HEALTHLEADERS MEDIA
CFO EXCHANGE

Insights Report

November 2013 | Report 3 of 3

DANA THOMAS

PROTECTING MARGINS, FUELING GROWTH

FINANCE LEADERS ON NEW TACTICS FOR NEW PAYMENT MODELS

Analysis and in-depth discussions from healthcare finance leaders taken from the HealthLeaders Media CFO Exchange in August 2013

An independent HealthLeaders Media report supported by OPTUM Good for the system.™

Analysis

FINDING NEW WAYS TO CUT COSTS

RENÉ LETOURNEAU

Senior Finance Editor
HealthLeaders Media

Chief financial officers have been looking for ways to streamline processes and achieve cost savings for years, yet they still believe there is more they can do to cut operating expenses and protect margins.

While the CFOs who participated in our annual invitation-only HealthLeaders Media CFO Exchange at The Broadmoor in Colorado Springs this August concede that much of the low-hanging fruit has been picked, they say they are going deeper now, looking for methods to reengineer how their hospital or health system manages the revenue cycle and payer relationships, utilizes clinical and IT resources, and purchases supplies.

In the discussion we call "Evolving Cost-Reduction Strategies," our CFO participants express confidence in their ability to find more savings despite all the unknowns currently surrounding nearly every aspect of healthcare delivery. In fact, it's because of the uncertainty stemming from healthcare reform, new reimbursement structures, and innovative clinical partnerships and affiliations that CFOs feel it's more important than ever to find efficiencies.

CFOs are also putting a renewed emphasis on going after every dollar their organization is owed from government and commercial payers, as well as patients. In addition, they are making the cultural changes necessary to break down internal silos and create an environment where every employee is focused on developing better processes, reducing waste, and lowering the overall cost of doing business.

The report that follows highlights the many ways in which our CFO members are pushing forward with their ongoing goals to cut costs and optimize revenue. EIR

Sponsor Perspective

PUT PATIENTS' NEEDS AT THE CENTER OF REVENUE CYCLE MANAGEMENT

RON JONES

President of Provider Solutions
Optum | Eden Prairie, Minn.

I've been in healthcare for almost 30 years, and I've never seen a more exciting or a more challenging time. While it's easy to be distracted by the individual changes—from meaningful use to healthcare reform and ICD-10—a truly successful strategy for cost reduction will take into consideration the patient experience. Hospitals have the opportunity to reduce costs while navigating complex reimbursement issues in ways that support their long-term ability to enhance patient satisfaction while protecting margins and supporting growth.

Everywhere you look, the healthcare system is undergoing change. Providers are moving from volume to value, where revenue is driven by patient outcomes rather than by the number of services delivered. The expectations of the patients we serve are also changing. As consumers assume more direct responsibility for the cost of their care, they demand greater transparency and simplicity to help find, compare, and choose the best options. Those accustomed to going online to shop for homes, cars, and travel, or to manage their retirement accounts want the same level of service from the health system.

We can deliver a better patient experience and reduce administrative costs in healthcare.

According to an Institute of Medicine report, the U.S. health system currently spends over $360 billion on healthcare administration. Based on our analysis, half of this is lost to inefficiency, despite the fact that hospitals and physician practices spend more than $20 billion every year managing their revenue cycle. We can do better. And the transformations underway in healthcare represent a monumental opportunity to restore focus on patients.

The patient experience begins at registration. And it doesn't end until final payments are received. By aligning technology and processes to the patient's experience, we can simplify administrative processes, enable more seamless coordination of care, and provide information back to care teams and patients to help them make better decisions together. EIR

MAXIMIZING COST SAVINGS AND EFFICIENCIES IN AN UNCERTAIN ENVIRONMENT

RENÉ LETOURNEAU

As the healthcare industry prepares for the effects of health reform and the move toward population health management and value-based purchasing, CFOs are seeking every opportunity to improve their revenue cycle and collections capabilities and to achieve deep, sustainable cuts to their operating expenses. The 38 hospital and health system CFOs in attendance at the annual HealthLeaders Media CFO Exchange in August spoke at length about the many challenges they are facing and the strategies they are employing to find meaningful savings and efficiencies in order to protect margins and fuel growth.

In the CFO Exchange member survey, 75% of respondents identified overall cost savings and efficiency as being among their organization's top two financial priorities for the next three years, the highest-ranked item. CFOs clearly know that the smartest way to brace for the uncertainty that lies ahead is to put their organization in the best possible financial position now.

A Renewed Focus on the Revenue Cycle

Dennis Dahlen, senior vice president of finance and CFO at Banner Health in Phoenix, says his organization is taking a new look at its revenue cycle because the collections landscape has changed dramatically in recent years.

