

 OUR TAKE

How Covid-19 is Changing Ambulatory Surgery Centers

A review of the current landscape and projections for the future

Article by the Market Innovation Center

Published – April 2020 • 10 min read



Executive summary

To prepare for Covid-19 demand surges, many providers canceled elective procedures in March and April 2020. An estimated 70% of ambulatory surgery center (ASC) business is considered elective, so these facilities have seen dramatic cuts in both volumes and revenues.

However, the outlook for ASCs is not entirely bleak. Mid-term and long-term, the crisis may result in more services being performed in ASCs – away from hospitals now associated with Covid-19 infection and treatment.

Through a series of briefings, we are cataloging the immediate impact of Covid-19 on volumes and operations at various non-hospital sites of care and presenting projections for the future. Here, we examine the effects on ambulatory surgery centers.

Ambulatory Surgery Centers: Fast Facts

- There are 6,100 total ASCs in the U.S., 5,532 of which are Medicare-certified
- An estimated 41% of ASCs are owned by, or affiliated with hospitals
- 61% of ASCs are single-specialty, with gastroenterology and ophthalmology being the most common

Source: "Pandemic hit the ASC sector hard, but it's also ripe for recovery: 6 updates from Moody's", Becker's ASC Review, April 2020, <https://www.beckersasc.com/asc-news/pandemic-hit-the-asc-sector-hard-but-it-s-also-ripe-for-recovery-6-updates-from-moody-s.html>; "Chapter 5: Ambulatory surgical center services", MedPac Report to Congress, March 2019, http://www.medpac.gov/docs/default-source/reports/mar19_medpac_ch5_sec.pdf?sfvrsn=0; "Positioning Ambulatory Surgery Centers for Success", HealthLeaders Custom Solutions, September 2018, <https://avanzastategies.com/wp-content/uploads/2018/09/Positioning-ASCs-for-Success.pdf>; "Ambulatory Surgery Centers in the US." IBISWorld, 2019; Market Innovation Center interviews and analysis.

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Short-term impacts as states prepare for hospital surges

Volumes are low, and many ASCs are temporarily closed

State and federal guidance to halt elective procedures had an immediate and dramatic effect on ASC volumes—70% of which are considered elective. In mid-April, most facilities were reporting volume reductions between 50% and 90%.

As a result of revenue shortfalls and shortages of staff and PPE, both independent and affiliated ASCs have closed temporarily or decreased hours of operation, furloughed staff, and cut executive salaries. NYSAASC President Jon Van Valkenburg estimated that by the end of March, about half of the society's member centers had temporarily closed.

In response to closures, many hospital-affiliated ASCs redeployed their staff and supplies at hospitals. For example, Medstar Health trained their ASC anesthesiologists to help staff their ICU, and many ASCs have given their PPE stores to area hospitals.

ASCs are temporarily eligible to provide inpatient care

CMS's "Hospitals Without Walls" initiative gives ASCs temporary flexibility to offer procedures that would not have been approved under normal circumstances, such as those requiring overnight stays. In places where state regulators follow suit, ASCs can compensate for some of the elective procedure shortfall by taking on urgent, non-Covid-19 hospital overflow volumes.

In some circumstances, health systems have planned to use ASCs as Covid-19 testing and treatment centers to expand their surge capacity – though as of May 1, most have not yet had to do so.

70%

Of ASC procedural volumes are considered elective.

Source: "Chapter 5: Ambulatory surgical center services", MedPac Report to Congress, March 2019, http://www.medpac.gov/docs/default-source/reports/mar19_medpac_ch5_sec.pdf?sfvrsn=0; "How COVID-19 upended a practice's 35-year-old business model in 2 weeks", Becker's GI & Endoscopy, April 2020, <https://www.beckersasc.com/gastroenterology-and-endoscopy/how-covid-19-upended-a-practice-s-35-year-old-business-model-in-2-weeks.html>; "A model for the nation: New York ASCs prepare to play direct role in COVID-19 relief", Becker's ASC Review, March 2020, <https://www.beckersasc.com/leadership/a-model-for-the-nation-new-york-asc-prepare-to-play-direct-role-in-covid-19-relief.html>; "DC-area doctors prepare for coronavirus surge at ICU boot camp", WTOP News, April 2020, <https://wtop.com/coronavirus/2020/04/dc-area-doctors-prepare-for-coronavirus-surge-at-icu-boot-camp/>; "In Search Of Ventilators, Florida Looks At Surgery Centers", WUSF News, April 2020, <https://wusfnews.wusf.usf.edu/post/search-ventilators-florida-looks-surgery-centers>; Market Innovation Center interviews and analysis.

