

# The business side of pediatric hospitalist programs

## Cost versus benefit

*Editor's note: In the July HLA, we discussed why more hospitals turn to pediatric hospitalist programs to meet their patient care needs. This month, we asked experts **Gaurov Dayal, MD**, vice president and chief medical officer at Shady Grove Adventist Hospital in Rockville, MD, and **Jeff Taylor**, president and chief operating officer at IPC The Hospitalist Company in North Hollywood, CA, to weigh in on the bottom line.*

### Are pediatric hospitalist programs profitable?

It depends on how you look at it. Physician reimbursement alone usually does not cover the cost of a pediatric hospitalist program, which is why the majority of hospitals subsidize them by up to 50%, according to University of Michigan researchers in the study, *Assessing the Value of Pediatric Hospitalist Programs: The Perspective of Hospital Leaders*, published in the May–June *Academic Pediatrics*.

Nevertheless, hospitalists are known for reducing length of stay and readmissions, increasing throughput, and creating efficiencies.

The money they save the hospital can contribute to the profitability of the program. For example, let's say

a hospitalist program costs \$1 million to operate, and the hospital subsidizes \$500,000. If the hospitalist program generates \$3 million in revenue, that's a net revenue gain of \$2.5 million.

"The other way to look at it is that you could wind down the program and, therefore, pay nothing for hospitalists, but then lose more than \$2 million in revenue," says Dayal.

The scheduling method your program uses could also affect profitability. The Monday-through-Friday model with shared weekend call allows hospitalist programs to operate using fewer physicians.

The seven-on/seven-off block schedule requires programs to hire twice as many hospitalists because only half would be in the hospital at any given time, Taylor says. "It is a matter of looking at how many doctors you need to adequately support your patient flow," he says. "If your answer is less than three, you are going to have to pay for at least a third doctor; if your program runs on a block schedule, you are probably going to have to hire

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a fourth [two pairs of seven on/seven off]. And all of them expect full salaries.”

Dayal says you shouldn't rely on financial data from your adult hospitalist program when deciding whether to launch a pediatric hospitalist program. “Most hospitals don't have a shortage of adult populations, but that is not the case for pediatrics,” he says. “Although adult programs may make sense for a vast majority of hospitals, pediatric programs do not.”

Not only are there fewer pediatric patients than adult patients overall, but reimbursement for pediatric patients is often weaker than that for adults, says Taylor.

### What is the minimum patient volume for starting a pediatric hospitalist program?

It is difficult to start a program without three full-time physicians working a traditional Monday-through-Friday schedule and sharing weekend call, Taylor says.

If you consider that a hospitalist needs to see 12–15 patients per day to cover his or her salary and other associated costs, your pediatric volume should be no less than 40 patients per day total. “And that's if you have a good payer mix,” Taylor says.

Although a lot of hospitals are aware of the dangers of giving physicians too much work, giving them too little work as a result of low volumes can backfire financially, as well as from a recruiting standpoint, Dayal says. “Hospitalist programs can face a lot of turnover if they have qualified physicians but no patients for them to see,” he says.

### What are the initial launch costs?

If you rely on an outside recruiting firm, you should expect to pay \$20,000–\$30,000 in fees for each physician you bring on board, say Dayal and Taylor. If your hospital or hospitalist group offers sign-on bonuses, factor that figure into your budget.

Word of mouth is a viable recruitment option—and it's free. “I think what works best is to bring in a core

group of people who in turn bring in other good people,” says Dayal.

Aside from recruiting fees and possible sign-on bonuses, most of the cost of running a program is attributed to physician salaries, benefits, and malpractice insurance.

### Should I hire a contractor or start in-house?

If your hospital only has few employed physicians or none at all, it's probably best to contract with a hospitalist group, says Dayal. “The hospital will probably end up incurring much higher costs if they set up a practice from scratch for this one service,” he says. That includes hiring a practice manager and setting up a billing and collections function.

However, if your hospital has a strong base of employed physicians, you can easily roll in a pediatric hospitalist group and share expenses.

### What are the intangible benefits?

According to the University of Michigan study, nearly 75% of hospital leaders that provide subsidies for pediatric hospitalist programs said they continue the subsidy because of the hospitalists' positive effect on patient satisfaction and referring physician satisfaction.

Hospital leaders also noted that improved length of stay, cost per case, quality of transfers, and reduced adverse events influenced their decisions to subsidize the program.

When deciding whether these benefits outweigh the costs of running a pediatric hospitalist program, Dayal suggests that hospital leaders whip out their calculators and find out what the cost would be if the program didn't exist.

“A lot of the volume we see comes from referrals from community physicians. We look at the cost of this program as the cost of doing business and staying competitive,” says Dayal. “In the end, if you have a good group and the patients are happy, it's in everyone's best interest to go for the pediatric hospitalist program.” ■