Launching a New Sleep Center in Today's Changing Environment

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A By Gone Era of Sleep Diagnostics

Launching a new Sleep Center in today’s environment poses many challenges. It’s not like it used to be “in the day” when patients had three consecutive nights of sleep studies, the final one being a titration night (after 1984 when CPAP was introduced that is). The reason for 3 studies was that “first night effect” was considered to be a significant issue since it was well known that when a person sleeps in an unknown environment, their sleep is impacted. In some insomnia patients, sleep was better in a different environment verses an OSA patient who might be more restless and thus not get enough REM sleep. Most labs were located in teaching hospitals which allowed for the gathering of significant amounts of data (without a computer) on reams of paper spilling out of a tall model 78D Grass Polygraph.

Until the late 80’s there were only a few labs that were accredited, there was little competition between them, home sleep studies did not exist and Medicare fraud squads were not eagerly chasing facilities to recoup monies previously paid. Back then, there were less than a couple thousand RPSGT’s, no licensing issues and on the job training was the norm. There were limited resources available to study for the registry exam with the exception of Principals and Practices of Sleep Medicine and the R&K Scoring Manual and one had to self-study for the BRPT exam which was 5 parts including a practical exam where one had to setup, start and end a mock sleep study in 2 hours!

Then in the 90’s sleep labs began to spring up all over the place including strip malls which seemed to be a popular location. Reimbursement was averaging around $2500 to $3000 per study. Home sleep studies began to appear but the technology hadn’t advanced to the degree at which it has now. In fact, computerized Polysomnography was just getting started and had not really been perfected. Medicare and most of the other insurance carriers would not pay for these ambulatory studies because of technical issues and the fact that many patients ended up getting a baseline study after them anyway. They truly were only screeners and not diagnostic procedures.

Present Day Conditions in the Sleep Medicine Market

In 2008 Medicare approved the use of ambulatory sleep studies now commonly called Home Sleep Testing or HST. Since then most other commercial insurance providers have not only approved their use, but some including Aetna and United have required they be used as the first round of diagnostic testing for Obstructive Sleep Apnea in many areas of the country. In addition, Medicare requires that the sleep centers providing the HST and PSGs be accredited by the AASM or the Joint Commission in most jurisdictions, and if the center is an IDTF (Independent Diagnostic Testing Center), the Medical Director and interpreting physician must be Board Certified in Sleep Medicine and the technologist’s must be credentialed.
Today reimbursement for an in lab sleep study has dropped considerably and averages around $750 depending on the insurance provider and where you are located in the country. HST reimbursement averages around $200 depending on what type of study is done and who the payer is. In lab diagnostic equipment has improved over the years and dropped in price to between to $15,000 to $18,000 per bed depending on options and service contracts. Polysomnography technologist’s salaries range from $15 to $25 per hour depending on registration and experience. These are the major financial factors to consider when planning a new sleep testing facility. In this paper I will discuss 5 topics that will require attention in launching your new sleep center.

**Market Feasibility Study**

Regardless whether you are an established physician, or a technologist/entrepreneur, you will still need to do market research in your area before you financially commit to setting up a sleep center. This includes basic research into your competition, hospital verses physician owned or IDTF centers to more sophisticated efforts regarding population demographics, payer mix, and availability of reasonably priced medical office space.

Keep in mind if you are a physician who is already well entrenched in the medical community, the odds of having a successful sleep center are far greater than if you are a technologist or entrepreneur who will need to develop close ties to physicians and office staff in order to get a regular stream of referrals.

In addition, establishing contracts with third party payers is essential. Doing this is no easy task since many payers require the center to be accredited before they are willing to sign them. Contracting with Medicare may or may not be necessary depending on the area of the country and the population demographics. If so, Medicare may take 6 to 12 months depending on the jurisdiction you are in. Yes, it is a long time and the road to getting the Medicare stamp of approval is quite rocky. Having the simplest of errors on the application could delay the response for months.

Knowing where other sleep centers are located is also very important. You don’t want to have your lab next to another lab like CVS and Walgreens which seem to be on nearly every corner. Patients can easily confuse one lab with another. We actually had a case where one of our patients went to another lab across town, which preformed the study even though they did not have a physician’s order or any of the patient’s information!

