

Case Example

Outpatient Evaluation & Management Services

King's Daughters Medical Center

THE ISSUE:

Congress is considering a Medicare Payment Advisory Commission (MedPAC) recommendation that would cap “total” payment for non-emergency department evaluation and management (E/M) services in hospital outpatient departments (HOPDs) at the rate paid to physicians for providing the services in their private offices. For example, for a visit coded as 99201, the physician would receive the standard amount for the service

in the hospital setting (\$25.87). The hospital would receive the difference between the physician payment in the office (\$42.55) and the physician payment in the hospital, or $\$42.55 - \$25.87 = \$16.68$.

This would reduce the hospital payment between 67 percent and 80 percent for 10 of the most common outpatient hospital services. This proposal is estimated to reduce Medicare spending by \$1 billion per year and \$7 billion over 10 years.

THE HOSPITAL STORY:

Located in rural Brookhaven, Miss., King's Daughters Medical Center's (KDMC) has 122 licensed beds. A sole community provider, the hospital's primary service area has a population of approximately 35,000, and a secondary market that extends the population served to nearly 100,000. KDMC has received national recognition and awards for its delivery of high quality care, including national ranking by HealthGrades as one of the top five percent of hospitals for prostatectomy services and top 10 percent for patient experience. KDMC was also recognized in 2012 as one of the Top 100 Best Places to Work in Healthcare by Modern Healthcare magazine.

KDMC supports three provider-based clinics that serve Brookhaven and neighboring communities. Its family practice clinic employs two physicians and four nurse practitioners and the orthopedic clinic employs a surgeon, a physician assistant and a nurse practitioner. KDMC's pediatric clinic employs a pediatrician and part-time nurse practitioner, and is in the process of hiring two additional nurse practitioners and a second pediatrician. A recent analysis by Quorum Health Resources indicates a need for 27 additional physicians in the geographic area within the next three years. KDMC's clinic practices enable community access to necessary health care. Without these services, residents would have to travel 25 miles outside of this rural community for care.

KDMC is located in Lincoln County, MS. Mississippi is a medically underserved and largely rural state. Like many counties in Mississippi, Lincoln County is also designated as a Health Professional Shortage Area for the low-income population. Mississippi communities, including Brookhaven, have experienced difficulty recruiting independent physicians. Administrative burden, high costs, work/life balance and compliance risks have discouraged many physicians from entering or remaining in independent practice. Average losses per physician in practices without provider-based status typically range from \$200,000 to \$300,000 annually. Even with outstanding management of its provider-based practices, King's Daughters Medical Center still has losses of \$60,000 per physician. The employment of nurse practitioners and reliance on the hospital's administrative support not only extends access to care, but helps to minimize the clinic's financial losses.

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The hospital, however, incurs additional costs related to accreditation, compliance and regulatory oversight, information technology, and medical staff salaries and benefits. Independent physician practices do not incur many of these additional costs, but nevertheless are increasingly unable to cover the costs of their practices without the hospital's financial support. Provider-based payments enable KDMC to recruit and adequately pay physicians, thereby increasing access to primary and specialty care that would not otherwise be available in this community.

THE IMPACT:

Cuts to E&M services are projected to result in a \$1 million loss in net revenue for KDMC. Coupled with other state and federal reimbursement changes, KDMC projects net revenue losses of about \$3-4 million next year if E&M cuts move forward as scheduled. According to KDMC CEO, Alvin Hoover, this loss would place KDMC between the proverbial rock and a hard place in continuing to recruit physicians and maintain their clinics, potentially limiting their ability to provide adequate access to care, care coordination, and specialty services currently provided and planned to meet community health needs.

