



FFS reimbursement structure key driver of health spending, economists say

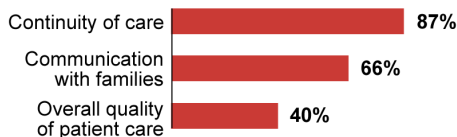
While partisan debate on health care reform has focused largely on measures to cut prescription drug prices and reduce payments to Medicare Advantage plans, some health economists assert that U.S. physicians' relatively high salary levels and the fee-for-service methodology under which providers are compensated may be more important drivers of domestic health spending, the *New York Times* reports. U.S. physicians earn roughly two to three times as much as physicians in other industrialized countries, averaging \$200,000 to \$300,000 annually, according to the *Times*.

See story #1

Medical professors wary of shorter resident work hours

A Mayo Clinic survey of 111 faculty members at 39 U.S. internal medicine residency programs found that while 81% of respondents said shorter work hours would improve residents' wellbeing, many also said they felt the limitations would negatively affect patients and patient care.

Percentage who felt shorter resident work hours would negatively affect...



Source: United Press International, 7/23

THIS DAY IN BRIEF

Companies considering alternatives to employer-sponsored coverage

In a front-page story today, the *Wall Street Journal* profiles a Utah entrepreneur who has joined a growing number of policymakers, politicians, and others who are "scrambling to find alternatives" to the employer-sponsored coverage model amid continued escalation in health insurance premiums.

See story #2

USA Today examines pros, cons of ASC-based surgeries

Noting an increase in the number of ambulatory surgical centers nationwide, *USA Today* examines the benefits and drawbacks of opting to undergo a procedure in an outpatient setting.

See story #3

Anesthesiologist group to unveil tips for preventing surgical fires

The American Society of Anesthesiologists this fall plans to issue guidelines aimed at preventing surgical fires, caused most often by a build-up of oxygen under surgical drapes during electrical tool use.

See story #4

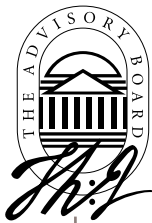
Medtronic buys rival spinal device maker for \$3.9B

Medtronic has agreed to buy Kyphon for \$3.9 billion in an effort to expand its spinal device business.

See story #5

NAMES IN THE NEWS

Brown University (R.I.) (#7) • Memorial-Sloan Kettering (N.Y.) (#1) • Stanford University (#1)
University of Pennsylvania Health System (#3)



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Monday, July 30, 2007

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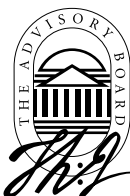
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► Today's Headlines

1 FFS reimbursement structure key driver of health spending, economists say

While partisan debate on health care reform has focused largely on measures to cut prescription drug prices and reduce payments to Medicare Advantage plans, some health economists assert that physicians' relatively high salary levels and the fee-for-service (FFS) methodology under which providers are compensated may be more important drivers of domestic health spending, the *New York Times* reports. U.S. physicians earn roughly two to three times as much as physicians in other industrialized countries, averaging \$200,000 to \$300,000 annually, according to the *Times*. While some U.S. physicians assert that reducing salary levels could erode physician supply by prompting some prospective medical students to pursue other professions, the *Times* notes that high U.S. physician salaries are a "significant part of the reason" that the United States spends more than European countries on health care. Furthermore, a pulmonary physician at **Memorial Sloan-Kettering Cancer Center** in New York who formerly served as a senior adviser to **CMS** notes that because the majority of U.S. physicians are paid on a fee-for-service basis rather than given a flat salary, U.S. providers have a financial incentive to perform potentially unnecessary health care services. Noting that **CMS** does not tend to second-guess physicians' clinical decision-making, a health economist at the **Urban Institute** adds that "there's not a lot of utilization review or prior authorization in Medicare," a dynamic that he says has made it possible for physicians to provide an increasing volume of services to beneficiaries without "any real strong evidence of improvements in [patients'] health status." However, taking a cue from private insurers, Medicare is seeking to reward physicians for providing recommended care through pay-for-performance initiatives. The director of the Center for Health Policy at **Stanford University**, however, asserts that pay-for-performance programs are not an adequate fix and instead recommends that physicians be paid a flat salary, supplemented by performance-based bonuses (Berenson, 7/29).