"Three years ago, I would have been in that camp that said that revenue cycle optimization seems like old hat. But the tactics have changed, and today the revenue cycle is all about denials management," Dahlen says. "There are the RACs on the Medicare and Medicaid side, and the commercial payers are now doing the exact same thing. Then we've got the consumer-driven health plans and high-deductible policies. Now, it's not just fighting to be paid for every claim. You've got to fight with the payer for the claim, and then you've got to fight for the scraps that the patient is responsible for, and that's a whole different game. The tactics have changed, so we've got to change with it."

To address new revenue cycle challenges, hospitals and health systems are overhauling their workflows and processes to move much of the work of collecting patient information and insurance authorizations up front.

Craig Richmond, associate CFO at The MetroHealth System in Cleveland, says his organization recently

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opened a preservice center as part of its efforts to move the bulk of the revenue cycle work to the front end.

"The preservice center really is focused on separating the administrative processes from the clinical encounter, allowing focus on the patient and patient's care at the point of service," Richmond says. "Our organization has been focused on creating a front-end driven revenue cycle that takes the administrative work out of the clinic sites. Historically, it's always been a back-end weighted revenue cycle, but it's really about getting it right on the front end. In my opinion, the back end operations of the revenue cycle should just be exception-based processing."

Through its preservice center, MetroHealth also has the ability to provide patients with an estimate of their cost of care before services are rendered.

"It's about educating the patient. We don't want our patients to be shocked on the back end about their out-of-pocket responsibility. Providing patient estimates increases pricing transparency and ultimately customer satisfaction," Richmond says, noting that preservice center employees also offer patients the opportunity to pay up front, although most patients choose to wait until the time of service.

Not so at Baton Rouge (La.) General Medical Center, which insists on up-front payments, at least for outpatient elective procedures, according to CFO Kendall A. Johnson, who says his organization changed its collections practices in its ambulatory settings to plug "the hole in the bottom of the boat."

"We have taken a proactive approach when it comes to collections. For procedures where

No product is allowed into the system without going through the value analysis process.

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we anticipate that patients will owe a significant balance, we have redesigned our process to require that payment is made in advance of scheduling the procedure," Johnson says.

In addition, Baton Rouge General has amended its payment system for physicians to align incentives around payment, he says.

"We've also adjusted our physician compensation model from an RVU formula to one that provides physicians with a vested interest in our payment model, and we have seen an increased focus on obtaining payment up front among physicians," Johnson says.

Fighting RAC Denials

Banner Health's Dahlen is not the only CFO feeling the financial pressure created by the Centers for Medicare & Medicaid Services' recovery audit contractor program. Auditors review providers' claims to CMS and can deny payment based on a lack of medical necessity and other predetermined criteria.

Karen Testman, senior vice president of financial operations at MemorialCare Health System in Long Beach, Calif., believes auditors are becoming more aggressive and says her organization is appealing every RAC denial as a matter of course.

"When you talk about the revenue cycle, for us a big challenge recently has been the increase in denials, especially through the RAC," Testman says. "We have seen a real uptick in denials, and we're trying to manage them aggressively, but it's an area of great concern."

Three years ago, I would have been in that camp that said that revenue cycle optimization seems like old hat. But the tactics have changed, and today the revenue cycle is all about denials management.

DENNIS DAHLEN, SENIOR VICE PRESIDENT OF FINANCE AND CFO, BANNER HEALTH

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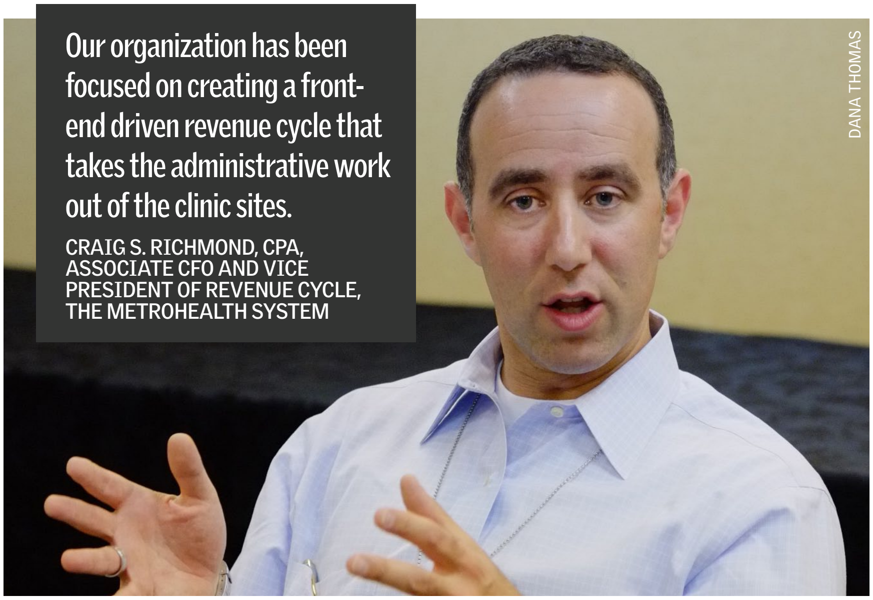


Our organization has been focused on creating a front-end driven revenue cycle that takes the administrative work out of the clinic sites.

