

HealthLeaders EXTRA!

Stark's New Rules for Service Areas

By Brandy Bray, for HealthLeaders News, September 17, 2004

By what criteria does a hospital define its service area? In the past, the answer to that question was pretty much up to the hospital. Many hospitals employed the "80/20 rule," which defines service area as those zip codes from which the hospital derives 80 percent of its admissions.

This standard offers hospitals a great deal of latitude, allowing them to pick and choose which zip codes seem the most favorable. Many hospitals are able to arrange it so that the zip codes generating 80 percent of admissions also are home to the most "desirable" patients in the geographic area. Desirable, in this case, means the most affluent or the healthiest. Laid out on a map, these service areas look like Swiss cheese, with "holes" that may be right next to the hospital campus and "cheese" that can be many miles away. On paper, these service areas reveal a rather obvious attempt by the hospital to cherry pick the most affluent patients.

However, the Stark II regulations released March 26, 2004 and made effective July 24, 2004, are likely to change the standard by which hospitals define their service areas. The new Stark regulations pertaining to physician recruitment define a hospital's geographic service area as the lowest number of contiguous postal zip codes from which the hospital draws 75 percent of its inpatients. The new regulations require a relocating physician to move his or her practice into the hospital's geographic area from an outside location. The physician must relocate his or her new practice a distance of at least 25 miles, or, in the alternate, derive at least 75 percent of revenues in the new practice from new patients (These rules are not applicable, however, to residents practicing in the hospital's service area or to those physicians who have been practicing their specialty less than one year.)

The service area definition was included in the new regulations in order to clarify the concept of "cross town physician recruiting." Stark physician recruiting regulations require that recruited physicians be new to the hospital's service area. The regulations seek to inhibit the practice of "stealing" doctors who may already practice in town but who refer primarily to a rival hospital.

In order not to recruit physicians from their service areas, hospitals must be able to define exactly what their service area is - which they now can do with more specificity thanks to the new Stark II regulations. Though it is not explicitly stated, the regulations appear to be making an attempt to prevent hospitals from gerrymandering their service areas. The key point is that Stark II stipulates that a primary service area should be geographically contiguous. In addition, the volume of admissions has been changed from the loose standard of 80 percent to a precise standard of 75 percent. The regulations also are not explicit regarding how hospitals should derive the 75 percent, though there is general language indicating that the 75 percent should be drawn from the "smallest reasonable area."

Though somewhat more specific than the former 80/20 rule, the Stark II regulations still leave room for individual hospital interpretation. While 75 percent of admissions need to be derived from the smallest reasonable and contiguous area around the hospital, there is no specification beyond that of how the service area should actually be drawn. A combination of examining overall admissions as well as admissions-to-population ratio is the best methodology for deriving a true, unbiased and compliant service area.

Following are hypothetical examples of how a service area might be drawn depending on how service area is defined. This service area is composed of the a group of zip codes. Though the

figures contained are representative real zip codes, the service areas pictured below and the "percent of total admissions" are completely hypothetical and do not correspond to any existing hospital's service area or admission patterns.

ZIP Code	Pop.	Admissions	Percent of Total Admissions	Service Area
A	30,024	1,514	21	PSA
B	34,528	1,002	14	PSA
C	23,723	811	11	PSA
D	53,919	649	9	PSA
E	39,710	462	6	PSA
F	2,829	450	6	PSA
G	58,156	426	6	PSA
H	12,319	381	5	SSA
I	44,710	295	4	SSA
J	14,202	267	4	SSA
K	26,548	213	3	SSA
L	24,839	203	3	SSA
M	23,645	150	2	SSA
N	21,103	115	2	SSA
O	43,360	98	1	SSA
P	30,563	91	1	SSA
Q	26,078	88	1	SSA
R	24,033	68	1	SSA

A service area based solely on the top 75 percent of admissions drawn from these zip codes can be organized in various ways. In Table 1 below, the pattern as viewed on a map is patchwork and non-contiguous, representing what could be construed as a gerrymandered service area by the Stark II definition.

Table 1



Table 2



Table 3

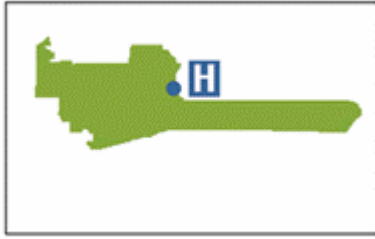


Table 2 shows how the service area looks when comparing the ratio of admissions to population. The darkest areas indicate where the hospital is pulling the highest number of admissions compared to the actual size of the population. This provides a slightly more contiguous, and therefore more compliant, picture of a primary service area as noted by the contiguous cluster of darker green in the center around the hospital.

By looking at a combination of where admissions are coming from as well as where the hospital is providing a high ratio of care, one can derive an even "truer" service area definition, as shown in Table 3. Based upon the new Stark II regulations, this best represents what a compliant service area might look like. It has the smallest, reasonable contiguous primary service area composed of no more than 75 percent of the overall admissions, but it also embraces the areas where the hospital is pulling a high percentage of patients compared to the actual population (or in other words, the areas where a high percentage of the population is dependant upon the hospital for medical services).

A service area based on this rationale can be logically justified in the event of a physician recruitment related audit by the government, and it also gives the hospital a more accurate, data driven picture of the community it truly serves. The latitude is there for hospitals to capture prime markets, yet the service area clearly does not reflect a purely market driven attempt to gerrymander a favorable payor mix.

If your hospital's service area looks like Swiss cheese, or takes on other improbable shapes (I have seen crosses and maps that look like a pair of glasses), it may be time to rethink how you are defining service area. No longer does wishing for a particular service area make it so.

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