



# Calculating the Return on Investment From External Peer Review

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## Speaker Introductions

Andrew Rowe: CEO, AllMed Healthcare Management

- 30 years of experience building & leading organizations that focus on quality & performance improvement in healthcare, manufacturing technology & heavy industry

Bill Kramer: CEO, Kramer Healthcare Consulting

- Former CFO, Kaiser Permanente Northwest
- National expert on healthcare management, financial planning, risk assessment & compliance

## Webinar Overview

- The impact of rising malpractice & professional liability costs
- Systematic external peer review as a risk reduction strategy
- External peer review ROI model overview
- Sample case study
- How to implement a systematic external peer review program
- Questions & answers

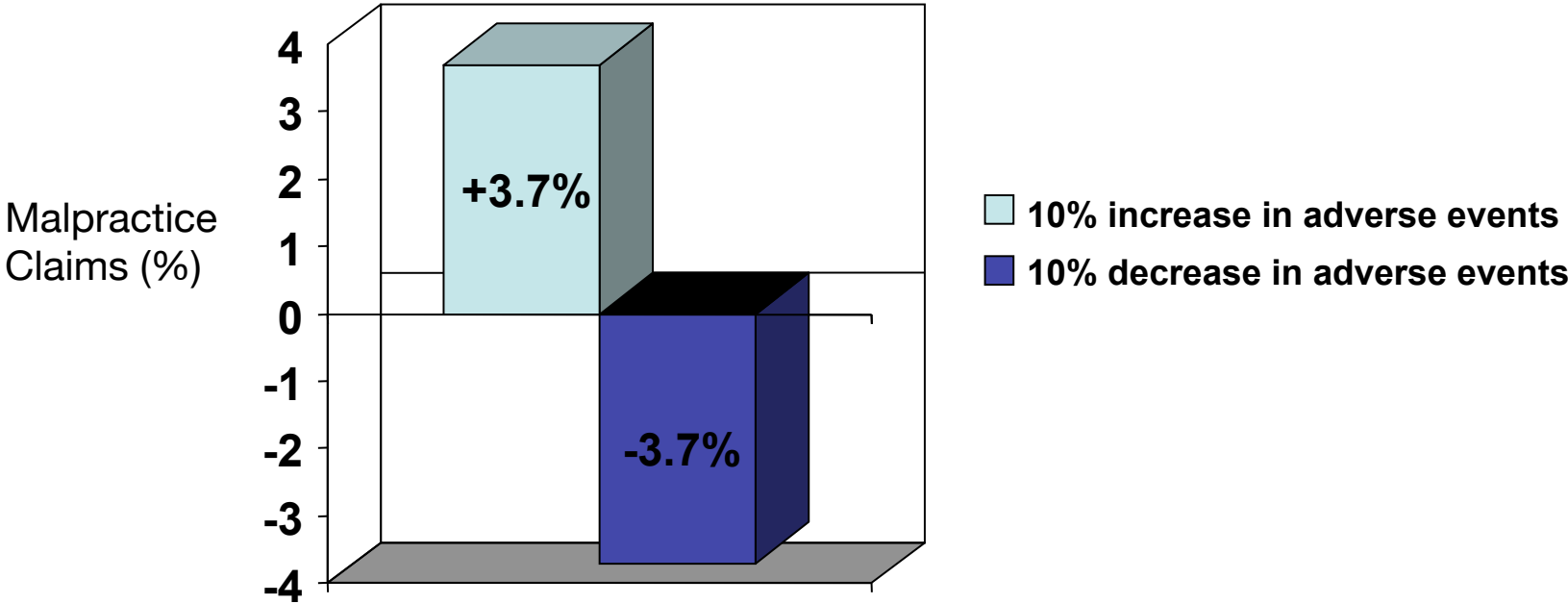


## Hospitals Liability Costs On The Rise

- Increasing at 5 percent per annum
- Increased claim severity
- +  
• Increased claim frequency
- =  
• *Increased Liability Costs for Hospitals and Physicians*



# Adverse Events and Malpractice Claims: A Direct Correlation 100 to 37



Source: Greenberg MD, Haviland AM, Ashwood JS, Main R. Is Better Patient Safety Associated With Less Malpractice Activity? Santa Monica, Calif: Rand Institute for Civil Justice; 2010.

