

# THE BUSINESS OF ANESTHESIA

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# OBJECTIVES

- Identify key components of the Microeconomics of Anesthesia (the Individual CRNA/Patient)
- Identify key elements and players in the Macroeconomics of Anesthesia
- Identify how to start an anesthesia business
- Identify staffing options for Anesthesia departments
- Anesthesia Trends and the future of Anesthesia

# **MICROECONOMICS OF ANESTHESIA**

# THE MICROECONOMICS OF ANESTHESIA

## THE PATIENT/PROVIDER INTERACTION

In its most basic form, the business of anesthesia is made up of a patient and an anesthesia provider

- This clinical interaction is the foundation for all economic activity in the business of anesthesia
- Every clinical decision made by the provider during this interaction has an economic impact downstream
- Key decisions are:
  - The type of anesthetic chosen (General, Regional, MAC, Post-Op Block)
  - Which agents used to accomplish the anesthetic that was chosen (Sevo, Des, Iso, Lidocaine, Bupivacaine, Ropivacaine, Propofol, Etomidate, Succ, Vec, Roc etc. etc.)
  - How is Post-Op Pain treated?
  - Are you pre-treating for Post-op N&V (in all patients, in high risk only patients, or in no patients)
  - Are you correctly and accurately documenting the preoperative exam, the surgery, and any and all procedures performed

# **THE MICROECONOMICS OF ANESTHESIA**

## **THE INDIVIDUAL ANESTHESIA PROVIDER**

**All CRNAs work either as a W2 employee or a 1099 Independent Contractor.**

- **Independent Contractor or Employee of Local MDA or CRNA Group**
- **Independent Contractor or Employee of Large Regional or National Anesthesia Group**
- **Independent Contractor or Employee of Hospital or ASC**
- **Self Employed Independent Contractor to Multiple Sites with daily pay (typical Locums or PRN provider)**
- **Self Employed fee for service (very few of these left)**

# **THE MICROECONOMICS OF ANESTHESIA**

## **THE W2 EMPLOYEE**

- **Most CRNAs are familiar with being a W2 Employee because of years working as an RN Prior to Anesthesia School**
- **The term W2 comes from the IRS form for reporting income and wages for employees**
- **CRNA's could be Employees of Hospitals or ASCs, MDA Groups, CRNA Groups, the State or Federal Government depending on the hospital**

# THE MICROECONOMICS OF ANESTHESIA

## THE 1099 INDEPENDENT CONTRACTOR

Common term for Independent contractor is 1099 because the IRS form used to report income for independent contractors is Form 1099

- Independent Contractors are considered Self Employed by the IRS
- In order to be an independent contractor an Employee/Employer relationship cannot exist
- IRS uses the 20 Factor Test to help determine if you are an Independent Contractor or Employee (note: the 20 factor test is not an all or none test, most CRNAs fall somewhere in the middle based on the amount of control exerted by employer)
- Many independent CRNAs form a small business for tax and liability reasons (LLC, S Corp, APMC, etc.)

# MICROECONOMICS OF ANESTHESIA

## PROS AND CONS OF W2

### PROS

- Familiarity, taxes are withheld and are simpler to file at end of year
- Employer pays half of Medicare and SS tax
- Benefits are often provided: Health, retirement, mal practice, life and disability
- State Employment law protections

### CONS

- Much harder to deduct “business” expenses
- Harder to change jobs since benefits are tied to specific job and not to you as a provider
- Often slightly lower pay
- Potentially less autonomy as employee/employer implies more direction/control



# MICROECONOMICS OF ANESTHESIA

## PROS AND CONS OF 1099

### PROS

- Often paid at a higher rate
- Often more autonomous environment
- Able to make more aggressive tax deductions, deduct business expenses
- Able to save more for retirement
- Typically have your own Malpractice policy so picking up extra locums is easier
- Could be more marketable/mobile as a 1099 since benefits are tied to you and not the job

