What Will Be the Fallout from Anthem's New Imaging Policy?

With payers looking to force more services to lower-cost settings, hospitals have to react to losing some of their main profit sources.

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A movement health systems have been dreading is gaining speed, as commercial and government payers are implementing more and more policies that restrict reimbursements for services that can be performed outside a hospital. Anthem's recent announcement that it will no longer pay for MRIs and CT scans performed at a hospital in an outpatient basis could be a harbinger for what's to come.

Several hospitals and health systems have already taken steps to recapture revenue lost to these demands for pushing patients outside their walls whenever possible. But with the industry already suffering from reduced patient volumes and lower reimbursements in general, policies restricting the services hospitals count on for steady cash flow could be a major disruption.

Anthem's new rule

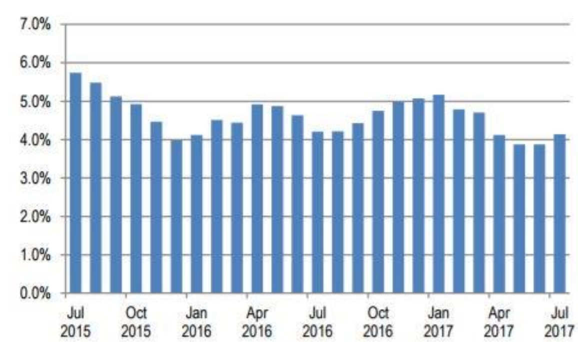
Anthem plans to implement the policy in 13 of its 14 states by March 2018, with only New Hampshire exempt from the new policy. The payer has already implemented it in nine states.

Hospital officials are predictably concerned about what this could mean to their margins. Higher in-hospital reimbursement for MRIs and CT scans made them profitable, even though they're not a major service for hospitals. One estimate said some health systems collect more than half of their profit from imaging services.

Anthem's new policy is part of a payer movement to reduce healthcare costs by pushing patients to get care at locations less expensive than hospitals. That's also true for another controversial Anthem policy to stop paying for Emergency Department (ED) care it deems unnecessary.

Trying to cut healthcare costs is nothing new for insurance companies, or the industry in general. For many years, payers and employers have created health plans that reward members for getting care at less expensive locations. That benefit design has resulted in patients paying more to go to specialists rather than primary care physicians and going to EDs rather than places like urgent care centers. Payers have also nudged members to get more services as an outpatient and avoid being admitted to a hospital.

Exhibit 1: Year-over-Year Growth Rates in Health Spending



Source: Altarum monthly health spending estimates.
Note: This exhibit compares a given month's health spending with that of the same month from the previous year.

Those cost-cutting efforts seem to be working. Altarum's Center for Sustainable Health Spending's recent Health Sector Economic Indicators reported overall national health spending growth decreased in the second quarter. A major reason for the slower spending growth was connected to hospital spending growth, which was only 1.3%

rather than the expected 4% growth rate. Hospital spending growth was the slowest major healthcare category over the past year. Hospital spending increased in June by 0.8%, which was the slowest growth rate year-over-year since January 1989.

While payers have looked for passive ways to re-direct patient care in the past, Anthem's two new policies extend beyond benefit design and go to the heart of hospital funding. In recent years, hospitals overcame lower Medicare reimbursements by making more on imaging and ED services, which have been steady profit centers. Now, hospitals in 13 states will see that funding dry up.

Anthem said its new Imaging Clinical Site of Care program dovetails with the Institute for Healthcare Improvement Triple Aim Initiative, which seeks to improve the patient experience, improve population health and reduce per capita cost of healthcare.

Anthem subsidiary AIM Specialty Health is administering the program to identify when hospital outpatient services for services like MRIs and CT scans are medically necessary. Lori McLaughlin, Anthem communications director, told Healthcare Dive getting services in a "clinically appropriate setting" like a freestanding outpatient clinic or imaging center is less expensive and clinical research shows those locations are safe.

Anthem said the policy will result in lower healthcare costs for members and the healthcare industry overall. Imaging services in a hospital can cost $1,000 more than a freestanding clinic, and that cost could fall to the patient if they haven't met their plan's deductible.

Anthem said AIM Speciality Health will only review the level of care if there are at least two alternate freestanding imaging centers nearby. So, imaging would be approved in rural areas that might not have more than one option for an MRI or CT scan, according to the payer.

McLaughlin said Anthem doesn't know how much it has saved or how many hospital scans it has reduced because the plan is still so new. With the imaging policy set, McLaughlin said Anthem will continue to look for more ways to save healthcare costs.

