



Episode 108: Site-of-Care Optimization, With Lauren Makhoul

Episode Summary

Site-of-care optimization makes a difference, and that's made possible by private equity investing in healthcare. [Lauren Makhoul](#), principal at Avalere Health, explains this dynamic in the first installment of The Corner Series Shorts with McGuireWoods partner and host [Geoff Cockrell](#).

When private equity-backed platforms invest in ambulatory surgical centers, they capture facility fees while moving procedures to lower-cost settings, benefiting physicians and the healthcare system. This optimization improves patient experience through better scheduling, convenient locations and dedicated facilities while reducing overall healthcare costs.

A spinoff of *The Corner Series*, *The Corner Series Shorts* delivers quick, high-impact insights from dealmakers and thought leaders at the intersection of healthcare and private equity. Each short episode — less than 10 minutes — offers a focused look at key trends, timely topics and expert perspectives.

Transcript

Voice over (00:00):

This is The Corner Series, a McGuireWoods series, exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods' partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell (00:19):

Thank you for joining another episode of The Corner Series. I'm your host, Geoff Cockrell. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity. We're trying something new this go around. We're going to introduce a slightly different format that we're going to call Corner Series Shorts. There'll be 5 to 10 minutes and it's going to delve into a particular topic. The first series of them that we do is going to be trying to wrestle with the implications of some of the bad press that private equity gets in investing in healthcare, and highlighting some of the beneficial impacts of private equity investing in healthcare.

(00:55):

And today I'm joined by a repeat guest, Lauren Makhoul from Avalere Health. Avalere Health does a lot of healthcare consulting, and Lauren has been a leading voice in really tackling some of the implications of private equity investing in healthcare.

(01:10):

So Lauren, if you could give a quick introduction of yourself and Avalere and then we'll jump into a quick discussion.

Lauren Makhoul (01:17):

Sure thing, Geoff, and thanks for having me back. It's great to be here. So I'm Lauren Makhoul. I'm a principal at Avalere Health. We are a healthcare-only consulting firm, now global, but our policy team is based in the Washington, DC area. And my team specifically focuses on the intersection between the investment community, healthcare and regulatory policy. And so we span everything from regulatory to reimbursement diligence, as well as helping our clients with some strategic and advocacy adjacent work, as we like to call it, and making sure that some of the research, that we'll hopefully talk about today, gets into the public sphere. So, excited to dive in.

Geoff Cockrell (01:55):

So Lauren, on this short episode, we're going to deal with just one topic and that is the implication of site of care optimization. It has a really profound impact on the cost of care and it doesn't get enough attention. Can you maybe give a little high-level overview of what that means and how it impacts cost of care?

Lauren Makhoul (02:17):

Yeah, absolutely. As many of us may or may not know, there are different reimbursement structures for different sites of care. And so there's the hospital outpatient perspective payment system, which is how hospitals are paid for their Outpatient Department, that's actually separate from the inpatient program. You then have a separate payment system for ambulatory surgical centers, and then you also have a separate system for how physicians are paid. So that's how it works in Medicare and then that's often reflected in the commercial markets as well. And so because of the complexity of some of those reimbursement dynamics, it really does depend on what setting you're in and how care is reimbursed and what that level is. And so we see in facility-based hospital settings, such as the hospital Outpatient Department, they account for a lot of the background support, so a lot of staff, there's other equipment. And they, of course, have to be ready for some of the more urgent cases or things go wrong or some of the more high-acuity cases.

(03:19):

Whereas in ambulatory settings, they're able to operate at a lower reimbursement level because they don't have quite as much of that sort of high-acuity level care. And so what we see in how that plays

out is that some procedures, so for example, some imaging, think about MRIs, ultrasounds, x-rays, et cetera, which could be done in the exact same way across different settings, actually have different payments, and it's often much, much higher in the hospital Outpatient Department. We also see that with more surgical procedures that are slowly going into the outpatient setting, such as total knee and hip replacements and colonoscopies as well. And some of the differences in payment are quite significant. For example, a diagnostic colonoscopy, which many folks may have experience with, in 2024 the hospital Outpatient Department visit costs two to three times more than a visit to the office. So what our data showed is about \$2,100 for a hospital outpatient colonoscopy versus \$577 in the office. And even in the ambulatory surgical center, that was about \$1,300. So still orders of magnitude less than the HOP Ds. So we're talking real dollars.

Geoff Cockrell (04:32):

And so let's connect this to private equity investing. If you take a provider consolidation business, let's say GI or Orthopedic or Ophthalmology, that often either has or is looking to move procedures that are often done in a hospital to an ASC, can you talk a little bit about how the intersection of the profit motive of the private equity backed platform intersects with the site of care in a way that, while still being profit motive driven by the consolidator, still has an aggregate beneficial impact on cost of care?