### CONS

- Taxes are not withheld and subject to Self Employment Tax: all of Medicare/SS taxes
- More complicated tax filing and quarterly payments
- No Benefits, often cost more since not in a group plan
- No matching retirement funds
- Less legal protections if terminated i.e. no cause needed and state employment law often does not apply

# **MICROECONOMICS OF ANESTHESIA**

## **THE ANESTHESIA PROVIDER**

- **A few quick slides that may help some of you in your anesthesia career**
  - **Guide to a well written CV**
  - **When and how best to negotiate**
  - **Keys to long term success in anesthesia**

# **MICROECONOMICS OF ANESTHESIA**

## **GUIDE TO A WELL WRITTEN CV**

- **Be concise, be concise, be concise**
  - **Needs to look professional**
  - **State your name and contact information clearly**
  - **Education back ground with dates and degrees**
  - **Work history with dates and basic duties**
  - **Any special skills or details that you think would be pertinent**
  - **Be concise!**
- \* A quick note about social media\***

# MICROECONOMICS OF ANESTHESIA NEGOTIATION AND LEVERAGE



# MICROECONOMICS OF ANESTHESIA

## THE ART OF NEGOTIATING

- **Be professional and courteous**
  - It could cost you the job if not
  - You will have to work with your boss after these negotiations
- **Be patient**
  - Some decisions may have to go through multiple channels for approval
  - While it's a huge deal for you, your boss may be dealing with many other huge deals and it may take some time to get an answer
- **Be well informed**
  - Know your value and what special skills, attributes, knowledge that you bring to the job (multilingual, proficient at regionals, customer service oriented, etc.)
  - Know what is negotiable: salary, benefits, call pay, time off etc.

# **MICROECONOMICS OF ANESTHESIA**

## **KEYS TO LONG TERM CAREER SATISFACTION**

- **Be affable, amicable and available**
- **Learn to strike a balance between work, family and play**
- **Embrace challenges**
- **Avoid negativity (stay above the OR gossip)**
- **Don't bring personal problems to work**
- **Seek a job that fits your skills and personality (not just pay)**
- **Always look at being a CRNA as a privilege!!!**

# MACROECONOMICS OF ANESTHESIA

# MACROECONOMICS OF ANESTHESIA

The macroeconomic environment of anesthesia can be considered everything and anything beyond the provider/patient interaction

- Today's focus, will be on the different types and sizes of anesthesia groups
  - “Mom and Pop” or Local groups
  - Regional/Midsize Anesthesia companies
  - Large National Anesthesia or Multispecialty Groups



# MACROECONOMICS OF ANESTHESIA

## THE LOCAL OR “MOM AND POP” GROUP

- This group is typically owned by a provider (CRNA or MDA)
- Occasionally may have a non clinical owner
- Typically has one or two facility contracts in a relatively small geographical area
- The owners are very hands on for day to day management
- If the owners are clinicians they typically provide much of the clinical workload themselves and plenty of direct oversight

# MACROECONOMICS OF ANESTHESIA

## THE LOCAL “MOM AND POP” GROUP

### PROS

- The decision making process is streamlined
- Often develop close relationships with owners
- Can allow for more flexibility because often no defined set of corporate rules
- The owners often have very close relationships with admin and other stakeholders, surgeons, etc

### CONS

- The decision is often final and without appeal
- Financial stability could be an issue during lean times
- Often poorer third party payer contracts due to lack of leverage
- Susceptible to take over from larger groups with more financial and staffing resources

# MACROECONOMICS OF ANESTHESIA

## THE REGIONAL/MIDSIZE GROUP

- These groups are either owned by clinicians or non-clinician business owners
- They typically operate in a larger geographical area (all across a state or several states)
- Often provide services to 10-50 facilities and have upwards of 500 providers
- The owners are often less involved in day to day management and more focused on strategic vision
- Typically are not financed through private equity