# The Risk Management Challenge

- Developing appropriate and effective methods of risk management to reduce losses
- Shifting the culture from reactive to proactive
- Investing in loss prevention



# Peer Review: Risk Management Best Practices

- Risk avoidance through prevention
- Proactive/systematic peer review vs. reactive/isolated review of sentinel events
- Ongoing performance measurement & monitoring of high risk specialties
- Establishment of an External Peer Review program to complement & strengthen internal peer review



# Systematic External Peer Review as a Risk Reduction Strategy

- Reduces medical errors, adverse events & malpractice costs over time
- Improves physician performance
- Provides consistent, objective feedback
- Identifies process improvement opportunities
- Ensures transparency and accountability
- Promotes culture of continuous improvement



# Systematic External Peer Review Helps Also Helps Reduce These Risks

- Loss of accreditation
- Negative publicity
- Sanctions
- Fines
- Management shake-ups
- Loss of investor confidence
- Damage to physicians' careers and practices



# External Peer Review OPPE Practitioner Benchmarking

Measure, monitor and benchmark the performance of individual physicians against other specialists in the same practice at a single facility or across facilities.

Group Evaluation Summary

Procedure Name		1	2	3	4	Total
Dr. Sally Adamson	Catheterizations	18	3	0	0	21
	EP Ablations	23	1	0	0	24
	ICD Placement	17	4	2	1	24
	Pacemaker Placement	17	4	2	1	24
	Stent	22	4	1	0	27
Dr. Eric Cramer	Catheterizations	24	2	1	0	27
	EP Ablations	20	6	1	0	27
	ICD Placement	17	7	0	0	24
	Pacemaker Placement	17	4	2	1	24
	Stent	14	6	1	0	21

# Investing in Systematic External Peer Review

- Translates into financial payback by reducing & avoiding malpractice claims & professional liability costs
- Over time, this allows for a reduction in loss accruals



# Historical Problems with Justifying Investment

***Everyone wants better quality and patient safety, but...***

- External peer review is often un-budgeted or under-budgeted
- External peer review mostly used reactively vs. proactively
- Peer review has been always viewed more qualitatively than quantitatively
- Professional liability costs and losses often not published or hard to find



# Calculating the Financial Return on Investment for External Peer Review

## AllMed's New ROI Model

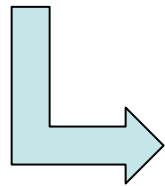
- Uses hospital's actual professional liability and physician liability costs, *or* – if actual data not available -- calculates estimated liability costs.
- Works on the premise that ongoing external peer review reduces medical errors and, therefore, reduces liability
- Provides a critical component of overall evaluation of ongoing external peer review

## AllMed's ROI Model

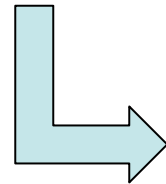
- Scientifically based
  - Formula derived from Aon/ASHRM report and RAND study data
- Customized for the unique characteristics of each hospital
- Doesn't require specialized financial expertise or access to detailed accounting data
- Uses input data that is easy to provide: hospital beds by service, other basic utilization data, and physicians by specialty
- An estimate only, based on assumptions that your team needs to agree on

## Approach – Basic Model

Projected reduction in adverse events

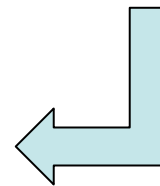


Estimated reduction in malpractice cases



X Actual Annual Hospital and  
Professional Liability Costs

= *Potential Total Savings*

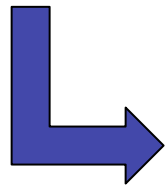


Less: Expenses for Ongoing External Peer Review

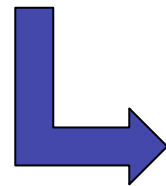
= ***Annual Net Savings to Hospital***

## Approach – Alternative Model

Projected reduction in adverse events



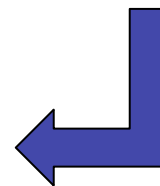
Estimated reduction in malpractice cases



X *Estimated\** Annual Hospital  
& Professional Liability Costs

(based on AHSRM/Aon model)

= *Potential Total Savings*



Less: Expenses for Ongoing External Peer Review

= ***Annual Net Savings to Hospital***

## ASHRM/Aon Model and Definition of Terms

- Based on surveys of 119 hospital systems and more than 1,800 facilities nationwide.
- Calculates average benchmark loss cost per “occupied bed equivalent”
  - Other utilization statistics (e.g., ED visits, births) converted to “acute care bed equivalents” based on actual risk factors.
  - Physician staff FTEs converted to hospital bed equivalents based on relative risk factors for each specialty.
- Adjustments made for geographic differentials
- (The model can also be adjusted for different levels of coverage and reinsurance.)