Medium-term impacts as states resume elective surgeries

ASCs will restart faster than hospitals

While hospitals were forced to focus on Covid-19 surge preparation and management, more than half of ASCs were temporarily closed or operating with limited hours. As such, most ASCs will have had more lead-time and capacity to prepare for the resumption of elective procedures. Specifically, ASCs will likely have a head start on modifying safety and scheduling processes, developing procedure prioritization schemas, and working through procedure backlogs.

ASCs' case mix advantage will grow

The temporary decline in primary care and specialty office visits will likely lead to delayed diagnoses, increased complication rates, and more complex procedures when facilities resume elective surgeries. ASCs will be quick to take on more profitable, less complex cases, which will leave hospitals to manage a disproportionate share of difficult cases unless they are strategic about securing attractive procedure volumes.

Volumes may be feast or famine

Upon restarting, many surgeons will have a robust backlog of cases. However, disruptions in physician office visits and imaging services will reduce the number of new cases coming in, particularly for some service lines such as oncology and GI. As a result, once organizations have worked through surgical backlogs, they may face limited volumes of new procedures—especially those with time-intensive pre-operative requirements. If states are forced to reinstate social distancing measures across the year, ASCs may experience this pattern of demand spikes and troughs repeatedly.

42%

Of single-specialty ASCs in 2017 were gastroenterology- or ophthalmology-focused.

Source: "Chapter 5: Ambulatory surgical center services" MedPac Report to Congress, March 2019, http://www.medpac.gov/docs/default-source/reports/mar19_medpac_ch5_sec.pdf?stvsrsn=0; Market Innovation Center interviews and analysis.

Projected longer-term impacts on ASC landscape

Some ASCs will close or consolidate

Many ASCs will not have enough cash on hand to weather more than three months of restricted operations—forcing them to permanently close or merge with operators of scale. Those most affected will be newly constructed facilities that have not yet recouped their initial investment and independently owned facilities that lack alternate revenue streams—especially those in areas hardest hit by Covid-19 surges.

National ASC operators will become even greater competitive threats to hospitals, especially if payers continue to move additional high-margin procedures to the ASC-approved list. In particular, multi-specialty ASCs will be more likely to thrive due to their ability to manage a wider range of procedures and flex how they manage their elective procedure ramp-up strategy.

Cost pressures and infection fears will accelerate care shifts from HOPDs to ASCs

Employers and other payers, facing continued cost pressures, will increasingly favor lower-cost sites of care. This will likely accelerate the shift of services currently approved for provision in ASCs and expand the number of new procedures on the ASC-allowable list. This is particularly likely if ASCs used the crisis as a proving ground to take on cases traditionally requiring hospital-level care.

Payers will also use plan design to accelerate the shift of procedures from inpatient to ambulatory settings to lower their costs. Example changes include increasing prior authorization requirements or offering financial incentives to consumers.

Lastly, consumers may favor ASCs over hospitals if they view ASCs as safer and more insulated from Covid-19 infection. Referring providers may also view ASCs as safer options—especially if they changed their referral patterns during the pandemic and felt satisfied with their patients' outcomes.

Guidance for the future

As states allow providers to resume elective procedures, provider organizations must revise safety protocols, work through procedure backlogs, and build up referral pipelines to remain financially solvent. In this section, we outline key priorities for different groups.

01 Health systems

02 Independent ASCs

03 Suppliers and service providers

Guidance for health systems

Strategy 1: Rebuild your competitive edge

For health systems that own or partner with ASCs:

- Retain high-acuity cases in hospital or HOPD when possible
- Shift procedures to ASCs to help clear elective backlogs and prevent leakage to competitors
- Use telehealth more extensively for consultations and to guide referrals to network facilities
- Restart upstream services, such as physician office visits and diagnostic services

For health systems that do not own or partner with ASCs:

- Prioritize efforts to get independent surgeons back into the hospital to perform surgeries—especially for high-margin procedures
- Contact referring physicians to proactively communicate hospital and HOPD safety and scheduling processes to prevent leakage to ASCs
- Use telehealth more extensively to guide referrals to hospital or HOPD
- Explore opportunities to enter into partnerships with independently-owned ASCs short on cash
- Restart upstream services, such as physician office visits and diagnostic services