Lauren Makhoul (05:09):

Yeah, absolutely. So going back to the mechanisms that we talked about before, which is that physicians are paid on a different fee schedule than facilities, if you are a physician who does not own an ASC and you go to perform a procedure that needs a facility-level care, you're only getting compensated for the professional component. There's a separate facility fee, which goes to the hospital or a surgery center that you may not have ownership of. When a physician partners with a private equity firm, who through an MSO structure or otherwise is able to invest in an ASC, they are also then able to capture the facility fee in addition to the professional fee. And so in that case, they're capturing more of the revenue for the same service and keeping that with the physician as well. So in a case like that, it benefits both the private equity investor, but also the physicians who are actually performing the surgery and that they can retain more of the overall reimbursement for the services that they're providing.

Geoff Cockrell (06:12):

And Lauren, you can see how the investment theme of the private equity fund and the fact that they have capital to invest in ASC kind of enables them to capture some of those revenue streams. What's the order of magnitude of impact of this movement of cost of care outside of a hospital setting 'cause there's obviously some pushes and pulls on the economics, but what's the aggregate effect? Is this a real driver of moving costs down?

Lauren Makhoul (06:37):

Yeah, we have seen that. There are certain procedures I think are a good example, going back to the total joint replacement. And so in the recent past, those were on an inpatient-only list for Medicare, meaning they were required to be done in an inpatient setting. Around 2018 through 2021, some of these procedures started rolling off of the inpatient-only list and on to the ASC-covered procedures list, which meant that they could be done in an outpatient surgical center. As soon as these procedures came off of the inpatient-only list and moved on to the ASC, we started to see movement. It was not drastic at first, but around now, we're seeing anywhere from 15% to 25% of procedures are done in these lower cost settings and it's real money. It could be half as much, in some cases several thousands of dollars different.

(07:30):

But one thing that is often misrepresented or otherwise not the full story and some of the research is that if you look at the professional fees that the physicians are getting, those may be higher than the HOP D professional fees. And this is potentially because of negotiation on behalf of those physicians. But if you look at the holistic amount of the payment, the facility fee is considerably lower in the ASC than the HOP D. And we saw that across probably 30-some procedures and four different specialties that we've done in our recent research.

Geoff Cockrell (08:04):

So the math has to be looked at more holistically that when a provider moves into, say, a private equity-backed platform, that platform may have incrementally better reimbursement rates from payers, which is a upward push on cost, but they're able to move many of these procedures outside of the most expensive setting where they occur. And if you look at those pushes and pulls, they ultimately often yield a net benefit on cost, and that piece of the analysis gets lost in some of the newspaper articles that you see.

Lauren Makhoul (08:38):

That's right, and I think some of the concern as well is that too much volume will shift to these settings in a way that's not safe for patients. And while I recognize, and others do as well, that there is a concern that because of the incentives we've talked about of moving it that we may see some safety concerns for patients, but it really hasn't played out that way. There are guardrails in place in terms of protocols that ASCs have when cases escalate. And we also see that providers retain choice for certain patient comorbidities and there's guidelines around a lot of this of what should and should not be done in an ASC. And so there's some research from MedPAC and others that have shown that this is less of a concern, but obviously important to keep that front of mind that the safety of the patient and the appropriateness of the individual procedure has to be balanced with the overall cost.

Geoff Cockrell (09:31):

And so we often hear the discussion focusing on the triple policy aims of improving access, outcomes and cost. There's often a couple other aims that get added to that, those being improving the provider

experience and improving the patient experience. What's the impact of this kind of site of care optimization on patient experience in particular?

Lauren Makhoul (09:51):

That's been a fun one to learn about, and I think all of us can really resonate in our own communities. If you have to go to a hospital for a minor procedure, that means typically finding a parking deck that's far away from the office, going to the front desk, finding the floor that your doctor is on, waiting for a long time, it may be far away from your home. So that's not a pleasant experience for patients. Whereas with an ASC, these are often specifically positioned geographically on corners where people can easily get to them. They have parking lots right adjacent to them. These procedures are scheduled during working hours as well, so you don't have to go in necessarily at all hours of the day and wait.

(10:35):

And that speaks to the provider benefits as well where providers may have to wait for their surgeries to be scheduled because they're sharing operating rooms. If they have a dedicated ASC, they get to manage their schedules a little bit better for a lot of these surgeries that are more elective. So all in all, a better patient and provider experience often when you have more access to ASCs.

Geoff Cockrell (10:58):

Like I said, we're going to keep these short. So the takeaway for today's episode is site of care optimization really makes a difference, and that's made possible by private equity investing in healthcare and just tidbit that needs to be added to the discussion.

(11:13):

Lauren, thanks for joining. This is always a ton of fun.

Lauren Makhoul (11:16):

Thanks, Geoff. See you on the next one.

Voice over (11:20):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please e-mail host Geoff Cockrell at gcockrell@mcguirewoods.com.

(11:30):

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