Source: Aon and the American Society for Healthcare Risk Management (ASHRM). Hospital Professional Liability and Physician Liability. 2010 Benchmark Analysis. Chicago, Ill: Aon Analytics; 2010.

# Case Study

## Calculating the ROI on External Peer Review for a Midsized Hospital

# Total Acute Care Bed Equivalents

Hospital Acute Care Bed Equivalent Calculation	Number		Estimated Conversion Factor		Acute Care Bed Equivalents
Acute Care Beds (staffed)	150	X	1.000	=	150
ED Visits	45,000	X	0.0023	=	104
Inpatient Surgery	5,600	X	0.0240	=	134
Outpatient Surgery	11,000	X	0.0013	=	14
Births	550	X	0.0610	=	34
<b>Total Acute Care Bed Equivalents</b>					<b>404</b>

# Hospital-Employed Physician Equivalents

Hospital Employed Physician Equivalent Calculation	Number		PR		Physician Equivalents (PE)
Internal Medicine	50	X	1.000	=	50
Emergency Medicine	12	X	2.000	=	24
OB/GYN	6	X	4.500	=	27
General Surgery	10	X	3.300	=	33
Cardiac Surgery	0	X	4.000	=	0
Neurosurgery	0	X	6.500	=	0
<b>Total (PE)</b>	<b>78</b>				<b>134</b>
<b>Average Conversion Factor</b>			<b>1.787</b>		

# Hospital Professional Liability + Physician Liability Losses

Summary of Hospital Professional Liability	Number		ASHRM Risk Conversion Factor		Occupied Bed Equivalents
Acute Care Bed Equivalents					404
Physician Equivalents	134	X	2.7500	=	369
Total Occupied Bed Equivalents (OBE)					773
2010 Benchmark Loss Cost per OBE					\$3,280
State/County Adjustment Factor					1.2
<b>2010 Benchmark Est. Loss</b>					<b>\$3,042,528</b>

# Estimated % Reduction in Malpractice Claims/Accrual

Est. % Reduction in Adverse Events (A)		RAND Coefficient		Est. % Reduction in Malpractice Claims (M)
10%	X	0.37	=	3.70%

# Potential Total Savings From Reduced Claims

Est. % Reduction in Malpractice Claims (M)		Annual HPL +PL Loss (L)		Potential Total Savings from Reduced Claims
3.70%	X	\$3,042,528	=	\$112,574



# Net Total Savings

\$112,574	(Potential Total Savings from Reduced Claims)
-\$50,000	(E = Cost of Ongoing External Peer Review)
<b>\$60,470</b>	<b>(Annual Net Savings to Hospital)</b>

# Payback Ratio (ROI)

Potential Total Savings		Cost of Ongoing External Peer Review		Payback Ratio
\$112,574	/	\$50,000	=	2.25

## Caveats

- The example uses a very conservative assumption about adverse event reductions
- Each hospital's risk profile is different, and must be analyzed individually
- Time delay on loss reductions requires a long-term investment philosophy



# Developing a Proactive & Systematic External Peer Review Program

- Use the ROI model to set goals & develop different investment/payback scenarios
- Perform Departmental Risk Assessments
- Rank specialties & sub-specialties by risk
  - Core measures
  - Incident reports
  - Professional liability claims data
- Rank surgical procedures for review
- Develop a sample size & interval for case reviews
- Develop a schedule for pulling & sending cases to EPR vendor
- Develop a follow-up process with PRC & MEC

## Highest Risk Specialties

- Neurosurgery
- OB/GYN
- Orthopedic Surgery
- ER
- Cardiovascular Surgery
- General Surgery
- Radiology
- Interventional Cardiology
- Anesthesiology



# Questions & Answers

- Please type your questions in the Go to Meeting box on your screen



## Conclusions

- Malpractice & professional liability costs will continue to escalate at 5% per year
- Systematic external peer review can help reduce these costs
- Such an investment can produce an attractive ROI over time
- Upstream quality assurance produces downstream returns



## Webinar Follow-Up

- Participants will receive copies of these slides and ROI White Paper via email
- Download our PeerScore brochure:  
[Click Here](#)
- Call us at (800) 400-9916 to work through your business case

# Thank You



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