

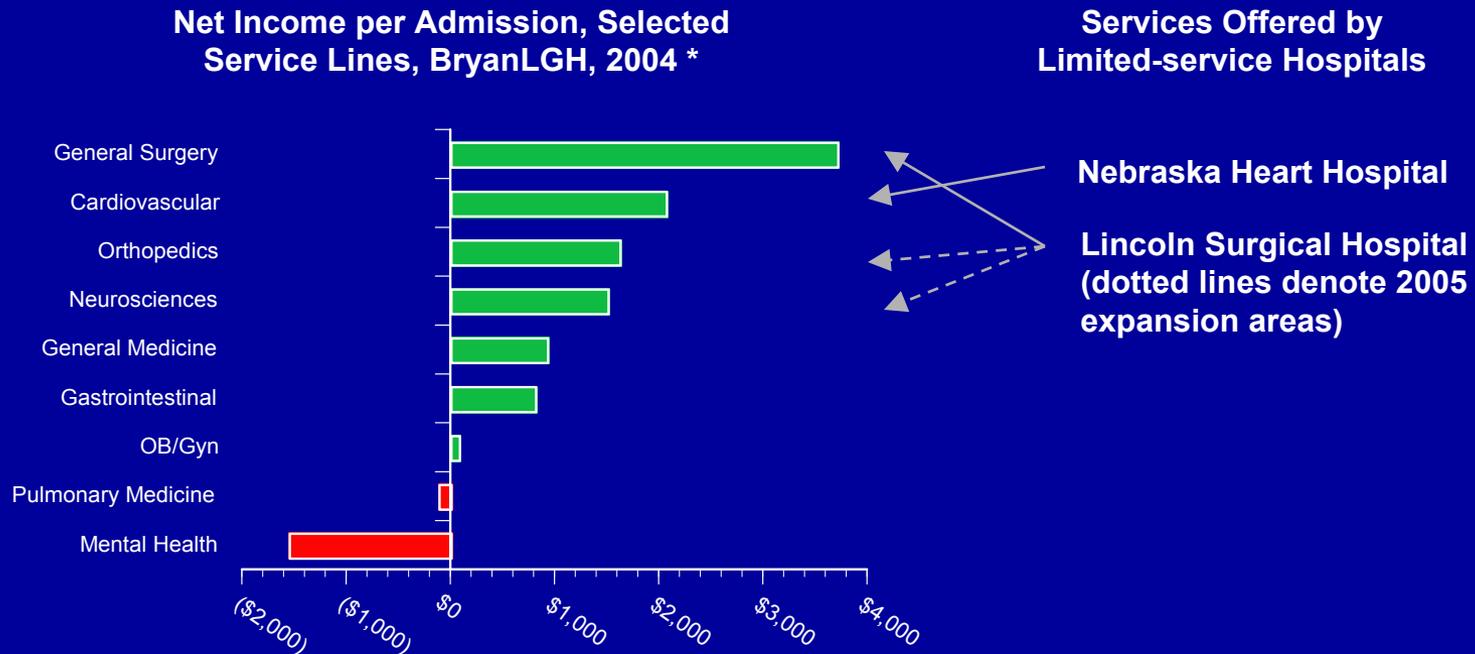
# Impact of Physician-owned Limited-service Hospitals: Lincoln Case Study

February 16, 2005

*Based on a case study of market dynamics and  
community impacts completed by McManis  
Consulting between October and December 2004.*

# Executive Summary

- During the 1990s, a strong partnership between BryanLGH (a full-service hospital system) and the Nebraska Heart Institute (a cardiology and cardiac surgery physician group) established Lincoln as the center for cardiac care for much of Nebraska and portions of adjoining states.
- Physicians in the Nebraska Heart Institute (NHI) decided to end the partnership and develop their own heart hospital, which opened in 2003.
- A physician-owned surgical hospital also opened in 2003. Together, the two limited-service hospitals targeted the most well-paid hospital procedures.



\* Source: BryanLGH administration.