# MACROECONOMICS OF ANESTHESIA THE REGIONAL/MIDSIZE GROUP



**PMC** Parish  
Management Consultants, LLC



**ANESTHESIOLOGY  
GROUP ASSOCIATES**

**premier anesthesia**  
*Unlock Your OR Potential*

**MGHA**  
The Choice in Anesthesiology



*Just like you... we operate at a higher level.*

# MACROECONOMICS OF ANESTHESIA

## THE REGIONAL/MIDSIZE GROUP

### Pros

- Often more nimble than national groups
- Often only small layer between owner/CEO and provider
- Often more financially stable than local group
- More resources when it comes to staffing flexibility
- Better negotiated rates with payers
- Often have clinical protocols to fall back on and solid PI/QI programs

### Cons

- May have to go through several layers of management to get things done
- Leadership may lose touch with individual providers
- Relationships with admins may not be as strong as local groups
- Contracts often become more financially motivated and less relationship motivated
- Service may suffer if leadership is not hands on

# MACROECONOMICS OF ANESTHESIA

## THE NATIONAL/MULTISPECIALTY GROUP

- The large national anesthesia or multispecialty group can be owned by clinicians, non-clinicians, private equity firms or be publicly traded companies
- They typically operate across a large geographical area of many states or the entire United States.
- They typically provide services to well over 100 facilities and have several thousand providers
- Private equity has made a large push into anesthesia in the last decade and has fueled many recent acquisitions which is leading us toward an increased market consolidation

# MACROECONOMICS OF ANESTHESIA

## THE NATIONAL/MULTISPECIALTY GROUP



**Emt+are**<sup>®</sup>  
*Making Health Care Work Better.*<sup>™</sup>



North American  
Partners in Anesthesia



**SHERIDAN**<sup>™</sup>  
Performance-Driven Physician Services



**NorthStar**<sup>®</sup>  
ANESTHESIA

# MACROECONOMICS OF ANESTHESIA

## THE NATIONAL/MULTISPECIALTY GROUP

### PROS

- Typically well funded and well organized
- Often have the ability to work in numerous locations nationwide within the same system
- Often have strong clinical guidelines and protocols
- Many resources to call upon for staffing
- Best payer rates with insurance companies
- Typically have fairly good benefit structures

### CONS

- Potential funding issues due to rapid growth/acquisitions (see AHP)
- Individual providers can sometimes feel like a “warm body”
- Many many layers between CRNA and top management
- The desire to increase the bottom line or EBITDA can lead to clinical practice issues as shareholder demand earnings estimates to be made
- Owners are often nameless and faceless



# MACROECONOMICS OF ANESTHESIA THE SHERIDAN CASE STUDY

Click on Sheridan Sale to Amsurg for details

<http://www.bloomberg.com/news/2014-05-29/amsurg-to-buy-sheridan-healthcare-in-2-35-billion-transaction.html>

# MACROECONOMICS OF ANESTHESIA

## WHAT IS PRIVATE EQUITY, EBITDA AND MULTIPLES

Private Equity is playing a large role in the macroeconomics of anesthesia in the past ten years

- Private Equity is an asset class of securities and debt in a company that is not traded publicly. Typically the investment is made by a private equity firm, a venture capital (VC) firm or an angel investor (Shark for those who watch Shark Tank)

EBITDA or Adjusted EBITDA is one of the primary metrics looked at by PE or VC firms when looking to invest in any Business

- EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA is an adjustment made for any special circumstances within the business that would affect the new owners)

Multiples are an amount of EBITDA that an investor is willing to pay for an Equity Stake in a company

- The multiple that someone or some firm is willing to pay is determined by many factors including but not limited to: Size of the company, time company has been in business, location, stability, growth potential, current and future market factors, leadership etc. etc.

# THE BUSINESS OF ANESTHESIA 101

How to Get  
Started

# THE BUSINESS OF ANESTHESIA 101

## ENTITY SELECTION

The first step in getting started in the Business of Anesthesia is to decide on a name and then to determine what type of entity to create and how to create it.

