Strategies to Prepare for CMS’ New Payment Methodologies

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Financial Disclosure

Stephen C. Sheppard is a senior consultant with Medical Consulting Group and acknowledges a financial interest in the subject matter of this presentation.

Kevin J. Corcoran is President of Corcoran Consulting Group and acknowledges a financial interest in the subject matter of this presentation.

Outline

1. Demographic trends
2. Trends for ophthalmic procedures
3. Physician trends (MD, OD)
4. Health economic projections
5. Strategic recommendations

US Population Growth

Medicare Enrollment

Outline

1. Demographic trends
2. Trends for ophthalmic procedures
Part B Medicare Data

- Part B National Summary Data File (previously known as BESS)
- Excludes:
  - Non-Medicare
  - Medicare Advantage

2015 Medicare Payments For Eye Care

<table>
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<th>Optometry (billions)</th>
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<td>$8.5B</td>
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Eye Exams

- Medicare Eye Exams
  - MD Exams
  - OD Exams

Diagnostic Testing

- Common Diagnostic Tests
  - MD Tests
  - OD Tests

Part B Medicare Eye Surgery

- Part B Medicare Eye Surgery
  - Procedures
  - Retina
  - Cataract
  - Glaucoma
  - Plastics

Retina Surgery
Glaucoma Surgery

Part B Medicare Glaucoma Surgery


Oculoplastic Surgery

Eyelid Surgery

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1. Demographic trends
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3. Physician trends (MD, OD)

Physician Supply Projections

- Growth and aging of US population will cause a surge in demand for physician services
- Requirements for physicians will increase 21% – 22% from 2005 to 2020
- Requirements for ophthalmologists will increase 28% from 2005 to 2020

Source: DHHS Physician Supply and Demand Projections to 2020
http://bhpr.hrsa.gov/healthworkforce/reports/physiciansupplydemand/

Physician Shortage

- Approximately 6,500 more doctors retire each year than enter medical school
- Physicians are becoming older, decreasing their hours, and moving away from direct patient care
- Medical students prefer specialties with better lifestyle
- Younger physicians work fewer hours, see fewer patients
- More female physicians who work 18% fewer hours
- More temporary physicians

Source: www.nasrecruitment.com/MicroSites/Healthcare/Articles/featureH5b.html
10 Year Manpower Shortage

- FTE Ophthalmologists remains unchanged, however in 10 years, 45% more seniors need them
- FTE Optometrists grows 8%, however in 10 years, 35% more seniors need them

Physician Assistant

- Potential capabilities
  - Assistant surgeon (e.g., oculoplastics)
  - Minor procedures (e.g., intravitreal injections)
  - Intravenous injections (e.g., IVFA)
  - Chronic disease management (e.g., diabetes)
  - Pre-op history and physical
  - Weekend call, triage
- Generally not regarded as a competitive threat

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US Health Expenditures
Changes To Payment Methodology

- Bundling of services
- Capitation
- Payment for episodes of care
- Value based purchasing
  - Lower cost and equal or better outcomes = value

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Next Steps

- Strengthen bargaining position
- Improve market visibility
- Diversify to reduce risk
- Assess and improve customer service levels
- Increase capital
- Recruit human resources
- Strengthen management team
- Reduce overhead expenses
- Revise physicians’ compensation plan
- Revise shareholders’ agreements

Next Steps

- Strengthen bargaining position – size helps
  - Acquisitions
  - Mergers
  - Group formation
  - Independent Practice Association
  - Accountable Care Organizations
  - Networks, buying groups
Next Steps
• Improve market visibility; increase market share
  • Geographic coverage
  • Subspecialty coverage
  • Demographic appeal for different age groups
  • Publicity
    • Website and media
    • Connections within the community

Next Steps
• Diversify to reduce risk
  • Ambulatory surgery center
  • Hearing center
  • Optical dispensary
  • Medical office building
  • Billing service
  • Equipment leasing
  • Management services organization

Next Steps
• Assess and improve customer service levels
  • Satisfaction
  • Accessibility
  • Timeliness
  • Outcomes

Next Steps
• Increase capital
  • Strong cash position
  • Manage financial assets
  • Strengthen balance sheet
  • Grow retained earnings
  • Increase credit line and borrowing power
  • Improve credit worthiness

Next Steps
• Recruit human resources – increase talent pool
  • Experience
  • Certification
  • Professionalism
  • Retention
  • Ongoing training

Next Steps
• Strengthen management team
  • Administrator
  • Operations manager
  • Finance officer
  • Information technology officer
  • Human resource manager
  • Marketing manager
  • Compliance officer
  • Medical director
Next Steps

• Reduce overhead expenses proportionately
• Increase amount of expenditures, but reduce that amount as a percentage of revenue
  • Physician compensation
  • Staff compensation
  • Operating expenses
  • Marketing expense
  • Facility expense
• Efficiency through patient triage
  • Service expansion by physician extenders

Next Steps

• Revise physicians’ compensation plan
  • To attract new physicians
  • To retain existing physicians
  • To support new priorities

Productivity

• STRENGTHS
  • Strong motivation
  • Physician centric
  • Grows revenue
  • Builds procedure volume
  • Emphasizes surgery
• WEAKNESSES
  • To detriment of other goals
  • Ignores teamwork
  • Neglects profitability
  • Encourages overutilization
  • Overlooks patients

Reward System

• Productivity (RVUs, Dollars)
• Patient satisfaction (Surveys)
• Quality (Peer recognition, avoid litigation)
• Growth (Referrals, volume, collections)
• Efficiency (Overhead)
• Compliance (Chart review)

Next Steps

• Revise shareholders’ agreements
  • Return on investment for owners/investors
  • Consistent with capitalization
  • Comport with leadership and executive duties
  • Provide additional investment opportunities

Mission Statement

Be the high quality, low cost provider in the community
Summary

- Ophthalmic procedures will continue to grow, but in Part C Medicare (Medicare Advantage) more than Part B Medicare (traditional)
- The US population is growing but more quickly in the group that is over 65 years old. A 70% increase from 2005 to 2030
- The supply of ophthalmologists has not changed since the 1970s, and will not change in the foreseeable future
- There is a surplus of optometrists
- From 2010 to 2025, US healthcare spending will increase 44-55% depending on how much reform

Strategic Recommendations

- Strengthen bargaining position
- Increase market share
- Diversify
- Improve customer service
- Increase capital
- Recruit human resources
- Strengthen management team
- Reduce overhead proportionately
- Revise physicians’ compensation plan
- Revise shareholders’ agreements

Questions…

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