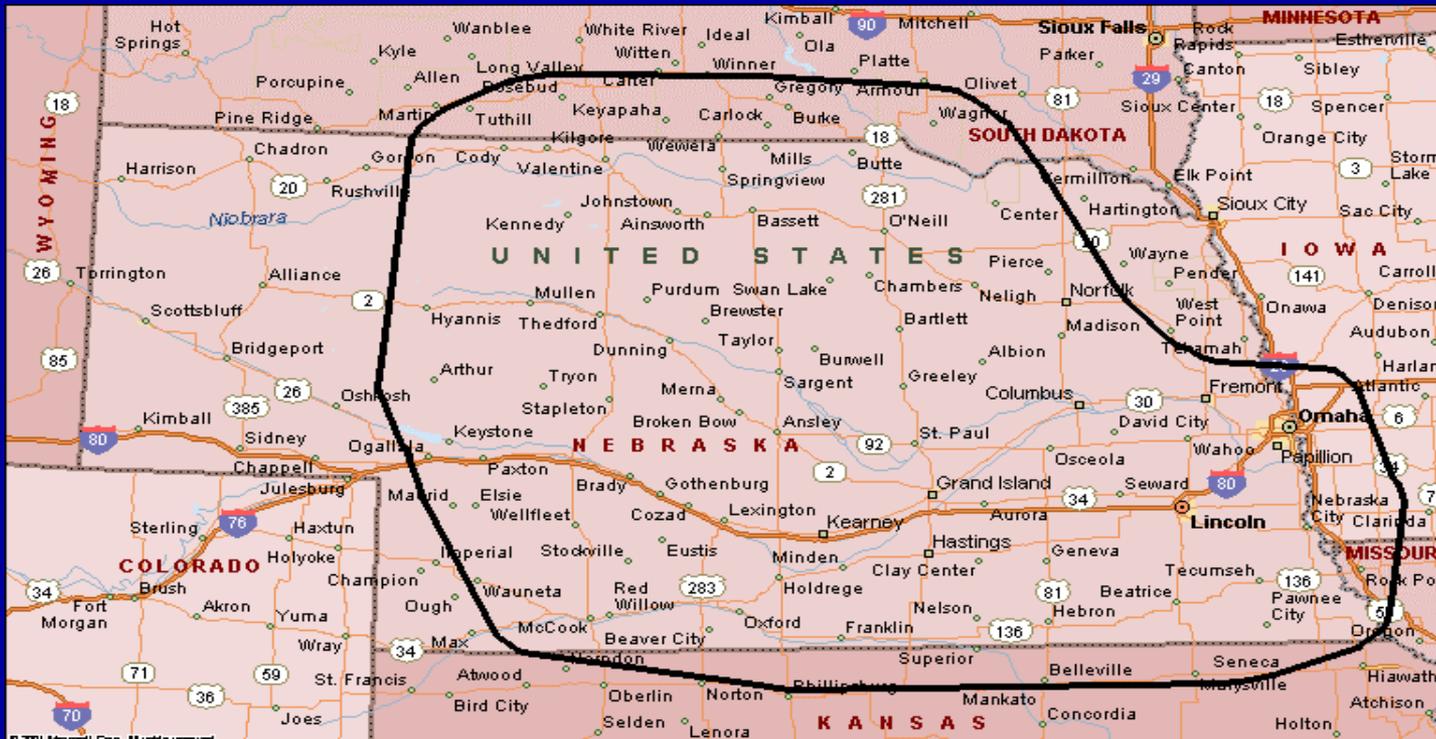
## Executive Summary (continued)

- **NHI specialists shifted their patients from hospital to hospital as NHI's overall business strategy unfolded.**
  - NHI specialists shifted many patients from BryanLGH to Saint Elizabeth (Lincoln's other full-service hospital) once they decided on a business strategy that did not include BryanLGH.
  - They moved Medicare patients from Saint Elizabeth to NHI's hospital when it opened.
  - They moved commercial patients from Saint Elizabeth once NHI's hospital had negotiated commercial contracts.
- **Blue Cross Blue Shield of Nebraska elected to contract with NHI's new heart hospital, but at a lower rate (recognizing that less complex procedures were being performed).**
- **Many believe that health care in Lincoln as a whole is heading the wrong direction ...**
  - Fragmenting care; duplicating community resources
  - Going from one truly outstanding cardiac program to two good ones
  - Doing the easier and elective cases in one location and the more difficult and emergency cases in another
  - Making the operation of emergency programs more difficult and costly
  - Threatening the viability of needed programs that don't pay their own way (including a large psychiatric program that serves much of the state)
  - Fighting for scarce staff