Strategy 2: Adjust operations to improve safety and efficiency

- Establish robust Covid-19 testing and monitoring protocols to ensure patient and staff safety
- Adjust care processes and facility layouts to provide appropriate social distance
- Provide training to staff on new safety protocols or workflow changes
- Examine options for diversifying the scope of procedures performed to increase ramp-up flexibility
- Develop prioritization schema to phase in elective procedures over time
- Expand operating hours and using flexible staffing models to more quickly manage backlogs
- Review data sharing platform capabilities to ensure providers can easily transfer and access patient information across care sites
- Equip providers with resources that enable the confident use of telehealth for consultations and pre- and post-operative care

Strategy 3: Address patient fears and financial concerns

- Ensure consumers and referring providers are aware of the scope of new safety procedures that protect patients from Covid-19 infection risk
- Proactively contact patients—both those with scheduled and cancelled procedures—to answer their questions or concerns and understand their preferences
- Offer more flexible payment options for consumers, such as low-cost surgical bundles and zero- or low-interest payment plans

Guidance for independent ASCs

Strategy 1: Ensure a competitive edge

- Use temporary regulations to your advantage by taking on procedures that were historically inpatient-only but that can now be performed in ASCs
- Use telehealth more extensively for consultations and to guide referrals to ASC

Strategy 2: Adjust operations to improve safety and efficiency

- Establish robust Covid-19 testing and monitoring protocols to ensure patient and staff safety
- Adjust care processes and facility layouts to provide appropriate social distance
- Provide training to staff on new safety protocols or workflow changes
- Coordinate testing, patient transfer, and PPE-sharing protocols with other community providers
- Develop prioritization schema to phase in elective procedures over time
- Expand operating hours and using flexible staffing models to more quickly manage backlogs
- Equip providers with resources that enable the confident use of telehealth for consultations and pre- and post-operative care

Strategy 3: Address patient fears and financial concerns

- Ensure consumers and referring providers are aware of the scope of new safety procedures that protect patients from Covid-19 infection risk
- Proactively contact patients to reschedule cancelled procedures
- Offer more flexible payment options for consumers, such as low-cost surgical bundles and zero- or low-interest payment plans

Guidance for suppliers and service providers



Strategy 1: Anticipate ASC-specific needs

- Proactively discuss service and supply needs to ramp up services and expand service offerings
- Consider creative payment arrangements to help providers bridge short-term cash flow limitations

Strategy 2: Adapt your service offering

- Develop service contracts to maximize the lifecycle of capital equipment
- Aid in patient segmentation to ensure appropriate use of higher-end supplies
- Provide enhanced cleaning and safety protocols as appropriate

Related resources

-  RESOURCE
Covid-19 elective surgery cancelation impact estimator
<https://www.advisory.com/research/service-line-strategy-advisor/tools/2020/elective-surgery-cancelation-impact>
-  CHEAT SHEET
Strategies to optimize PPE & equipment
<https://www.advisory.com/daily-briefing/resources/primers/cheat-sheet-strategies-to-optimize-ppe>
-  RESOURCE
Your checklist for resuming elective procedures
<https://www.advisory.com/research/health-care-advisory-board/resources/2020/your-checklist-for-resuming-elective-procedures>
-  BLOG
Running short on PPE? Contact these 9 types of local businesses now.
<https://www.advisory.com/research/health-care-advisory-board/blogs/at-the-helm/2020/03/covid-19-local-business-ppe-personal-protective-equipment>
-  BLOG
Is it time to restart elective surgeries? Here's how these hospitals are making the call.
<https://www.advisory.com/daily-briefing/2020/04/23/procedures>
-  RESOURCE
3 Imperatives to leverage telehealth against Covid-19
<https://www.advisory.com/research/health-care-it-advisor/resources/2020/3-imperatives-to-leverage-telehealth-against-covid-19>
-  BLOG
Ready to restart elective surgeries? Here are 3 steps to prioritize your services.
<https://www.advisory.com/research/market-innovation-center/the-growth-channel/2020/04/restart-electives>
-  EXPERT INSIGHT
Struggling to keep staff up-to-date? Use these 5 e-communication channels.
<https://www.advisory.com/daily-briefing/resources/primers/e-communication-channels>

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