings or improved outcomes remains largely unanswered, particularly in workers’ compensation. In fact, as the recent California legislative firestorm demonstrates, with at least five proposed bills aimed at regulating outpatient surgical fees, many consider ASCs as part of the problem rather than as a potential solution. National data on ASCs suggests that the original intent—less costly procedures/treatment—is possible. Recent data from the national Medicare Political Action Committee (MedPAC) shows that ASCs do perform some procedures more cost-effectively than their hospital counterparts; however, there are many specific procedures which are reimbursed at higher rates for ASCs as illustrated in Figure 1-3 on page 8.

As the table shows, based solely on Medicare reimbursement rates, specific procedure codes are often actually more expensive when delivered in an ASC setting. The research also found that the quality of care delivered by ASCs did not differ significantly from the care provided by hospital systems. However, when the MedPAC analysis grouped specific procedure codes into treatment categories (as shown in Figure 1-4 on page 9), the average payment to ASCs was consistently lower than the comparable hospital system payments.

In fact, the average total payments for common workers’ compensation procedures such as Ambulatory Musculoskeletal Procedures and Arthroscopy were 46-51% lower for ASC-based care. These results suggest that ASCs can indeed be a tool for medical cost containment when used properly. There are, however, several environmental “challenges” in the California workers’ compensation market that limit the cost-savings potential of ASCs.
ASCs and California Workers’ Compensation

California’s workers’ compensation medical costs have been growing by an average of 18.2% per year since 1999, despite the fact that medical inflation has averaged only 4% per year over the same period. Workers’ compensation medical inflation peaked at 12% and total claim volume has actually been decreasing. Many California claims payers and employers point to ASCs as one of the key causes of these continued medical cost increases, citing three primary “dangers” of ASCs:

- **Self-referrals**
  Physicians are permitted to own ASCs and therefore benefit from facility charges in addition to surgical fees. Payers argue that this creates strong financial incentives for providers to over treat and self-refer patients for unnecessary procedures.

- **Unregulated procedure fees**
  In California, procedures performed in an ASC setting have not been subject to the workers’ compensation fee schedule, so providers are largely free to charge whatever they like. Payers have complained that as a result they often have to pay substantially more—often double—the fee schedule rate for procedures performed in an ASC.

- **“Skimming”**
  By “skimming” profitable patients away from hospitals, payers fear that ASCs will force the hospitals to increase their prices on procedures which must be performed within the hospital system.

California legislators are currently attempting to address these “dangers” through several new proposed bills targeted at ASCs. Senate Bills 354 and 899 attempt to address the issue of self-referrals as they would prohibit, or potentially even make it a criminal offense for physicians to refer to ASCs in which they or their family have a financial interest.

Senate Bills 228 and 757 would both require the creation of fee schedules targeted at 120% of Medicare rates that would govern ASC charges. Even at 120% of Medicare rates, ASCs could still provide payers with savings over care delivered by hospital outpatient settings based on the MedPAC data, which showed standard Medicare rates generated savings of at least 45% on common WC treatments.

The fact that hospital charges are already regulated by the existing California workers’ compensation fee schedule should prevent hospitals from creating the cost-shifting scenario that “skimming” could trigger.

Finally, it is important to note that there are medical-review products currently available to assist in controlling the rising and potentially inappropriate ASC charges should legislative reforms take longer than planned, or not change at all. These products use databases and negotiation tools to assure appropriateness of treatment as well as unit cost.

Potential Additional WC Benefits of ASCs

Assuming that the proposed legislation adequately addresses the areas of concern, ASCs can potentially deliver significant additional benefits to workers’ compensation claims in California and the rest of the nation. Unlike Medicare, workers’ compensation claims have a dual goal of positive medical outcome and successful return to work. In that scenario, time is of the essence, as every day of treatment delay means additional indemnity costs to payers and employers. ASCs can offer unique benefits to WC claims if they can provide faster access to appropriate care.

According to research conducted by Earnhart & Associates for the American Medical Association, the top three benefits cited by providers who have created ASCs are:

- Increased efficiency
- More control over operations
- Better access to physical plant

In workers’ compensation claims, that additional efficiency and access to surgical facilities can translate into faster access to required care and ultimately faster maximum medical improvement (MMI) and return to work (RTW). Even if there were no changes in medical treatment, if treating at an ASC can reduce surgical wait time by just five days, it could potentially reduce the ultimate costs on that claim by at least a week’s worth of indemnity payments.

In addition to faster access to surgical suites, the smaller scale of most ASCs offers the potential to closely integrate related medical services. By closely linking diagnostic services such as MRIs on the front end with postoperative services such as physical therapy or pain management on the back end, ASCs have the potential to improve the quality and velocity of treatment, as well as information shared among the team of treating providers, reducing the need for external case management services.

If California’s Legislature can remove the potential financial incentives to overtreat and brings procedure unit costs in line with the rest of the workers’ compensation system, the significant ASCs infrastructure in the state has the potential to deliver lower cost, quality care, and drive faster MMI and return-to-work results. The nation is watching what happens in California as it relates to ASCs; thus, the “right” result for California ASCs will have far-reaching implications for our industry as a whole.

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