# Introduction

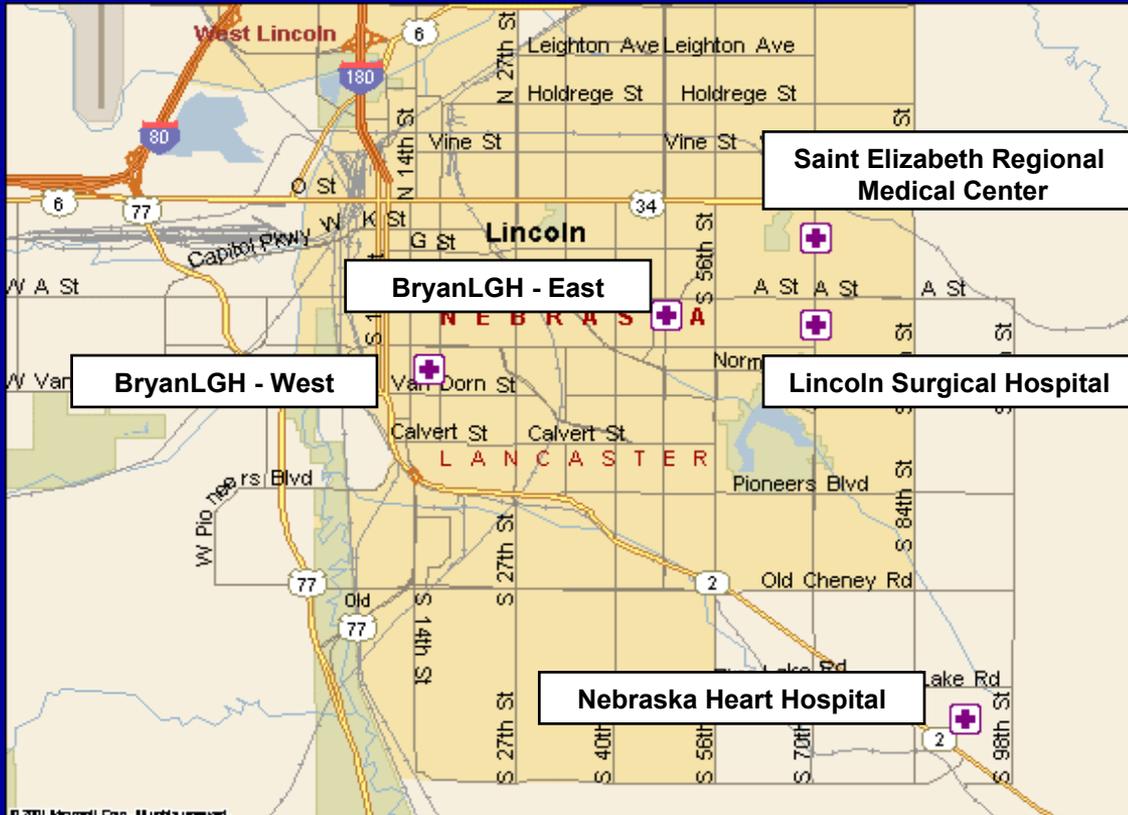
# Health care providers in Lincoln serve a widespread service area.

## Lincoln Health Care Service Area



The service area includes 48 counties in Nebraska (population: 722,000) and extends into portions of South Dakota, Iowa and Kansas.

# Lincoln has two full-service health systems and two limited-service hospitals. \*



## Full-service Hospitals:

- **BryanLGH** – 563 beds on two campuses, formed in 1997 by the merger of Bryan Medical Center and Lincoln General Hospital, includes the area’s major trauma center.
- **Saint Elizabeth Regional Medical Center** (240 beds, part of the Catholic Health Initiatives system).

## Physician-owned Limited-service hospitals:

- **Nebraska Heart Hospital** – 63 beds, 2 operating rooms, opened May 2003, owned by the Nebraska Heart Institute (30 physicians).
- **Lincoln Surgical Hospital** – 7 beds, 5 operating rooms, opened April 2003, owned by 17 physician investors. \*\*

\* Lincoln is also home to Madonna Rehabilitation Hospital, a 273-bed facility providing spinal cord, stroke, burns and cardiac rehabilitation services.

\*\* The Lincoln Surgical Hospital is scheduled to expand to 15 beds and 8 operating rooms in 2005. More orthopedic and spine cases are planned.