2 Companies considering alternatives to employer-sponsored coverage

In a front-page story today, the *Wall Street Journal* profiles a Utah entrepreneur who has joined a growing number of policymakers, politicians, and others who are "scrambling to find alternatives" to the employer-sponsored coverage model amid continued escalation in health insurance premiums. Relying on a "wrinkle in U.S. tax law," Paul Zane Pilzer—the owner of **Zane Benefits**, a third-party benefits administrator—is pushing a system under which U.S. employers would stop providing group health insurance and instead make monthly contributions to employees' individual coverage costs through health reimbursement arrangements (HRAs). Employees would then use those tax-free contributions to secure a private plan that meets their needs—a system that Pilzer says would likely result in workers "avoiding the bells and whistles in employer plans that drive up health costs," according to the *Journal*. Pilzer also asserts that while group coverage may be hard to replace if it lapses when employees are laid off or switch jobs, individual plans cannot be terminated because of health reasons and therefore may be more secure. Finally, Pilzer maintains that because HRAs would pose less of a cost burden to employers, smaller businesses that lack negotiating leverage on the group market may find the arrangement appealing. Since opening in March 2006, Zane Benefits has signed up more than 300 employers covering roughly 3,000 people for HRA-based plans. Meanwhile, **UnitedHealth** is encouraging hundreds of independent agents to take an online course reviewing strategies for marketing private plans to employees of companies that offer HRA-based coverage. In addition, Sam's Club has partnered with **Revolution Health Group** to sell HRA-based plans to small businesses.

However, critics of using HRAs to enable employees to purchase private coverage assert that the practice violates federal laws requiring companies to “offer coverage to everyone or no one,” the *Journal* reports. The U.S. Department of Labor says it is aware of the legal questions and is working with other agencies to clarify the rules. Texas regulators, meanwhile, have warned that the HRA coverage model discriminates against sicker workers, with the state insurance department’s associate commissioner saying that people with pre-existing medical conditions “would be locked out of insurance completely” under the arrangements. Other critics say that the system would encourage even healthy individuals to purchase “bare-bones policies” that may exclude coverage for maternity care and other medical needs (Terhune, 7/30).

3 **USA Today examines pros, cons of ASC-based surgeries**

Noting an increase in the number of ambulatory surgical centers (ASCs) nationwide, *USA Today* examines the benefits and drawbacks of opting to undergo a procedure in an outpatient setting. According to the **Joint Commission**, the number of ASCs across the country increased by 25% between 2001 and 2006, with 4,618 ASCs—more than half of such centers nationwide—registered with Medicare as of September 2006. Furthermore, roughly 31% of the 50 million surgical procedures performed in the United States annually occur in freestanding ASCs, according to Lee Fleisher, chairman of anesthesiology and critical care at the **University of Pennsylvania Health System**. *USA Today* notes that some surgeons and patients say that ASCs—which are providing an increasing array of services—offer more personalized care, greater patient comfort, and lower costs than hospital outpatient departments; others say that surgeons report increased satisfaction levels at ASCs. However, Fleisher expresses concern about the lack of emergency services at ASCs, especially as older patients and those with multiple co-morbidities elect to undergo surgery at the freestanding facilities. For example, a study by Fleisher and colleagues in the March issue of the *Archives of Surgery* found that one of every 200 patients undergoing outpatient procedures in hospital-based settings ultimately required inpatient admission because of pain control needs or surgical complications—a finding that “underscores the need for rapid access to emergency care” during and after outpatient surgery, according to *USA Today*. To help minimize the risks associated with outpatient procedures, Fleisher is conducting further research to improve patient risk-stratification strategies (Marcus, 7/30).

4 **Anesthesiologist group to unveil tips for preventing surgical fires**

The **American Society of Anesthesiologists** (ASA) this fall plans to issue guidelines aimed at preventing surgical fires, caused most often by a build-up of oxygen under surgical drapes during electrical tool use, the Associated Press reports. While health officials are not required to report surgical fires, the not-for-profit **ECRI Institute** estimates that 50 to 100 fires occur annually in U.S. hospitals, killing approximately two people and disfiguring roughly 20% of patients involved in the incidents. The ASA, meanwhile, says surgical fires have become more prevalent across the past two decades with the use of lasers and other surgical tools that operate with an electric current, asserting that there is “a lot of underreporting and a lot of near misses.” To minimize the risk of fires, the proposed guidelines advise anesthesiologists to lower the concentration of oxygen administered during surgery by diluting it with room air when certain surgical tools are being used. Additionally, the ASA recommends reconfiguring surgical drapes to minimize oxygen build-up and using suction devices to eliminate excess oxygen (Collins, *API/Philadelphia Inquirer*, 7/27).