"Anthem's primary concern is to provide access to quality, safe and affordable healthcare for our affiliated health plan members. We're always looking at new approaches to ensure clinical quality and improve affordability and we are committed to reducing overall medical cost where possible when the safety of the member is not put at risk," she said.

Will other payers follow suit?

Anthem is a major insurer in more than a dozen states, so any decision will have a ripple effect in those areas and beyond.

Lea Halim, senior research consultant at Advisory Board, told Healthcare Dive other payers will likely watch how Anthem's policy plays out.

"Will Anthem get a lot of pushback from patients and employers? Will hospital lobbies succeed in getting state governments to force Anthem to roll back the policy? If Anthem does not face, or successfully overcomes these types of challenges, other payers may very well follow suit," Halim said.

Payers are working to bring down costs in other ways, too. One example is insurance companies buying surgical centers, said Gregory Hagood, senior managing director at SOLIC Capital Advisors, which works

with hospitals on mergers and acquisitions. Another example is payers creating networks that encourage members to use alternative (i.e., less expensive) services.

Hagood expects payers will continue to look for more ways to cut costs, including reviewing elective services performed in hospitals. "We're seeing all insurance companies trying to create an alternative network where, theoretically, the quality of these centers are what you get in the hospital, but at a lower rate because you don't have all the overhead of hospitals," he told Healthcare Dive.

Private companies like Anthem aren't the only payers creating policies that cut costs and affect hospital finances. The CMS also recently announced a proposal to make costs more site neutral. With this change, CMS would pay services at off-campus hospital outpatient departments by 25% of regular outpatient rates (while increasing outpatient payments overall by 1.75%). The CMS expects the proposal would save about $500 million this year. The American Hospital Association has spoken out vociferously against the proposal.

Medicare is also proposing hip surgeries in surgery centers in addition to just hospitals. Knee and hip surgeries have the highest margins for hospitals, but Medicare is pushing more volume to outpatient services.

"Those are huge dollars you're talking about there," Hagood said. "It's another where a hospital's lucrative services like joint replacement and imaging are starting to get squeezed from both sides — from CMS and private payers."

Impact to hospitals

Anthem's size and importance in the 13 states where it is active means its imaging policy will affect hospital finances. However, Paul Keckley, healthcare researcher and managing editor of The Keckley Report, told Healthcare Dive many hospitals are already competing with freestanding and physician-owned facilities. So, though Anthem's policy will affect hospitals, Keckley said those facilities are already "accustomed to the downward pressure on their margins."

Hagood estimates that MRIs and CT scans make up only 5%-10% of a hospital's business, but those services are profitable and have huge profit margins for hospitals.

Hagood said an MRI for a knee or shoulder would cost about $500 on average in a physician's office, but that would swell to somewhere between $1,000 and $2,000 at hospitals in many markets. This means hospitals are making an average of $1,000 more on each procedure, he said.

Spread over a year, that's about $800,000 more profit for hospitals, which these facilities stand to lose with Anthem's new imaging policy.

Halim said hospitals stand to lose the reimbursements from Anthem, but those with their own freestanding imaging facilities that bill at a lower rate already should be able to capture a portion of the lost revenue.

Beyond hospital finances, the policy change would impact patients both positively and negatively. Anthem patients in a high-deductible plan will pay less out-of-pocket for an MRI or CT scan at freestanding facilities. However, patients not in a high-deductible plan and who may not pay much out-of-pocket anyway, may feel inconvenienced if they're told they can't get the services at their local hospital. Plus, if the ordering physician doesn't direct the patient to a freestanding facility and the person gets the services at a hospital, Anthem could deny the claim and the patient will get stuck with the bill, said Halim.

What will hospitals do?

Hagood doesn't think hospitals will make up the lost funding in other areas. Instead, he expects staffing cuts and hospitals squeezing vendor contracts for supplies and maintenance.

One way hospitals could respond is by working with the payer to get a little more money for imaging than a freestanding imaging center, but much less than what Anthem has been paying hospitals. Hagood said hospitals may get a "modest premium," such as maybe get another $100 or $200 for a scan instead of the extra $1,000 Anthem has been paying them.

Halim said hospitals may accept the outpatient payment rate for hospital-based facilities in exchange for a policy waiver. Plus, they may invest more in their own freestanding imaging centers.

"If Anthem represents a significant portion of their revenue — and if the new policy sticks — that may lead some hospitals to consider investing in freestanding facilities so that they can still capture Anthem's outpatient imaging business," Halim said.

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