# **The Nebraska Heart Hospital was formed by physicians who had worked in close partnership with BryanLGH in building a statewide cardiac service.**

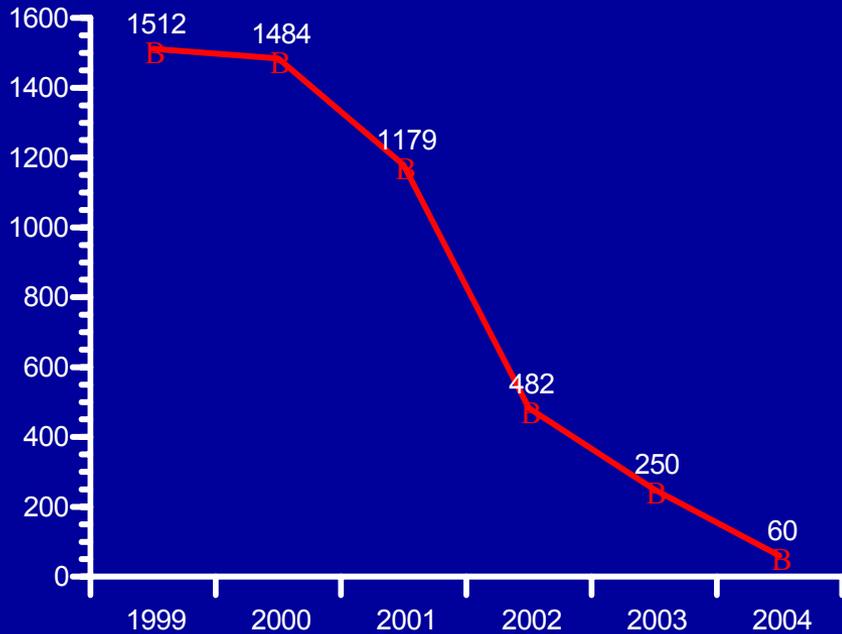
## **Time Line Leading to Development of the Nebraska Heart Hospital**

- |                     |   |
|---------------------|---|
| <b>1987</b>         | <b>Bryan General Hospital and the Nebraska Heart Institute (NHI), a private cardiology and cardiac surgery group, joint venture on cath labs.</b>   |
| <b>Early 1990's</b> | <b>BryanLGH and NHI extend the 50/50 outreach joint venture to bring a comprehensive cardiac program to rural Nebraska, including a network of 8 vans providing mobile cardiac diagnostic services.</b>   |
| <b>1994</b>         | <b>The outreach joint venture was expanded to include nuclear imaging.</b>  |
| <b>1995</b>         | <b>NHI located in a new medical office building on the BryanLGH campus, with closely coordinated hospital and medical practice services.</b>  |
| <b>Mid 1990's</b>   | <b>MedCath, the for-profit investor-owned developer of heart hospitals, met with NHI on several occasions, proposing the development of a heart hospital in Lincoln. NHI physicians were interested in the concept but did not agree to MedCath's terms.</b><br><b>NHI approached BryanLGH to joint venture all cardiac services, including hospital services. BryanLGH did not agree, citing bond covenants and legal compliance issues.</b> |
| <b>2001</b>         | <b>NHI announced the development of its own heart hospital, citing the absence of sufficient staff and space at BryanLGH.</b>   |

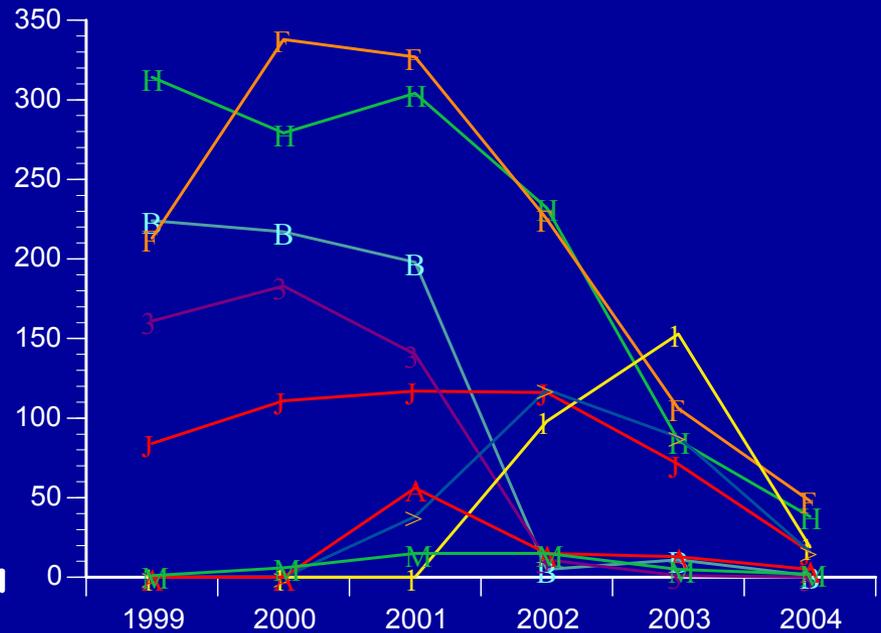
# **The Movement of Cardiac Patients Between Hospitals**

