

Outpatient Revenue Outpaces Inpatient Revenue

On February 21, 2020, professional services firm Deloitte published a report analyzing the financial data of Medicare-certified hospitals between 2011 and 2018.¹ During this timeframe, hospital outpatient revenue grew at a compounded annual rate of 9%, to 48% of total hospital revenue, while inpatient care saw its revenue grow at a compounded rate of 6%.² These numbers seem to correlate with the rise in utilization of non-traditional sites of service such as ambulatory surgery centers (ASCs), urgent care clinics, primary care clinics, retail clinics, and telehealth.³ These outpatient revenue trends significantly impact the operations of hospital and other healthcare organizations, and with payors seeking to move healthcare reimbursement toward value-based models, these trends are expected continue, or even accelerate.

With outpatient revenue at approximately 95% of inpatient revenue,⁴ healthcare entity reliance on revenue from inpatient care (which used to be the most profitable) has been necessarily declining.⁵ In fact, the significant shift toward outpatient care has been building for the last three decades.⁶ The *American Hospital Association's* (AHA) 2018 *Trend Watch Review* of inpatient and outpatient data between 1995 through 2016 indicated the following trends:⁷

	Inpatient	Outpatient
Admissions per 1,000	-12%	N/A
Inpatient Length of Stay	-15%	N/A
Outpatient Visits per 1,000	N/A	+47%
Surgeries	-7%	+35%

In addition to these volume changes, a 2018 study conducted by Deloitte's Center for Health Solutions found that gross hospital outpatient revenue grew by 45% between 2005 and 2015, from \$1,352 per visit to \$1,962.⁸

As noted in the Deloitte report, the main catalysts for this growth in outpatient care have been reimbursement drivers, technological advancements, and patient preference.⁹ The shift from *volume*-based to *value*-based reimbursement has strongly incentivized the provision of care in outpatient settings. In 2013, the *Centers for Medicare & Medicaid Services* (CMS) established the *Two-Midnight Rule*, wherein hospital admissions are only billed as an inpatient stay if it spans two (or more)

midnights; otherwise, the "*observation stay*" will be billed as an outpatient visit.¹⁰ Additionally, propelled in large part by the *Patient Protection and Affordable Care Act* (ACA), both private and public payors have begun linking provider reimbursement to cost containment and quality metrics.¹¹ Payment arrangements such as shared savings, bundled payments, and capitation,¹² seek to improve care coordination and healthcare delivery efficiency.¹³ This push to reduce costs has spurred hospitals, health systems, and providers to provide a greater number of services in the lower-cost outpatient setting. For hospitals and health systems, this shift to the outpatient setting may be achieved through physician practice acquisition;¹⁴ such vertical integration can support the hospital's market position by allowing for a more fully integrated network, and the physicians can then be reimbursed at higher rates if they bill as a hospital-based outpatient department¹⁵ (in contrast to a freestanding physician practice or an ASC). This shift to value-based reimbursement is significantly changing the focus of healthcare delivery and access.

Additionally, a number of significant technological advancements over the past decade have allowed for this shift to the outpatient setting. Clinical advancements, such as minimally invasive surgery, have allowed procedures that could previously only be done in the hospital to be rendered in outpatient settings, such as ASCs, with shorter recovery times. Further, investment in virtual services, such as telehealth, is expected to further move patients from the inpatient to outpatient setting.¹⁶ The benefits associated with telehealth include increasing patient access to care (as patients would not necessarily have to leave their home to obtain medical advice), satisfying the demand of patients who prefer the convenience of web-based engagement, enhanced population health management, and the prevention of (more costly) emergency room and inpatient visits.¹⁷ Telehealth's potential has been well exhibited during the COVID-19 pandemic, as the technology has helped to prevent further spread of the virus by keeping people at home and hospitals from becoming overwhelmed.¹⁸

Many hospitals and healthcare systems have also significantly invested in outpatient, non-hospital care settings in response to demand from patients, who prefer outpatient settings because of their convenience and lower cost.¹⁹ Outpatient facilities, such as ASCs, imaging

centers, and urgent care clinics, are typically located closer to patients' homes, and are easier to quickly enter and exit, in contrast to obtaining care at a large hospital campus. Additionally, outpatient providers can perform the procedures at a much lower cost to the payor and patient, due to the reduced overhead and services offered. In an inpatient setting, more staff (with a wider specialty range), services, and equipment drive up costs that are then pushed on to the patient, unlike in an outpatient setting, where minimally invasive surgical procedures and other simpler tasks are cheaper and far more convenient for the patient, thus fueling demand for outpatient growth.²⁰

With hospital admissions increasing less than 1%, and outpatient visits increasing 1.2%, year-over-year,²¹ it is likely that outpatient care will continue to become a greater part of hospital revenue going forward.²² In the short term, current healthcare trends may be accelerated by the COVID-19 pandemic, which pushed a significant amount of patient care to the outpatient setting and paved the way for an expanded provision of virtual health services.²³ The extent to which this shift is accelerated may largely depend on whether CMS extends its various regulatory waivers and relaxations post-pandemic.