- **Sole Proprietorship**

- A one person business that is not registered with the state. You create one just by going into business for yourself, no paperwork required. Largely, sole proprietorships are inseparable from its owner and reports all income and losses on the owner's personal income tax return. The owner is personally responsible for all debt, liabilities and court judgments. Not recommended for CRNAs!

# THE BUSINESS OF ANESTHESIA 101

## ENTITY SELECTION

- **Limited Liability Company (LLC)**
  - **An LLC is slightly more difficult to create. Requires registering with the Secretary of State and creating an EIN with the IRS. The process takes 30 minutes or less typically.**
    - **Forms required are: Articles of Incorporation and Articles of Organization. These just state the nature of the business, Registered Agent of the business, and any members and managers of the business. Highly recommended that an OA be drafted otherwise the state business law will apply to any conflicts.**
  - **The main benefit of an LLC is that it limits the owner's personal liability from debts and court judgments.**
  - **The IRS considers LLCs as a "Pass Through Entity" in that an LLC must file a federal tax return but the LLC does not pay any federal taxes**
  - **All the taxes are paid by the owner's share of income on their personal tax return**

# BUSINESS OF ANESTHESIA 101

## ENTITY SELECTION

- **Corporation (Inc)**
  - Corporations provide similar limits to liability to LLCs but are slightly more arduous to create and to maintain.
  - Just like an LLC, Articles of Incorporation need to be filed with the Secretary of State but Corporations are also required to create “Corporate Bylaws” and issue stock certificates to the owners/shareholders of the business
  - Once up and running, annual shareholder and director meetings need to be held with minutes kept, and regular directors meetings held with minutes also
  - Corporations must file taxes and pay taxes on any profits that are left in the business after paying out all salaries, bonuses, expenses and other overhead.
  - US Corporate tax rates start at 15% for the first \$50,000 and top out at around 35% for \$10M and above.
  - At 35%, the US has the highest nominal corporate tax rate in the developed world

# **BUSINESS OF ANESTHESIA 101**

## **WHAT NEXT? MARKETING/STRATEGIC PLAN**

Now that you have an entity and a name chosen, who are you and what do you want to accomplish?

- What is your Core Philosophy/Mission Statement?
- Marketing/Branding based on your Mission Statement
- What are your differentiators?
- What are your Core Competencies?
- How do you Market your new company? (Hire a business development team or do it yourself, internet presence, trade shows, social media, cold calls, word of mouth growth....)
- Develop a Strategic Plan and periodically review and revise based on current market analysis and future trends in healthcare

# **BUSINESS OF ANESTHESIA 101**

## **INDIVIDUAL CONTRACT EVALUATION**

Now that you know who you are and what you want to accomplish, you need to learn to evaluate individual contracts:

- Learn how to build a Pro Forma
- Know the different types of Anesthesia Contracts
- Determine Capital needs and source of Capital
- Billing options available



# **BUSINESS OF ANESTHESIA 101**

## **PRO FORMA**

**A Pro Forma is method of calculating financial results from current or projected data**

- **A Pro Forma evaluates all revenue and expenses then will project a net profit or loss**
- **A good Pro Forma relies on good data in and good formulas to produce a reliable and predictable outcome**
- **Ideally you want as much data from the facility as possible about the cases done in the past year and projected cases for current year**
- **You then need to evaluate that data and accurately project the income you expect to receive from performing those anesthetics**
- **Next you figure out what your total expenses are and then compare for a profit analysis**

# **BUSINESS OF ANESTHESIA 101**

## **PRO FORMA REVENUE**

Data needed for Revenue calculations:

- Need total case volume (past and/or projected)
- Need case mix percentage (General Sx, Ortho, ENT, GI, OB etc)
- Need Payer mix percentage (Medicare, Caid, BCBS, United etc)

Performing the calculations (simple version)

