



The Evolution of Orthopedic ASC Migration

QUADRIGA
PARTNERS

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Discerning physician groups are proactively expanding their ASC footprint, through outright ownership or in strategic partnership with healthcare systems, management companies, or investors. The convergence to ASCs underscores a keen interest in capturing abundant opportunities within the evolving landscape of outpatient care and surgical innovation

Preface

The ecosystem of orthopedic surgery has undergone a remarkable transformation, with Ambulatory Surgery Centers (ASCs) emerging as the new frontier of care. This shift has been fueled by a confluence of factors leading to a surge in outpatient procedures, while promising significant benefits in terms of patient outcomes, cost savings, and healthcare sustainability. Orthopedic practices that are well equipped to pursue this inevitable transition possess a deep bench of diversified, sub-specialized physicians. These physicians are willing to harness outpatient tailwinds, stay updated on fluctuating payor dynamics, and establish a well-defined outpatient procedural roadmap, all the while ensuring the safe performance of complex operations.

The migration to ASCs offers significant advantages to orthopedic practices who have already developed these care settings. This outpatient trend enables these practices to perform cost-effective procedures at higher volumes without sacrificing patient care standards. In contrast, orthopedic groups without ASCs will face mounting pressure to consider consolidation as a means to remain competitive within the changing environment.

Quadriga has been actively involved in supporting our physician partners navigate the evolution to outpatient care while acting as a trusted advisor to distinguished practices seeking innovative solutions in care delivery.



About Quadriga Partners

Quadriga Partners is a premier healthcare investment bank, providing merger and acquisition advisory as well as capital raising services exclusively to healthcare companies. Quadriga has a particular emphasis on several key sectors, including provider services, and is among the most active advisors for orthopedic and physical therapy transactions. Quadriga begins by obtaining an intimate understanding of its client’s short and long-term objectives, overlaying a unique solutions orientation to each engagement.



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The once dominant inpatient-only paradigm in surgical procedures has given way to outpatient care, particularly within ASCs.

Procedure shift to ASCs within orthopedics has gathered substantial momentum, particularly during the past four to five years, with expectations of continued growth in the future. In 2022, 48% of common ASC procedures were performed at surgery centers as opposed to hospital outpatient departments (HOPDs). By 2025, this number is expected to approach 70% of all orthopedic surgeries performed (see *Figure 1*). Additionally, the proportion of elective total joint arthroplasty (TJA) procedures in which patients went home on the same day skyrocketed from less than 1% of patients in 2017 to more than 30% of patients in 2021 and is projected to reach approximately 60% by 2028 (see *Figure 2*). The repositioning of orthopedic surgeries to ASCs is catalyzed by an amalgamation of factors.