# Once BryanLGH declined to joint venture all cardiac services with NHI, NHI physicians removed virtually all of their cases from BryanLGH.

**Heart Surgeries by NHI Physicians at BryanLGH**



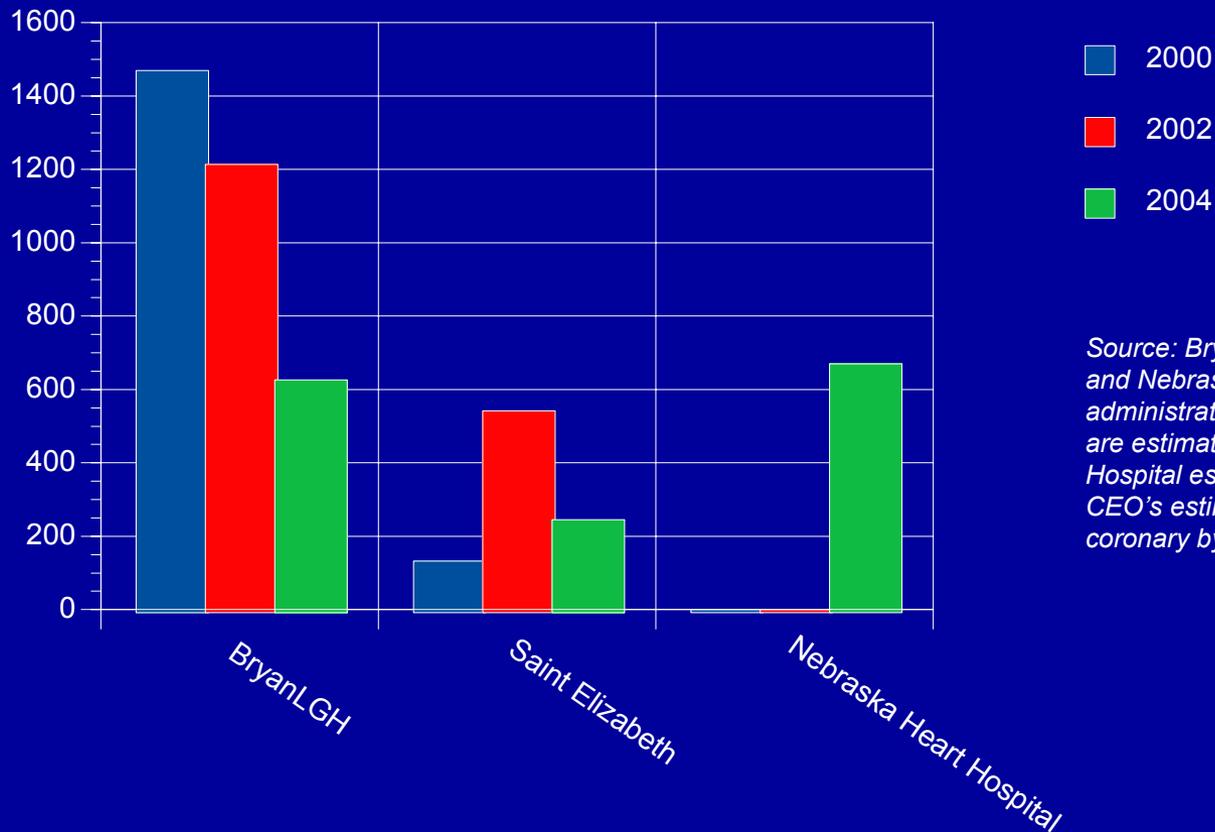
**Interventional Procedures by NHI Physicians at BryanLGH (shown by physician)**



Source: BryanLGH administration.