Finding the right space for your facility can be frustrating. If you are not planning on putting the lab inside your medical practice (physicians) or beside it, than finding space that is acceptable for studying patients at night and in the day can be a challenge. Consideration to who the tenants next to you are is extremely important and if any sound can be heard coming from your neighbors. Patient safety should always be considered as well as city and state building codes. Keep in mind that medical offices require medical grade electrical wiring which adds to the cost of a build out.
Insurance Contracts

As I mentioned earlier, it is important to know what the payer mix is in your area. In this way you can target which payers you want to contract with and in some cases you will have to consider the pros and cons of contracting with them. For example, if a certain payer will allow out of network coverage, that allowable amount is usually significantly higher than the contracted rate would be. On the other hand, patients are choosing plans with higher deductible amounts to reduce their healthcare costs on premiums. To employers providing medical benefits for their employees, premiums have risen 18-30% and are predicted to get even higher when the proposed Obama Care Affordability Plan is scheduled to take effect shortly.

Determine if it is worth it to get in Network with a payer if they are only paying 60% of Medicare allowable. In many cases contract negotiations are more difficult to get than they used to be and in some areas of the country, they have enough sleep labs in their Network and may be unwilling to sign another. Consider hiring an experienced consultant to establish well paying contracts in your area.

Now that HST has gained a foothold in the insurance industry, it is surely here to stay, for the better or the worse. Incorporating it into your sleep medicine program will likely take some planning. Although many of the non-Medicare payers do not specify the type of recording device to use for their CPT codes, the AASM and Medicare do. Therefore if you are accredited by the AASM and/or you are planning on studying Medicare patients with an HST device, you will need to know which devices are appropriate for which CPT code or you might find yourself in hot water with both the AASM and the “Medicare Fraud Squad.”

Setting up the New Sleep Center

In a perfect world you want to start out with what is known in the construction industry as an “Arctic Shell”. This is a commercial building with an unfinished interior and lacking heating, ventilation and air conditioning. There are no interior walls, lighting, plumbing, ceiling (finished) or electricity. With this type of shell, you have the most flexibility in terms of where you can put your plumbing and ventilation. The next level of improvements is called the “Vanilla Shell” and typically this is the most expensive part of the construction phase.

Once the shell has been upgraded to a “Vanilla Shell” it will have minimal improvements such as dry wall the concrete slab, HVAC unit installed but not ducted, restroom and perhaps some electrical. The tenant can make their own improvements after the lease is signed or the landlord will offer financial incentives in the form of tenant improvements where the cost of the improvements are integrated into the monthly lease expenses over the course of the lease, or paid in advance. Usually the landlord will give the tenant an allowance for these improvements, however these build out specifications need to be fully negotiated and detailed before signing the lease.

Again, keep in mind the requirement for medical grade wiring in patient rooms. It can be difficult and expensive to modify a concrete slab to add or move plumbing. Therefore unless the space has a lot of plumbing pre existing, you may be limited to the number of bath rooms, showers, exam rooms, utility
rooms etc that require running water. Additional customized improvements include interior walls/paint, carpet, tile or other flooring, ceiling, duct work, electrical, cabling, and fixtures and trims. The type of finished flooring, ceiling, interior walls, finishes are also made by the landlord and must be discussed when negotiating the lease.

Generally you will work with an architect to be sure that everything is where it needs to be. It gets very expensive if you change your mind after the plans have been drawn up. If it isn’t in the plans, it won’t be in the lab, so you need to be sure of every detail including where to put the electrical for the equipment, camera and TV for each room. You also must know where to put the intercom and all other cables in each room so that the equipment is in the proper location to the bed and the patient is easily accessible to the tech in case of an emergency. Every minor detail must be planned in advance.

While the building is being built out, you have time to pick your furnishings. This can be done on a budget especially if you are able to negotiate package deals with the retail stores in your area. If you are working with a limited budget then you need to plan where you want to spend your money. Never scrimp on the quality of bedding you purchase for your lab for very obvious reasons. Patient areas should be well appointed but not cluttered and you want to give a warm but safe feel to the lab. Employee office space does not have to be as well appointed but should be comfortable and functional. Make sure there is easily accessible space for items the night staff will need that won’t cause a noise issue and wake up the patients. Drawing everything out to scale will help you to place furniture where it best fits and the appropriate electrical, HVAC and plumbing where it is most needed.

Another task that should be completed prior to opening your lab are your Policies and Procedures including the paperwork you will need for the studies, forms for physician referrals, Quality Assurance Plan and documentation, staffing needs, patient acceptance criteria, and scheduling procedures. Will you be using an EMR system or will you do it the old fashion way? How will you get your referrals? What procedures will you use to track your referrals and visits for the AASM or Joint Commission? These questions should be answered before you open the doors.