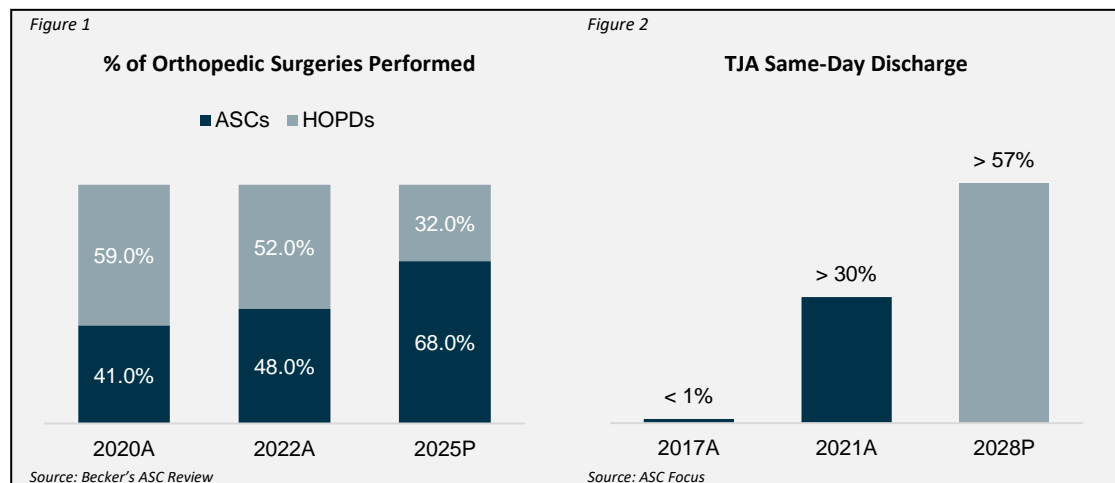
Surgical Techniques / Pain Management

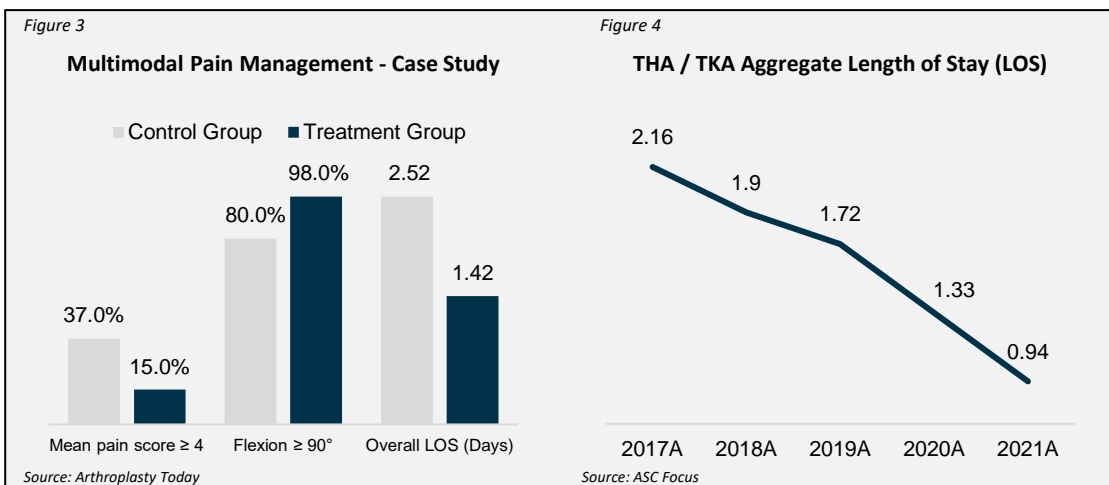
Initially, the introduction of minimally invasive surgical techniques played a pivotal role in driving this change.

Simultaneously, advancements in orthopedic implant technology, improved anesthesia, and postoperative pain management have made it possible to consider complex joint and spine surgical procedures in an outpatient setting. Most notably, the pandemic expedited the widespread transition of total joint procedures to outpatient settings due to the imperative for streamlined healthcare delivery, reduced hospital occupancy, and enhanced infection control measures.

Historically, the majority of patients undergoing orthopedic surgical procedures were managed postoperatively as inpatients. During the early 2000s, patients largely received opioid-based protocols post-surgery, leading to pronounced side effects that hindered rehabilitation efforts in the initial days following procedures. The perioperative phase often involved substantial pain, which impeded necessary activities for prompt discharge and led to extended hospital stays. Alternative medications and multimodal analgesia, a method of using multiple different classes of analgesics for more manageable and less constraining side effects, had not yet gained significant traction. During the same time period, blood transfusion rates after primary elective joint replacements were almost 25% of all procedures. Since many ASCs typically have strict policies surrounding the use of blood and blood products, higher-risk cases were handled in larger inpatient facilities should the need arise for emergency transfusions.

Currently, nearly all orthopedic surgeons in the United States employ some variety of multimodal analgesia with local anesthetics, anti-inflammatories, and other





opioid alternatives. In a research article published by *Arthroplasty Today*, Josh Urban, MD, found that implementation of multimodal pain management, including preoperative cryoneurolysis for total knee arthroplasty (TKA), led to a 22% reduction in mean pain scores ≥ 4 (using an 11-point numerical rating scale where 0 = no pain and 10 = worst pain possible), a 44% reduction in overall length of stay (LOS), and an 18% increase in patient flexion greater than 90 degrees (see *Figure 3*).

strategies have reduced transfusion rates significantly, from 25% in 2000 to rates as low as 1.9% in 2023, enabling a vast majority of total joint cases to be performed as outpatient procedures.

As technology and perioperative pain management continues to advance, the average LOS for acute procedures continues to contract, as shown in *Figure 4*, a retrospective cohort study performed on patients who underwent primary elective total hip arthroplasty (THA) or TKA from 2017 to 2021.