5 Medtronic buys rival spinal device maker for \$3.9B

Medtronic has agreed to buy **Kyphon**—a smaller rival that makes minimally invasive treatments for spinal compression and fractures—for \$3.9 billion in an effort to expand its spinal device business, the *New York Times* reports. The acquisition would put an end to patent litigation that Medtronic has filed against Kyphon alleging that the company infringed on four of Medtronic’s patents, although Medtronic’s chairman and CEO says that the legal issues were not a major factor in the decision to pursue the buyout. Under the terms of the acquisition—which is expected to close in early 2008—Medtronic would pay a 32% premium over Kyphon’s Thursday closing price and assume \$320 million in payments stemming from Kyphon’s acquisition of two smaller device manufacturers, **St. Francis Medical Technologies** and **Disc-O-Tech Medical Technologies**. The deal would give Medtronic access to Kyphon’s client base of interventional radiologists and interventional neuroradiologists, supplementing its existing relationships with orthopedic and neurological surgeons. According to Medtronic’s president and COO, the deal provides an “opportunity to really service a broad continuum of patients.” The *Times* notes, meanwhile, that some analysts predict that the deal would not only “reinvigorat[e] Medtronic’s spine subsidiary” but also serve as a “harbinger of a new wave of acquisitions in the medical device industry” (Feder, *Times*, 7/28; Wisenberg Brin, *Wall Street Journal*, 7/28).

► Regional Round-up

6 Around the nation: Bite-sized hospital and health industry news



- **California:** The **University of California (UC)-Davis** received more than \$101.2 million in private gifts during fiscal year 2006-2007, with \$34.6 million directed toward the **UC Davis Health System**. The largest gift—a 15-acre plot of land valued at \$8.2 million—was donated by River South Holdings and will enable the development of a new medical facility in Rocklin (*Sacramento Business Journal*, 7/26).
- **Indiana:** Officials from **Memorial Hospital and Health Care Center** in Jasper recently announced a telemedicine partnership with **Riley Hospital for Children** and **IU Cancer Center** in Indianapolis that will enable Indianapolis-based physicians to remotely evaluate Memorial Hospital patients. Memorial Hospital’s president says the technology also will allow physicians from other medical centers to participate in the hospital’s tumor board committee meetings (*Inside Indiana Business Journal*, 7/23).
- **Massachusetts:** **Massachusetts General Hospital** and **Brigham and Women’s Hospital** are launching a \$35 million fund to more quickly bring promising inventions to market. The hospitals created the Partners Innovation Fund through **Partners HealthCare**, the hospitals’ not-for-profit corporate parent, with an initial installment of approximately \$3 million and plan to reach \$35 million within 10 years (Rowland, *Boston Globe*, 7/27).
- **Massachusetts:** In an effort to meet growing patient volumes and accommodate new technology, **Beth Israel Deaconess Medical Center** has announced that it will spend \$1 billion across the next 15 years to add beds, construct a suburban clinic, replace buildings at its Longwood campus, and upgrade other facilities, the *Boston Globe* reports. While the hospital has yet to solidify its plans, it says its first project likely will be the construction of a

new suburban outpatient clinic in a joint venture with Boston-based **New England Baptist Hospital**. Other plans include expanding the West Clinic Center, relocating the maternity department from the East campus to the West campus; centralizing outpatient care on one campus; and adding new ORs, 130 beds, and more capacity for high-tech imaging (Krasner, 7/27).

- **Texas:** Dallas-based health care development and management company **Cirrus Health** has announced plans to build a \$30 million specialty hospital and a 60,000-square-foot medical office facility at McKinney-based Craig Ranch, a mixed-use development. The 28-bed hospital—slated to open in the fourth quarter of 2008—will have physician investors and will house six ORs, two procedure rooms, 16 private rooms, and four ICU beds. The hospital is one of three new facilities to be announced this summer for the McKinney area (Brown, *Dallas Morning News*, 7/26; Gordon, *Dallas Business Journal*, 7/27).

► Endnotes

7 Et cetera

Feline intuition: Cat seems to sense when nursing home patients near death

A cat living at a nursing home in Providence, R.I., appears to foresee patient deaths, curling up next to residents in their final few hours, the Associated Press reports. Staff at the nursing home have observed the cat's accuracy in predicting patients' deaths in 25 cases and consider his actions so reliable that they now call family members once the cat has taken a seat next to their loved one. The two-year-old cat—named Oscar—was adopted as a kitten and grew up in the dementia unit at Steere House Nursing and Rehabilitation Center; within six months of living there, Oscar "began to make his own rounds" similar to those performed by physicians and nurses. According to David Dosa—a **Brown University** geriatrician who documents the cat's talent in a July 26 *NEJM* essay—the gray and white cat "takes his work seriously" and is "not a cat that's [typically] friendly to people." Dosa notes that most families "appreciate the companionship that the cat provides for their dying loved one." Physicians add that most patients who receive a visit from the "furry grim reaper" are too ill to notice his presence or understand the implications. The AP notes, meanwhile, that it remains unclear what causes Oscar's behavior or whether it is scientifically significant. One expert who treats patients at the nursing home speculates that perhaps the cat detects a scent that signals death or is highly attuned to nurses' behavior patterns.

—Henry, AP/South Florida *Sun-Sentinel*, 7/26