

Chronic Pain Management: An Overlooked Option for Service Line Expansion

A comprehensive chronic pain management center can contribute millions of dollars to a hospital's bottom-line revenue. Seven success factors are key to a high-performing program.

As a growing number of hospitals face negative profit margins, finance leaders are examining ways to expand revenue-generating outpatient services. One often overlooked option that can drive strong service line revenue is comprehensive pain management.

The Institute of Medicine recently reported that chronic pain affects 116 million adults in the U.S. The impact is greater than diabetes, heart disease, and cancer combined, according to the American Academy of Pain Medicine. As the population ages—yet remains physically active—the demand for pain management services will likely grow.

Many hospital administrators consider pain management to be a poor source of revenue. In fact, leading hospitals have found that comprehensive pain management programs that are strategically located, energetically developed, and well run can attain strong profitability within a relatively short time.

Specifically, these programs can:

- > Add several million dollars of bottom-line revenue from the pain practice alone
- > Generate sizable ancillary revenue from hospital services that support the pain practice, such as physical therapy, radiology, lab, and behavioral medicine
- > Establish a new source of referrals for surgical services—such as orthopedic surgery and neurosurgery—that are independent of traditional referrals from primary care physicians and can generate additional OR revenue

> Support key relationships with surgeons, anesthesiologists, and other physicians

In a mature practice employing one pain physician, annual revenue from facility fees alone can range from \$2.5 million to \$3 million. Revenue from professional fees represents another \$1 million.

Overall program profitability will range from three to four times the physician's income.

Seven Keys to a Successful Program

While these financial results are within reach for most organizations, creating a strong pain management center takes careful planning and effective execution. In our experience, the most successful programs share seven key traits.

Demographic and market opportunity.

Typically, a population of 25,000 non-government-insured patients is required to support a successful chronic pain practice of one physician. This number can vary depending on payer mix and payer contracts.

In many markets, there is an opportunity to absorb market share beyond existing need. Survey primary care physicians and surgeons (especially orthopedic surgeons) on where they refer patients requiring pain management. The analysis will likely identify a number of specialists who provide pain services; however, one important issue is specialty training. Most neurologists and physiatrists, for example, provide a lesser

scope of services. A hospital-based program that offers comprehensive pain services has an opportunity for competitive differentiation and growth.

Strategic location. Pain management has a strong “consumer” dynamic, so convenience and ease of access are important. Ideally, a pain management program will be located in the hospital's outpatient department or ambulatory surgery unit, accessed by an entrance separate from the main hospital entry.

Another consideration for location: reimbursement. In most instances, a hospital-based fee schedule provides the highest level of reimbursement.

However, locating the pain center on the hospital campus is not the only option. According to Centers for Medicare & Medicaid Services guidelines, an offsite facility can be reimbursed under the hospital-based fee schedule if it is within 35 miles of the hospital proper and meets other requirements. A pain center could also be located in a nonhospital-based ambulatory surgery center (ASC). Planners should carefully analyze reimbursement under an ASC fee schedule and verify the impact on revenue.

Never locate a pain center in a physician office because this will change reimbursement dramatically. Office-based services do not receive a facility fee, only a small site-of-service differential. (For a comparison, see the exhibit on page 8).

Comprehensive scope of services. A full-spectrum approach to pain management is not only critical to connecting with patients, but it is also important to the financial success of a pain management program because procedures provide the

greatest reimbursement for both the physician and the facility.

Common pain management procedures include:

- > Nerve blocks
- > Trigger point injections
- > Epidural injections
- > Fluoroscopy procedures
- > Stimulator insertions

The pain physician receives only modest reimbursement for evaluation and management (E&M), and facility reimbursement for E&M is nominal (unless the E&M is performed by a licensed professional, such as a registered nurse or a physician assistant (PA) who is employed by the hospital).

Sizable hospital revenue can be generated from the referral of patients to support services that are an integral part of a comprehensive program, such as:

- > Physical therapy for patients suffering from joint pain
- > Nutritional counseling for overweight patients with back pain
- > Behavioral counseling for patients who require lifestyle changes to progress and sustain relief

Tracking referrals to these services helps validate the ROI of the pain program.

Well-trained, strongly motivated physicians.

To provide comprehensive services, a pain program must be led by a physician

Hospitals have found that comprehensive pain management programs that are strategically located, energetically developed, and well run can attain strong profitability within a relatively short time.

Pain Management: Hospital-Based Versus Office-Based Reimbursement			
	Year 1	Year 2	Year 3
Hospital-based reimbursement			
Facility fees	1,300,000	1,950,000	2,600,000
Net profit	850,000	1,275,000	1,700,000
Office-based reimbursement			
Site-of-service differential	300,000	450,000	600,000
Net profit	200,000	300,000	400,000

Source: Surgical Directions, LLC.

Facility revenue and profitability under two different reimbursement scenarios were projected for a pain management program at a Southeastern health system. Payment rates are below average due to the prevalence of military health plans in the market. Professional revenue and physician compensation are the same under both scenarios. Profitability does not reflect any allocations of indirect costs—or additional revenue from ancillary service volume (radiology, physical therapy, etc.) and surgical referrals.

who is fellowship-trained in pain medicine. Some neurologists have this level of training, but in general, the most successful pain centers are built around an anesthesiologist who is double boarded in anesthesiology and pain management.

It is also important that the physician has an entrepreneurial attitude and a strong work ethic because practice volume drives hospital revenue. Successful programs use a productivity-based compensation plan. One possibility is to offer a guaranteed base salary during the first year, with compensation increasing to 60 percent of collections in year two and 70 percent of collections in year three.

Focused marketing. Use a two-pronged marketing approach to target patients and referring physicians. Patient marketing efforts should focus on active baby boomers and position pain management as “a medical alternative to surgery.”

The pain physician needs to make personal visits to referring physicians to introduce him or herself and market the practice. The pain physician can also

develop referrals through lectures to the hospital medical staff and informational luncheons organized for community physicians and their office personnel.

Efficiency and optimized throughput. The pain physician should focus his or her time on performing procedures and consulting with new patients. With the exception of some longer procedures, a pain physician should be able to see one patient every 15 minutes. In a mature practice, a PA will be able to handle most follow-up E&M visits.

These volume and throughput requirements call for an enhanced office layout. Three exam and procedure rooms are typically not enough. Most programs require five or six rooms to maintain patient flow for both the physician and the PA.

Effective billing and collections. The first important step is to negotiate “contract rates” for key procedures with your organization’s top nongovernment payers. Absent contractual rates, payers generally reimburse pain services at the lowest possible level.