Implementation of perioperative blood management strategies have reduced transfusion rates significantly, from 25% in 2000 to rates as low as 1.9% in 2023

Fluctuating Payor Environment

To reduce transfusion rate, various blood management strategies has been applied, including iron supplementation before surgery and meticulous hemostasis before closing the knee capsule in TKAs. Robotic systems used in assisting TKAs have been utilized for accurate surgical planning, resulting in fewer bone cuts, requiring less soft tissue management, and leading to reduced blood loss. Additionally, a method called the cell-saver program, also known as autotransfusion, collects, cleans, concentrates, and transfuses back a patient’s blood during a surgery to avoid blood transfusions all together. If a patient’s blood level drops below a certain threshold, the patient is required to stay overnight, rendering outpatient care an impossibility. Implementation of perioperative blood management

The shifting dynamics of payor structures have also played a significant role in propelling the migration to ASC procedures.

In recent years, CMS has made significant changes to the inpatient-only list by removing key musculoskeletal services. This included TKA in 2018, THA in 2020, as well as partial hip and shoulder arthroplasties in 2021. In parallel, CMS has been consistently expanding the list of procedures covered at ASCs, including TKA in 2020 and THA in 2021. Apart from the progressive easing of site-of-care constraints, CMS has also recently introduced supplementary prior authorization requirements concerning cervical spinal fusions carried out in HOPDs. Notably, these authorizations are not required for ASCs. CMS noted in their final ruling for 2023: “We expect to continue to gradually expand the ASC covered procure list (CPL), as medical practice and technology continue to evolve and advance in future years”.

Apart from the changes enacted by CMS, commercial payors are revamping policies to push providers and patients out of the hospital and into ASCs, where procedures can be performed at a lower cost. As outlined in various studies, the potential savings of moving total joint replacements to surgery centers is significant. On average, an outpatient total joint replacement costs close to 40% less than the same procedure performed on an inpatient basis, with no impairment to patient outcomes and improved patient satisfaction (see *Figure 5*).

With these savings fueling value-based care momentum, UnitedHealth Group projected migrating half of routine total joint replacements from hospitals to ASCs could yield \$3 billion in annual savings — \$2 billion for privately insured individuals and employers and \$1 billion for Medicare beneficiaries and the federal government.

Prior to the onset of the COVID-19 pandemic, UnitedHealthcare (UHC) implemented a policy aimed at constraining the permissible sites of care for specific nonurgent surgeries, a strategy projected to yield a \$500 million benefit for beneficiaries in 2020. Beginning in November 2019, UHC’s reimbursement framework shifted to only cover surgeries executed within HOPDs if deemed medically necessary based on patient acuity. Additionally, UHC has committed to delivering more than 55% of outpatient surgeries and radiology services at high-quality, cost-efficient sites of care (ASCs) by 2030.

Elevance Health (formerly known as Anthem) adopted a similar policy in August 2020, issuing clinical utilization management guidelines that imposed

constraints on the utilization of HOPDs.

In 2021, Empire BlueCross BlueShield in New York introduced policy updates mandating medical necessity reviews for its commercial plan members seeking certain procedures in HOPDs instead of ASCs. This policy covers an umbrella of specialties, including orthopedics, gastroenterology, ophthalmology, and gynecology.

The aforementioned payor policies are expected to accelerate the shift to the outpatient setting in the coming years. *Figure 6* below illustrates the rate at which the shift is predicted to occur for shoulder replacement surgeries through 2026. Expectations for the end of 2023 point towards sustained expansion and integration of ASC utilization within orthopedic practices alongside heightened interest from investors who look to capitalize on the inherent opportunities within the procedural migration.

Concluding Remarks

The shift towards ASCs within orthopedic care reflects a strategic response to a convergence of factors. The surge in outpatient procedures, driven by minimally invasive techniques, advanced pain management, and optimized blood management strategies, has reshaped patient experience and outcomes. The evolving payor environment further accelerates this transition, as ASCs offer substantial cost savings without compromising quality. This migration also opens doors for investment opportunities, making it vital for physician practice stakeholders to align their growth strategies with the evolving landscape.

