

Health Care Growth Strategies

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Leading Providers Establish Hospitalist Programs to Manage Inpatient Care, Boost Referrals, and Generate Incremental Revenue

Estimates indicate that more than 6,000 hospitalists, physicians who primarily practice inpatient hospital medicine, are practicing in the United States, with that number expected to triple by 2010. Hospitalist programs have been established at 12 of the top 15 hospitals on *U.S. News & World Report's* list of the best hospitals in the United States. Successful hospitalist programs can increase referrals from affiliated primary care physicians by more than 10 percent. Additionally, for a hospital with 20 employed primary care physicians, establishing a hospitalist program could result in \$500,000 to \$1,000,000 in incremental revenue as a result of higher office-based productivity.

Growth and Revenue Opportunities: Hospitalist Programs

Initially, many physicians resisted the idea of turning inpatient care over to hospital-based physicians. These reluctant physicians viewed the movement as another means for insurance companies and hospitals to restrict physician autonomy and reduce access to fees for attending to hospitalized patients. They also were concerned that consumers opposed hospitalists because of resulting discontinuities in patient care.

Today, many primary care physicians and specialists are demanding that hospitals develop a hospitalist program or recruit a private hospitalist group. Time

demands on physicians, increasing acuity and complexity of inpatients, and cost pressures on providers and payors have convinced most physicians that hospitalists can serve a valuable role. Technological advances are facilitating the process, allowing hospitalists to communicate regularly and more effectively with referring physicians. Typically, referring physicians prefer updates upon patient admission and discharge, although some require more frequent communication (e.g., faxing daily chart notes).

Most referring physicians believe that hospitalists increase their productivity,

improve patient satisfaction, and decrease their workload. Less time spent traveling to hospitals allows them to concentrate more on their outpatient practice, provide care for more patients, and ultimately generate increased revenue. Larger patient panels for the referring primary care physicians also results in greater revenue potential for the hospital(s) to which the physician refers patients.

Hospitalists assert that they can provide and facilitate more efficient care because they have greater familiarity with hospital staff and operations, develop enhanced skills for treating inpatients, and expedite the referral process for post-hospital care. Advocates also state that hospitalists reduce the cost of providing care, while maintaining or improving the quality of care.

Studies published in the *Journal of the American Medical Association* and the *Annals of Internal Medicine* have shown that hospitalists can reduce the length of stay and total cost of inpatient care by approximately 15 percent. A hospital with four full-time hospitalists can reasonably expect those physicians to attend to a total of 2,000 inpatients per year. At a target savings rate of 15 percent on expenses, applied to an average cost of \$7,500 per admission, the hospital could reduce costs by \$2.25 million. The savings are offset to a certain extent by the

Keys to Success for Hospitalist Programs

- Make the hospitalist program optional for referring physicians
- Recruit rather than buy hospitalist coverage (an independent group requires less, if any, administrative and financial support)
- Mandate that the hospitalist and referring physician communicate on patient admission and discharge, at a minimum
- Foster a collaborative environment between hospitalists and intensivists who treat critical care patients
- Establish a formal liaison program to maintain channels of communication and interaction between the host hospital and referring physicians



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subsidy that is often required to support a hospitalist program. For employed hospitalists in a mature program, the annual subsidy required typically averages approximately \$50,000 per physician. Given the lack of bed capacity and staffing shortages that exist at many hospitals, a successful hospitalist program can also increase patient throughput, thus enabling the hospital to accommodate more patients.

A hospital in the Northeast has had a hospitalist program in place for the past six years. In 1997, the hospitalists, all employed physicians, attended to 500 inpatients. This year, the number is expected to reach 3,000 inpatients. The hospital subsidizes the group between \$150,000 and \$200,000 annually; however, the hospital estimates that 25 percent, or 750 of the total inpatient cases are incremental, directly as a result of the hospitalist program. At an average of \$9,000 in revenue per inpatient, \$6.75 million in incremental revenue is attributed to the hospitalist program.

Developing a hospitalist program can increase a hospital's volume and revenue, decrease the cost of providing care through greater efficiency, improve the quality of care, and strengthen a hospital's relationship with affiliated physicians.



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