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UnitedHealthcare outpatient surgery policy threatens hospital revenue

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UnitedHealthcare is ramping up a prior authorization policy intended to shift outpatient surgeries to lower-cost settings outside of the hospital, a move that could put a dent in hospital revenue.

It's the latest volley in a battle over where care should be delivered. Other health insurers in recent years have begun refusing to pay for some services, such as MRIs, when they occur in hospitals, which generally charge higher prices than physician offices or ambulatory surgery centers. UnitedHealthcare's new policy takes an aggressive stance on planned surgeries.

"This policy really shifts the burden to the patient and the physician to prove that a hospital site is warranted, and what is distressing is that it's adding another level of complexity to an already complicated system of pre-authorization," said Lyndean Brick, president and CEO of healthcare consultancy [Advis](#).

Starting Nov. 1 in most states, UnitedHealthcare, the nation's largest health insurer, will not pay for certain planned surgeries delivered at outpatient hospital settings unless it determines the site is medically necessary after a review, according to a [bulletin](#) posted on its website in September.

The policy, which a UnitedHealthcare spokeswoman said is currently being used for some surgeries but will be expanded next month, applies to fully insured commercial groups and Affordable Care Act exchange members. The bulletin stated that the company is working on a similar policy for self-insured employers who contract for administrative services.

UnitedHealthcare's so-called "site-of-service medical necessity review" will take place during the prior authorization process and apply to more than 1,100 medical codes for a wide array of planned procedures, from colonoscopies and knee replacements to eye surgeries, biopsies, removing a tumor and inserting a pacemaker or heart catheter, according to a company utilization review guideline.

UnitedHealthcare said the policy is meant to curb spending while still providing access to quality healthcare. CEO Dirk McMahon told investment analysts during the company's third-quarter earnings call Tuesday that the site-of-service efforts would save customers \$500 million in 2020.

"There is considerable excess spending on care delivered in sub-optimal, high-cost settings that can and should be provided in higher quality, consumer responsive and more cost-effective sites. In our commercial business alone, we see opportunity to shift well more than 20% of our medical spend to these more effective sites," McMahon said.

UnitedHealth Group's medical costs in 2018 totaled \$145.4 billion.

He noted that there is an opportunity to provide more hip and knee replacements in ambulatory centers, which he said can cost 50% less than in traditional settings with comparable or better safety and quality. UnitedHealthcare is "rapidly expanding this approach to additional high-cost services," while also taking a similar approach to imaging and the administration of specialty drugs, he added.

Paul Keckley, a healthcare consultant, said UnitedHealthcare's policy is more aggressive than the insurer has had in the past, but it's not surprising given the movement in the industry to reduce the use of services that are not medically necessary.

UnitedHealthcare's efforts align with a growing number of initiatives by insurers to reduce their costs by encouraging patients to get care outside of a hospital. The CMS has also attempted to cut Medicare payments for some hospital services that can also be delivered

in physician offices; a federal judge [tossed the rule](#) in September.

But some experts say UnitedHealthcare's new rules limit patient choice and further [burden physicians with onerous rules](#). The policy also raises questions about the quality of care delivered in ambulatory surgery centers—where UnitedHealthcare is pushing patients—for certain procedures.

The policy could also impact hospitals' income. A [2018 Navigant analysis](#) found that most for-profit and not-for-profit hospitals included in its study experienced a significant decrease in operating earnings between 2015 and 2017, driven in part by lower demand for surgeries and inpatient admissions.

Brick of Advis warned that financially struggling community hospitals could be affected by a reduction in surgeries. "Our community hospitals, or smaller hospitals, depend on this," she said.

Hospitals have already been squeezed by health insurer Anthem's policy of [not paying for MRIs and CT scans](#) in hospital outpatient departments, she said.

Molly Smith, vice president of coverage at the American Hospital Association, said the financial implications of the policy will vary by hospital, but she noted that the costs associated with additional administrative burden to prove that certain patients need to be seen in a hospital will put pressure on the system.

"It's a deliberate strategy to try to reduce the medical spend," she said of the policy.

There is a race among health insurers to buy up physician offices, ambulatory surgical centers and other lower cost providers so they can exert more control over where patients seek care and keep healthcare dollars in-house. UnitedHealth's Optum business employs thousands of doctors. It recently completed its acquisition of DaVita Medical Group and it owns Surgical Care Affiliates, a network of more than 210 ambulatory surgical facilities where 7,500 physicians practice.

Insurers have also implemented strict [prior authorization requirements](#), which physicians complain have soared in number in the last few years. In addition to its imaging policy, Anthem also [stopped paying for emergency department visits](#) it later decides were not true emergencies. Those policies sparked immense backlash and some lawsuits from hospitals.

A UnitedHealthcare spokeswoman defended the site-of-service reviews, writing in an

email that ambulatory surgery centers may charge almost half the cost a hospital charges for the same procedure, according to the company's internal data. On average, members may save up to \$3,600 on common outpatient surgical procedures if performed at an ambulatory surgery center instead of an outpatient hospital facility, she said.

UnitedHealthcare's policy includes safeguards. For patients with some serious conditions, such as advanced liver disease or coronary artery disease, surgical procedures in hospital outpatient settings will be considered medically necessary, according to the insurer's utilization review guideline. Procedures in hospital outpatient settings will also be considered necessary if there's no geographically accessible ambulatory surgical center available.

The policy doesn't apply in Alaska, Kentucky, Massachusetts, Maryland and Texas.

While those safeguards are helpful, they can be vague, Smith said.

"Our members often sign contracts with United, and they look at a very comprehensive set of services that they'll be providing for a set of patients or enrollees that United is purportedly bringing to the table, and then, unilaterally, they change the rules and all of a sudden an in-network provider is essentially not in network anymore for a set of services," she said.

There is evidence that outpatient hospital departments set higher prices than ambulatory surgery centers and physician offices for the same procedure. One study published in the [American Journal of Managed Care](#) in March 2016, whose authors were affiliated with America's Health Insurance Plans, found colonoscopies and upper gastrointestinal endoscopies cost about 1.7 times more on average at hospital outpatient departments than at ambulatory surgery centers in 2013.

A 2019 [analysis of commercial insurance claims](#) by the Health Care Cost Institute found that for 30 services deemed by MedPAC to be safe and appropriate to provide in freestanding physician offices, the average price for a given service was always higher when delivered in an outpatient hospital setting than in an office between 2009 and 2017.

Despite the higher price, the percentage of services delivered in the hospital outpatient setting grew during the time period, which could be influenced by hospital consolidation of physician practices, said John Hargraves, a senior researcher at HCCI. The cost of getting care in a more expensive setting eventually is carried over to patients in the form of higher premiums, copayments or deductibles, he said.

Not much is known about the quality of ambulatory surgery centers because [there are few quality measures available](#) to track this. The CMS required ambulatory surgery centers to report only four measures as part of its Quality Reporting Program this year or face a penalty.

A 2019 study in the [Journal of Health Economics](#) showed that switching to an ambulatory surgical center from a hospital for a colonoscopy doesn't hurt care outcomes. Still, UnitedHealthcare's site-of-service policy extends beyond colonoscopies. Some critics worried that non-hospital settings are subject to less regulatory oversight and may not be as equipped to handle surgery complications as a hospital.

"Site of service decisions should be based on the clinical judgment of physicians and the decision of their patients," Anders Gilberg, senior vice president of government affairs at the Medical Group Management Association, said in an emailed statement. "Prior authorization requirements that delay or deny care do not support the patient experience element of the triple aim no matter how much health insurers try to spin them as such."

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