# NHI physicians were able to direct their patients to the hospital of their choosing – first to Saint Elizabeth's and then to their new hospital.

## Total Heart Surgeries by Hospital



*Source: BryanLGH, Saint Elizabeth's and Nebraska Heart Hospital administrations. All 2004 numbers are estimates. The Nebraska Heart Hospital estimate is based on the CEO's estimate of the number of coronary by-pass surgeries.*

# The new heart hospital focused on well-paying patients and procedures.

## Patient Selection Tactics Leading to Profitability in Limited-service Hospitals

- Focus on Well-reimbursed Procedures

- Avoid Emergency Cases

- Focus on Patients with Good Reimbursement

- Focus on Patients in Good Overall Health

+

# Why do these patient selection tactics yield high profits?

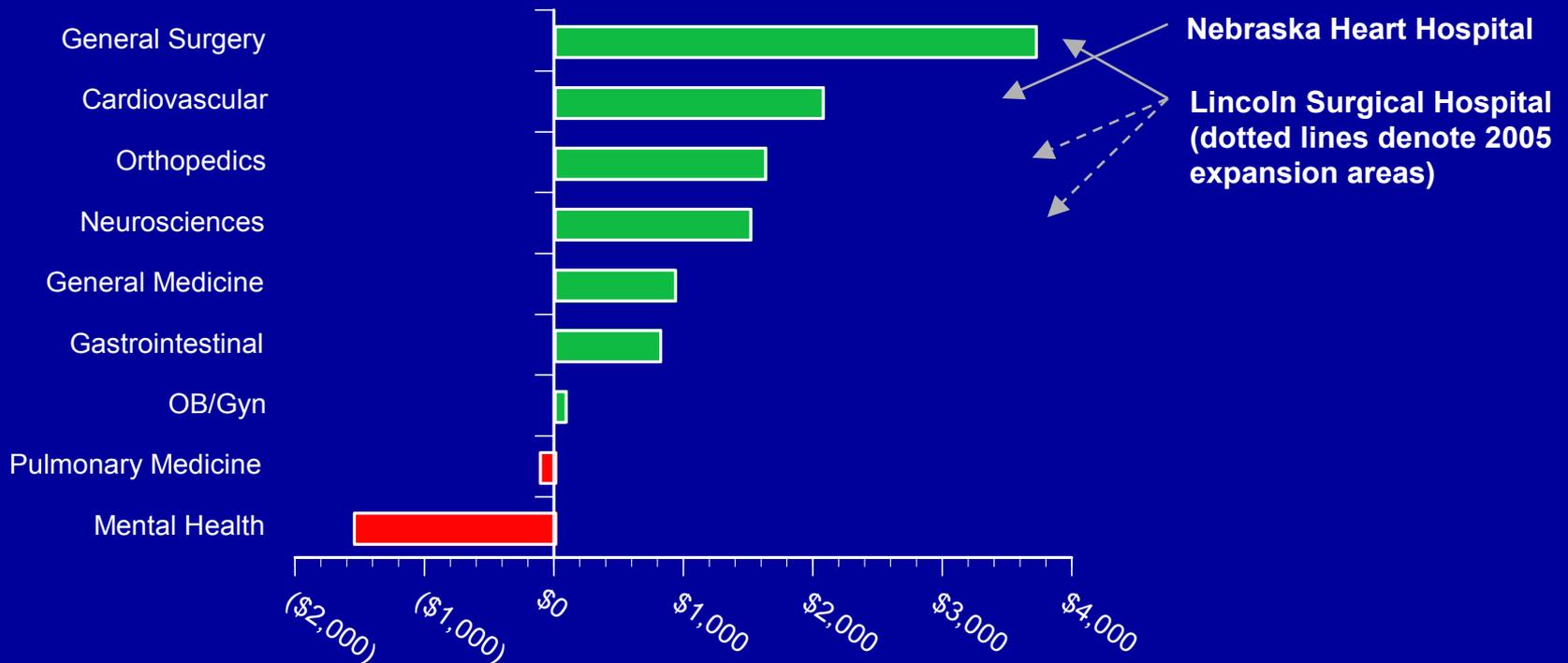
**Certain services and patients are better paid than others:**

- **Procedure-based services -- cardiovascular care, spine surgery, orthopedics, general surgery -- tend to pay more relative to costs than medicine, obstetrics, and behavioral health.**
- **Private payers typically pay more relative to costs than Medicare and Medicaid. Recent MedPAC analysis found Medicare heart patients are well-paid relative to other Medicare patients.**
- **The standby capacity for emergency services is costly to maintain and is under-reimbursed.**
- **Not having an emergency department allows a facility to be selective in which patients it serves (in terms of payers, services and acuity level).**

# Both limited-service hospitals focused on the most well-paid procedures in Lincoln.

Net Income per Inpatient Admission,  
Selected Service Lines, BryanLGH,  
2004

Services Offered by  
Limited-service Hospitals



Source: BryanLGH administration.