- Take each case type and assign an average anesthesia unit amount to it, then multiply that by your weighted average reimbursement per unit
- Determine the average reimbursement per unit by inputting the per unit value from each payer and then average them based on percent of total cases of each payer

# **BUSINESS OF ANESTHESIA 101**

## **PRO FORMA EXPENSE**

Goal is to calculate as close to possible what your actual expenses will be. Expenses are made up following items:

- **Clinical Providers (CRNAs and MDAs mostly), Determine the amount needed based on concurrent case information, first starts, on call requirement, call backs, ratio of MDA to CRNA based on hospital bylaws, facility preferences and billing factors, vacation relief for providers, etc**
- **Overhead such as malpractice insurance, worker comp, fringe benefits, administrative cost, any equipment, and cost to collect or billing expenses**
- **Other cost of doing business (taxes, fees, audits, law suits etc)**
- **Then evaluate expected loss or profit margin**

# BUSINESS OF ANESTHESIA 101

## SAMPLE PRO FORMA

### Revenue

- 2500 cases per year
- 500 Ortho= \$250k
  - 500 GenSx= \$200k
  - 500 OB/Gyn=\$200k
  - 500 ENTsx= \$150k
  - 500 GIEndo=\$100k

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**Total Revenue= \$900k**

### Expense

#### Model 1MDA 3CRNA

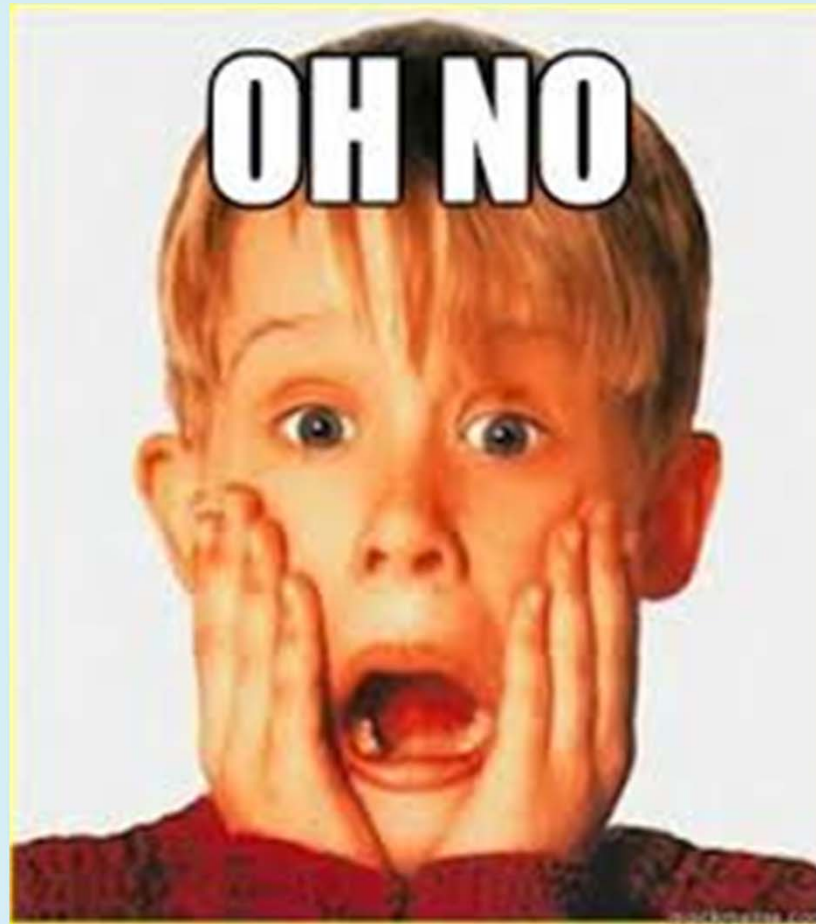
- 1 MDA+vac= \$400k
- 3 CRNA+vac= \$650k
- Billing= \$ 60k
- Mal Practice= \$ 50K
- Overhead= \$ 40K