**Accreditation**

Accreditation was once a voluntary endeavor. That stopped in 2008 for much of the country when Medicare required it for reimbursement for polysomnograms. Although there are many facilities that are still not accredited in these areas and they take Medicare patients, they should be concerned that the possibility exists that they could be caught. If you have a disgruntled employee, patient or even a vendor, and they know the Medicare rules, they could become a whistle blower. When this happens not only could it put you out of business, but it could also land you in jail. The FBI will come in unannounced; take possession of your computers, patient records and anything else that may give them evidence that you have defrauded Medicare which could go back for many years.

The 2 most recognized accrediting agencies are the AASM and the Joint Commission. The process of accreditation can take up to 6 months costing approximately $5000 for the application and site visit. The most important component of this certification is a bullet proof Policy and Procedure manual (P&P).
Most of the labs I have worked with do not have a real P&P manual, nor do they know where to start. Yet both the AASM and the Joint Commission require a facility to properly document how you will perform the procedures at your facility and what your facilities policies are regarding these procedures. In fact, they have specific Standards for many of the policies and procedures you should have defined in your facility.

The truth is that P&P will help you to clearly define how each process is properly performed at your facility. It provides employees instructions on how to properly perform their job functions and define management’s expectations. They also protect the employer if the employee is negligent in their duties, whatever the level. If an employee repeatedly does not follow procedures, disciplinary actions can be taken and one can avoid issues with the EEOC, unemployment commission and other legal nightmares. Having good policies in place ensure a much smoother operating facility. They are not intended to be carved in stone as they are often “works in progress” and can be part of the Quality Assurance initiatives at your facility.

**Referral Marketing**

Unless you are a well-established physician, referral marketing is another significant area you cannot disregard. Even if you are an established physician, you will still need to get the word out to your colleagues that they can now send their patients with sleep disorders to your center instead of the lab down the street. Never underestimate the power that good, consistent marketing can do for your facility since “out of sight is out of mind.”

Maybe as a physician you don’t like the term ‘Marketing’ but you probably have done this to some extent when you initially opened your practice. Most of your referral sources will be other physicians who don’t necessarily know much about sleep medicine. In my experience the field is split into two groups, generally. One group doesn’t really want to know (about sleep disorders) because they are too busy and unless the patient brings up a sleep problem, they sure won’t. The other group is those that think they know, but usually they don’t. They usually say:

“You know, in my practice I don’t really see that many patients with sleep disorders and I screen all my patients for it in my initial exam.”

*Oh, what about that patient you are prescribing Ambien to?*

“Oh, she just has a little problem falling to sleep once in a while.”

*How often does she ask for refills?*

“I give them a 3 month supply which I usually refill every 3 months.”

*Really......!*?

So part of marketing is actually educating the referral sources on signs and symptoms of sleep disorders which should include the link between their cardiac problems and the possibility of SDB; or the fact that
they are hypertensive and have diabetes. Latest studies are now indicating a growing link between several types of cancer and severe OSA so one should educate the medical community that untreated sleep issues can become a factor in just about any health problem.

Typically this education process is done by regular “lunch and learn” sessions where you provide lunch for the physician and staff of the medical practice that you are trying to get referrals from. Although you may feel your time should be devoted to convincing the physician to refer to your new sleep center do not underestimate the influence the office staff may play in this process. In many cases it is a certain member of the support staff that actually picks the sleep lab where the referral goes. Therefore it is important to determine who directs the referrals and then establish a relationship with that individual.

Another method to consider for generating referrals is taking advantage of emerging mobile technology that can electronically screen patients at a Primary Care practice while they are waiting to see their physician. This application uses a tablet computer to screen for all the major sleep disorders. The results are available in seconds, with a report being generated which indicates what, if any sleep disorders the patient might be at high risk for. The physician can then send an electronically signed referral to a specific sleep center preprogrammed by the sleep testing facility which supplies it. Not only will this increase the amount of patient referrals it also eliminates the “middle person” that could be directing these referrals to another sleep lab.

As you can see there are a number of factors that play a role in the successful launch of a new sleep center. Do not underestimate the importance of each step and consider hiring an experienced consultant in any of these areas. In the end it may save you a significant amount of grief and money.

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