# **Neither limited-service hospital offered emergency services.**

**Avoiding emergency cases is important in maximizing profits and creating physician-owner satisfaction. It enables management to:**

- Avoid purchases of seldom used equipment.**
- Plan in advance without the potential for emergency cases to disrupt the schedule:**
  - Match staffing to cases, avoiding the costs of standby capacity.**
  - Offer an attractive schedule for physicians (free of interruptions).**
  - Provide physicians with a practice environment without the responsibilities of night and weekend call.**
- Exert control over acuity and payer mix (avoiding EMTALA mandate). \***

\* *The Emergency Medical Treatment and Labor Act (EMTALA) requires hospitals with emergency departments to screen and stabilize all patients, without regard for ability to pay.*

## **Initially, the heart hospital almost exclusively treated Medicare patients.**

- Medicare was the only payer to recognize the heart hospital when it opened. NHI's commercial patients were mostly admitted to Saint Elizabeth.
- Later, Blue Cross Blue Shield of Nebraska reviewed data submitted by the heart hospital and agreed to contract with it. The contract was negotiated at a lower rate at the heart hospital than for the full-service hospital, because the heart hospital was seen as treating less complex cases.
- Other payers (Mutual of Omaha, United Healthcare) agreed to contract with the heart hospital.

**“The Nebraska Heart Hospital isn’t set up to sustain difficult cases. The patients there have lower acuity. For this reason, we have negotiated lower rates with them. We pay BryanLGH more for heart patients, recognizing they deal with the complex cases.”**

**President, Blue Cross Blue Shield of Nebraska**

\* *Medicare, however, pays the same rate for all patients within the same case category (DRG) regardless of acuity.  
Source: Interviews with Nebraska Heart Hospital, BryanLGH, Saint Elizabeth and Blue Cross Blue Shield of Nebraska CEOs.*

# **Impacts on the Health Care Delivery System**

# The introduction of the two physician-owned facilities had several impacts on the Lincoln health care delivery system.

## A positive impact for selected groups ...

- Good financial returns for limited-service hospitals and their owners
- Enhanced “quality of practice” for many physician-owners
- Increased competition for staff with skills sought by the limited-service hospitals, leading to bonuses and salary increases (positive for staff)

## ... and a negative impact on the broader community

- Concerns over potential over-commitment of resources to cardiac programs and over-utilization
- Reduced financial performance at Lincoln’s largest full-service hospital, BryanLGH
- Decreased financial resources at BryanLGH to support needed programs with poor reimbursement (e.g., mental health care)
- Friction within the medical community
- Higher labor costs and staff shortages

\* In Lincoln, quality appears not to have been affected. Both full-service hospitals could point to high quality and patient satisfaction ratings before and after the opening of the limited-service hospitals. The Nebraska Heart Hospital could also point to high ratings.

## **BryanLGH saw its bottom line decline by \$10 million per year, raising concerns about support for other subsidized programs.**