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**Total Expenses= \$1,200**

# BUSINESS OF ANESTHESIA 101

## OH NO!



# **BUSINESS OF ANESTHESIA 101**

## **TYPES OF CONTRACTS**

**There are three main types of Anesthesia Contracts**

- **Straight Fee for Service**
- **Fee for Service with a Subsidy (fixed or floating)**
- **Management Contract**

# BUSINESS OF ANESTHESIA 101

## STRAIGHT FEE FOR SERVICE

### Pros

- Shared risk between Anesthesia and Facility
- Stability since your service is not costing the facility anything
- Motivated to increase surgical volume and efficiency

### Cons

- Shared Risk, no guarantee that you will be profitable
- Market conditions change
- Reimbursement reductions
- Changes in Medicare rules and regs

# **BUSINESS OF ANESTHESIA 101**

## **FEE FOR SERVICE W SUBSIDY**

In this model, the anesthesia group performs just like in the fee for service but the facility makes up for any potential losses with a subsidy payment to the anesthesia group.

Subsidies can come in many different shapes and sizes. Call stipend, income guarantee, medical directorships etc. Bottom line is that the facility is subsidizing the anesthesia department.

The subsidy is typically either floating or fixed.

- Floating stipends vary with the collections on the fee for service side. This is also called a “Net of Collections” model
- Fixed stipends are regular payments made in the same amount to an anesthesia group to subsidize the department.



# BUSINESS OF ANESTHESIA 101

## FEE FOR SERVICE W SUBSIDY

### Pros

- Minimum Anesthesia revenue is guaranteed, you zero loss if pro forma was accurate
- Not dependent on the hospital/surgical volume to makes ends meet
- Reimbursement changes don't have direct affect on bottom line

### Cons

- Hospital on hook to meet your cost
- They may question your ability or desire to maximize income through collections
- They are reminded monthly that they are subsidizing anesthesia and thus have to be reminded regularly of the value you bring to the facility
- Profit margins are potentially smaller

# **BUSINESS OF ANESTHESIA 101**

## **MANAGEMENT CONTRACT**

**An Anesthesia Services Management contract can take on many forms. As the name implies, the Anesthesia company is contracted to manage an anesthesia service. Often the management company provides back end support such as billing, recruiting, vacation relief etc for a management fee.**

- A recent trend has been for physician owned centers to see anesthesia as another service line that they can own and profit from but do not want manage.**
- This is more common in Surgery Centers and Endoscopy Centers**
- There could be some regulatory and legal concerns with some of these arrangements (Stark Law, AKS, Physician Self Referral, State Medical Practice Acts etc)**

# **BUSINESS OF ANESTHESIA**

## **CAPITAL/FINANCING**

**Every business needs a source of capital to grow and pay its bills. Anesthesia is no different.**

**Depending on the type of contract that is set up and the size of the contract, the capital needs could be minimal or they could easily be 7 figures.**

**A cash flow analysis will be needed to see how much capital is required to start a new contract. Billing revenue is notoriously slow to start coming in with any new contract due to the bureaucracy of government and private payers.**

**A good rule of thumb is that you will need 3 months of expenses in order to finance a new contract.**

# **BUSINESS OF ANESTHESIA 101**

## **CAPITAL/FINANCING**

There are numerous options when it comes to financing a start up

- Many companies self finance either through cash reserves or rolling AR. (preferred method in my opinion) But start ups have done everything from a second mortgage on the owners home to using inheritance from a rich Uncle!
- Local bank small business loans are another option
- A Line of Credit at your bank is typically another good source
- SBA, state or federal business loans
- An angel investor who will invest in you for a stake in your company
- Private equity money. PE is interested in medium to larger companies that are well established but need capital to grow through acquisition and mergers. The PE firm infuses capital with idea of growing EBITDA and in return get a stake in the company

