INSIGHTS FROM THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

FINALIZED CMS MEDICARE RULE SIGNALS NEW ERA OF ORTHOPEDICS

A recently finalized CMS rule signals that the healthcare industry should brace for another wave of orthopedic-related consolidations—especially those driven by private equity and health systems seeking to enter joint ventures with larger orthopedic practices.

In its 2020 Medicare payment rule, CMS finalized several orthopedic-related changes, including for:

- Ambulatory surgery center (ASC) facilities – Adding knee replacement and repair procedures as approved services
- Hospital outpatient facilities – Adding hip replacements and a number of spinal surgical procedures as approved services, shifting them away from their historical inpatient-only setting

At the same time, CMS has also updated its Bundled Payments for Care Improvement (BPCI) Advanced Model to include an outpatient component of knee replacements.

The move from inpatient to outpatient and ASCs began several years ago, but these collective changes from CMS represent a focused push to expedite that trend, which threatens a highly lucrative revenue stream for hospitals.

For example, the following changes are expected to negatively impact hospitals' revenue streams by the respective reimbursement amounts listed:

Approved Services Added	Estimated CMS Reimbursement
Inpatient diagnosis related group (DRG) payments	$12,750
Knee replacement procedures at ASCs	$8,600
Hip replacements at hospital outpatient facilities instead of in-patient settings	$11,000

These changes to ASC knee replacement and outpatient hip replacements could have an adverse impact on hospitals as they open doors to new competitors including ASC management companies and larger orthopedic practices. Such organizations could develop their own ASCs and capture this newly available patient population and value. For larger orthopedic practices in particular, this may increase their ability to add value and savings under the BPCI Program—providing even more impetus for change and opportunities for investors in the space.

This is triggering several responses across the health continuum:

1. **Greater investment from private equity into orthopedics**

   BDO'S QUICK TAKE: Capitalizing on a highly fragmented market, PE firms have already been acquiring many larger physician practices with scale. As ***Modern Healthcare*** reported on Sept. 3, 2019, orthopedists—as well as other specialists like gastroenterologists and urologists—are among the newest targets in the PE rush into physician practices. "These firms are attracted to specialties that promise rich revenue from ambulatory surgery centers, lab, imaging and other ancillary services," the publication wrote.

   This shift towards ASCs among lucrative joint replacement patients provides investors a growing opportunity for profitability, as orthopedic services provided in the outpatient setting have shown lower readmission rates and fewer complications. This is an attractive transition for PE firms to ride.

2. **A new wave of branding and specialization efforts**

   BDO'S QUICK TAKE: The industry is moving to a value-based world, so organizations need to determine where they play in this world and promote that. Some health systems and hospitals may lose out on these lucrative volumes as patients go elsewhere for better value. Others may instead get ahead of the trend and create leading orthopedic centers of excellence to support higher reimbursement and profit margins.

   Another option for health systems may be to create joint venture models with leading ASC management companies or orthopedic practices to promote volume protection and growth. For those who pursue this model, it will require both sides to conduct careful pre-venture due diligence around how to structure the agreement, what liabilities that structure opens them up to, and a careful review of clinical coding policies and procedures to ensure proper reimbursement and mitigate risk of clawbacks.

3. **Increased emphasis on—and competition for—top orthopedic talent**

   BDO'S QUICK TAKE: In a value-based world, it's easier to identify the best surgeons based on patient volumes, complications and quality of outcomes. This information will become more readily available as industry efforts to boost transparency into the billing practices and quality ratings of healthcare organizations moves forward. As greater emphasis is placed on outpatient facilities over the traditional hospital setting, organizations will need to ensure they have the infrastructure and leadership in place to attract—and retain—leading surgeons.

LEARN MORE about how your organization can manage risk amid new reimbursement models and ultimately, transform to better compete in today's healthcare landscape.

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