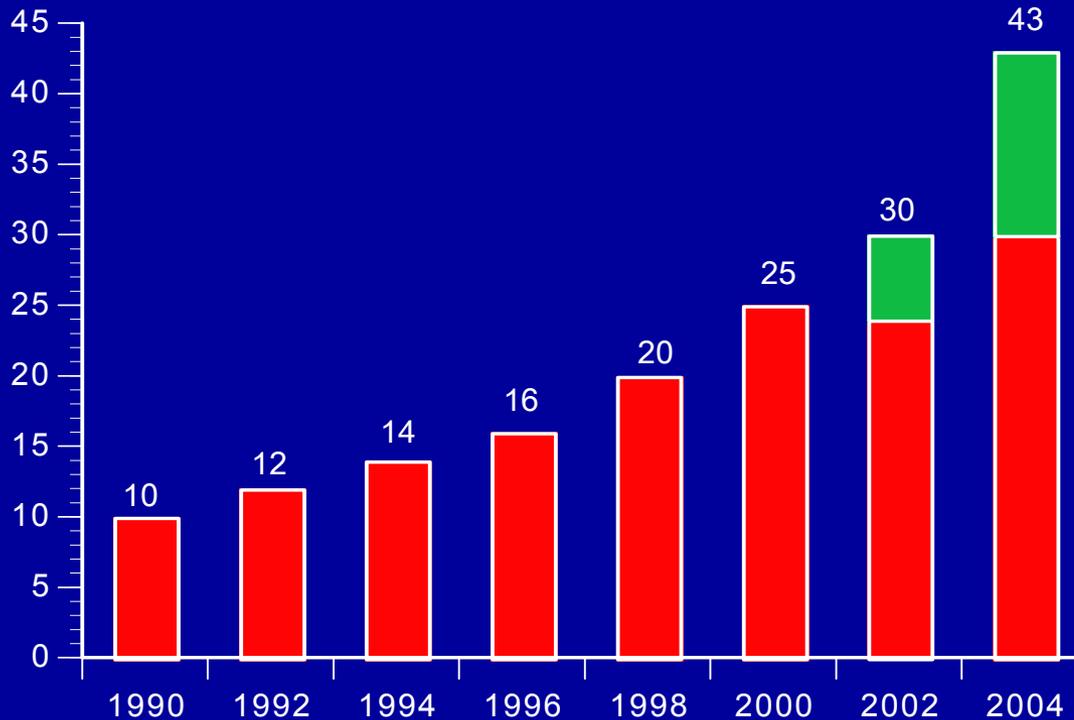
- **BryanLGH operates one of the few remaining mental health inpatient programs (66 beds) at former Lincoln General site.**
- **Mental health program requires a subsidy from other BryanLGH service lines, especially cardiac services.**
- **With fewer dollars available, BryanLGH's ability to continue to fund mental health at present service levels is questionable.**

**“The NHH doesn't provide anything we don't already have in the community ... fragmentation spreads out the business, erodes margins and puts quality at risk ...”**

**Physicians practicing at BryanLGH**

# The number of cardiac specialists in Lincoln continued to grow as BryanLGH rebuilt its program.

## Cardiovascular Surgeons and Cardiologists in Lincoln's Major Groups



Source: Interviews with the BryanLGH and NHH managers, Web site reviews.  
Note: While NHI had 30 physicians in 2004, only 21 were based in Lincoln.

## **Competition for scarce staff intensified.**

- **Physicians associated with NHI cited inability of BryanLGH to adequately staff cardiac beds as primary reason for establishing heart hospital.**
- **However, the new heart hospital hired away 52 former BryanLGH nurses and clinical staff.**
- **BryanLGH responded by offering clinical staff and managers \$10,000 bonuses to stay, payable over 4 years.**
- **Saint Elizabeth also lost 15 nurses to the heart hospital, a few of whom later returned.**
- **The task of nurses and managers at the full-service hospitals was made more difficult by a mix heavily weighted towards emergency cases after physicians removed elective cases to heart hospital.**

**“Since 47% of our surgeries are now provided on nights and weekends, we are stretched thin.”**

**OR manager, Saint Elizabeth Regional Medical Center**

# Summary

- **The Lincoln Case Study illustrates the ease with which well-established specialists can establish limited-service hospitals, and re-direct selected patients from one hospital to another.**
  - **Nebraska Heart Institute physicians found that they were able to establish their own hospital without the assistance of either an investor-owned firm (MedCath) or their local full-service hospitals.**
  - **When negotiations were unsuccessful with their old hospital partner, cardiac specialists re-directed patients to another full-service hospital, then redirected patients to the hospital they owned as soon as contracts could be negotiated with their insurance companies.**
- **The introduction of the limited-service hospitals raised concerns for the delivery system as a whole.**
  - **What was a noteworthy, highly successful cardiac program was fragmented into two good cardiac programs.\***
  - **Net income from cardiac care shifted to physician investors, leaving less resources for full-service hospitals to subsidize poorly reimbursed services such as psychiatric care.**
  - **The issue created new friction in the medical community.**

\* *The BryanLGH – NHI partnership split into two programs. In addition, Saint Elizabeth Regional Medical Center maintained a separate cardiac program before and after the split.*



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