1 "Hospital revenue trends: Outpatient, home, virtual, and other care settings are becoming more common" Ankit Arora, Steve Burr, and Wendy Gerhardt, Deloitte Center for Health Solutions, 2020, <https://www2.deloitte.com/us/en/insights/industry/health-care/outpatient-virtual-health-care-trends.html> (Accessed 4/1/20).

2 *Ibid.*

3 "Growth in outpatient care: The role of quality and value incentives" Dr. Ken Abrams, Andrea Balan-Cohen, and Priyanshi Durbha, Deloitte Center for Health Solutions, 2018, <https://www2.deloitte.com/us/en/insights/industry/health-care/outpatient-hospital-services-medicare-incentives-value-quality.html> (Accessed 4/1/20).

4 "The outpatient shift continues: Outpatient revenue now 95% of inpatient revenue, new report reveals" Advisory Board, 2019, <https://www.advisory.com/daily-briefing/2019/01/08/hospital-revenue> (Accessed 4/1/20).

5 Arora, Burr, and Gerhardt, 2020.

6 Abrams, Balan-Cohen, and Durbha, 2018.

7 "Trend Watch Chartbook 2018: Trends Affecting Hospitals and Health Systems" American Hospital Association, Washington, DC, 2018, p. A24-7.

8 Abrams, Balan-Cohen, and Durbha, 2018.

9 Arora, Burr, and Gerhardt, 2020.

10 Advisory Board, 2019.

11 Abrams, Balan-Cohen, and Durbha, 2018.

12 *Ibid.*

13 "CMS.gov Centers for Medicare and Medicaid Services; Value-Based Programs" CMS.gov, 2020, <https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/Value-Based-Programs/Value-Based-Programs> (Accessed 4/2/20).

14 Arora, Burr, and Gerhardt, 2020.

15 *Ibid.*

16 *Ibid.*

17 *Ibid.*

18 "What Happens When the Doctors get Sick with Coronavirus?" Jefferson University Hospitals, 3/12/20, <https://hospitals.jefferson.edu/news/2020/03/when-doctors-get-sick-with-coronavirus.html> (Accessed 4/24/20).

19 Outpatient settings typically offer a lower price point, because of the significant reduction of overhead and services offered. Arora, Burr, and Gerhardt, 2020.

20 Abrams, Balan-Cohen, and Durbha, 2018.

21 Advisory Board, 2019.

22 Arora, Burr, and Gerhardt, 2020.

23 For more information on the potential impact of the COVID-19 pandemic on the healthcare delivery landscape, see the article in this month's issue entitled, "How Will COVID-19 Change Healthcare Delivery?"

FREE EBOOK DOWNLOAD
Health Capital Topics 2019

Visit www.healthcapital.com

This book reviews and discusses subjects in the ever-changing U.S. healthcare industry and how they may affect healthcare organizations. Topics include value-based reimbursement; the latest regulatory pronouncements; emerging healthcare organizations; and much more.

CLICK

GET IT NOW

HCC
 HEALTH CAPITAL CONSULTANTS



(800)FYI - VALU

*Providing Solutions
in the Era of
Healthcare Reform*

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients & Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

HCC Services

- [Valuation Consulting](#)
- [Commercial Reasonableness Opinions](#)
- [Commercial Payor Reimbursement Benchmarking](#)
- [Litigation Support & Expert Witness](#)
- [Financial Feasibility Analysis & Modeling](#)
- [Intermediary Services](#)
- [Certificate of Need](#)
- [ACO Value Metrics & Capital Formation](#)
- [Strategic Consulting](#)
- [Industry Research Services](#)



[Todd A. Zigrang](#), MBA, MHA, CVA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[The Adviser's Guide to Healthcare – 2nd Edition](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.



[Jessica L. Bailey-Wheaton](#), Esq., is Senior Vice President & General Counsel of HCC, where she focuses on project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions, and research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. She has presented before associations such as the American Bar Association and NACVA.



[John R. Chwarzinski](#), MSF, MAE, is Senior Vice President of HCC, where he focuses on the areas of valuation and financial analysis of healthcare enterprises, assets and services. Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's of Science in Finance Degree from the John M. Olin School of Business at Washington University in St. Louis. He has presented before associations such as the National Association of Certified Valuators and Analysts; the Virginia Medical Group Management Association; and, the Missouri Society of CPAs. Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, and economic and quantitative financial analysis.



[Daniel J. Chen](#), MSF, CVA, focuses on developing Fair Market Value and Commercial Reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen holds the Certified Valuation Analyst (CVA) designation from NACVA.



[Paul M. Doelling](#), MHA, FACMPE, has over 25 years of healthcare valuation and operational management experience and he has previously served as an administrator for a number of mid to large-sized independent and hospital-owned physician practice groups. During that time, he has participated in numerous physician integration and affiliation initiatives. Paul has authored peer-reviewed and industry articles, as well as served as faculty before professional associations such as the Medical Group Management Association (MGMA) and the Healthcare Financial Management Association (HFMA). He is a member of MGMA, as well as HFMA where he previously served as President of the Greater St. Louis Chapter.