# **BUSINESS OF ANESTHESIA 101**

## **BILLING**

**Anesthesia billing is unlike any other specialty. We will get into the specifics of how anesthesia billing works in another lecture later today.**

**For the purposes of this lecture the decision becomes to outsource or to do in house billing?**

**There is no right or wrong answer but both methods have pros and cons...**

# BUSINESS OF ANESTHESIA 101

## OUTSOURCE BILLING

### Pros

- You get a company that is an expert in anesthesia billing
- You don't have to hire a staff to bill and collect for you
- You don't have to buy computers/software/desk/chairs/lease, buy or build and office
- You don't have to manage all the personnel in the billing department

### Cons

- You don't control the process or operations of the billing department
- You are relying on someone else to collect for you and to have the same passion that you would
- Whatever fee they charge you to bill has a profit for them built in
- It's not easy to change billing companies as you grow

# **BUSINESS OF ANESTHESIA 101**

## **OUTSOURCE BILLING**

There are some things that a good billing company will do for you and do well

- **Send out clean claims**
- **Vigorously fight any denials**
- **Credential/Link all providers with third party payers**
- **Assist with negotiating rates from third party payers**
- **Help educate providers on proper documentation**
- **Provide detailed monthly AR reports**
- **Provide Ad Hoc needed reports**
- **Grow with you as you grow**

# **STAFFING AN ANESTHESIA DEPARTMENT**



# ANESTHESIA STAFFING OPTIONS

- **THERE ARE SEVERAL DIFFERENT ANESTHESIA STAFFING MODELS USED THROUGHOUT THE UNITED STATES AND LOUISIANA.**
  - **MD ANESTHESIA ONLY**
  - **CRNA ANESTHESIA ONLY**
  - **TEAM APPROACH TO ANESTHESIA**

**(CMS and Most Insurers pay the same way and amount for CRNA and MDA)**

# ANESTHESIA STAFFING OPTIONS

How does one determine what model works the best?

- First, look at what the facility demands are for anesthesia (Cadillac option)
- Second, look at what the facility is willing to pay for (Pinto?)
- Third, what is the most operationally efficient model
- Fourth, does the case load/payer mix support this model
- Fifth, what are the facility bylaws related to anesthesia staffing
- Sixth, is the MEC willing to change the bylaws to support the proposed model

So, what does the future look like for anesthesia staffing you ask???

# ANESTHESIA STAFFING OPTIONS THE FUTURE



# ANESTHESIA STAFFING OPTIONS THE FUTURE



# **ANESTHESIA STAFFING OPTIONS THE FUTURE**

**The future of anesthesia is you! As budgets are squeezed tighter and tighter, every entity is looking at the safest and most efficient option to deliver care.**

**We finally have the studies to back up that we are the safest and most cost efficient option in anesthesia delivery.**

- **Health Affairs: No harm found study**
- **IOM: The Future of Nursing Report**
- **Nursing Economics: Cost Effective Analysis of Anesthesia Providers**

**Are we prepared for the increased role and the increase autonomy that we are poised to see in the future?**

# ANESTHESIA STAFFING OPTIONS THE FUTURE

Anytime the role of CRNAs is increased, expect push back on several levels.

This process often takes education of nursing staff, surgical staff, administrators and often even other CRNAs and MDAs.

The CMS Conditions of Participation (CoP) is the go to resource for facilities. It defines what an anesthesia department must do in order for the facility to participate in government programs (Medicare)

<http://www.ecfr.gov/cgi-bin/text-idx?SID=d0190cd7dcc5f19e548c8519b65c2720&node=42:5.0.1.1.1.4.4.2&rgn=div8>

# OTHER FUTURE TRENDS IN ANESTHESIA

- Increased market consolidation through M & A activity
- Continued drug shortages
- Very few new pharmaceuticals introduced
- Increased reliance on government payers
- Increased integration of technology in patient care

**THANK YOU!**  
**Q & A**

**Tracy P.  
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