CRAIG S. RICHMOND, CPA, ASSOCIATE CFO AND VICE PRESIDENT OF REVENUE CYCLE, THE METROHEALTH SYSTEM

DANA THOMAS

Despite winning the vast majority of appeals, the process is still time-consuming and expensive, Testman says. "Our overturn level is significant. ... We are winning the appeals, but even if they ultimately pay you back, there is a cost to them keeping your money for years."

Richard K. Rothberger, corporate executive vice president and CFO at Scripps Health in San Diego says his organization is taking the same approach. "We've appealed or 'rebilled as Part B' every RAC denial. Every single one," he says. "We're very aggressive in terms of trying to make sure every dollar that is due to us is paid."

Mary Ann Freas, senior vice president and CFO at Southwest General Health Center in Middleburg Heights, Ohio, expresses a common opinion among the CFOs regarding RAC audits: "It is frustrating to have significant dollars taken back based on an auditor's retrospective review of the provider's delivery of care based on their professional judgment at the time. ... It is particularly frustrating because the dollars have already been expended on taking care of those patients. ... We don't expect this process to go away. It's a proven revenue source for CMS."

Consolidation, Culture, and Cost Savings

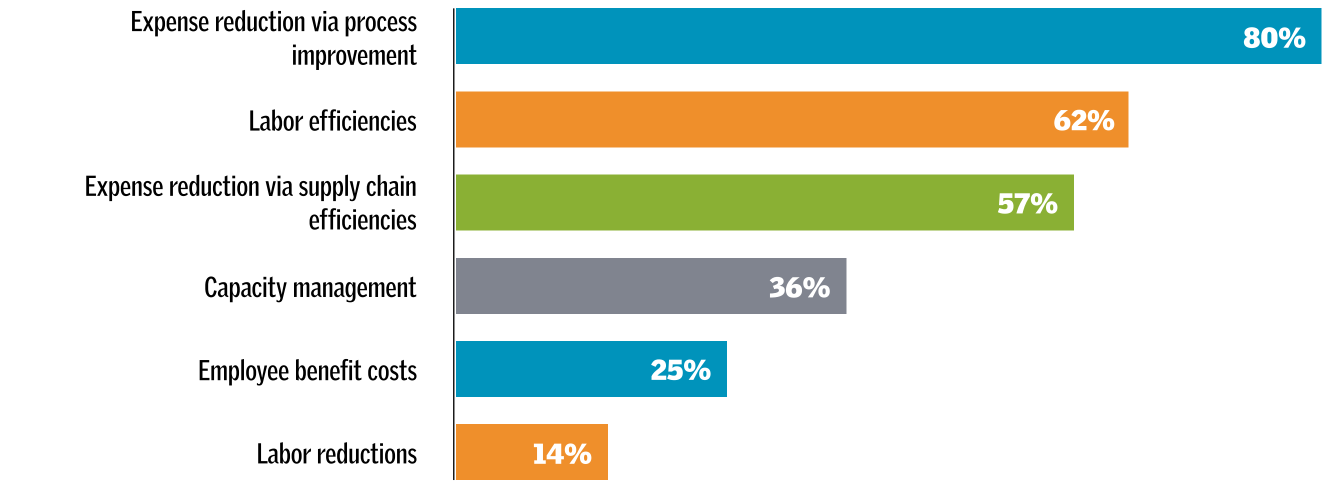
As consolidation continues to be the trend in healthcare, many health systems are growing in size and scope. In order to achieve efficiencies, some institutions are centralizing business office responsibilities.

MemorialCare's Testman says her organization has achieved significant cost savings by centralizing the revenue cycle, accounts payable, and payroll and by using a consistent IT platform throughout the system. Although there are economic gains to be made through centralizing and consolidating services, this kind of change comes with its own set of challenges, Testman says.

"It took good planning up front, and we committed to centralizing those services that made the most sense to our hospitals, medical groups, outpatient centers, and more than 200 care sites," she says. "When you bring people together from different campuses into one location, it's important to address the cultural issues up front, before

COST-CONTROL FOCUS

What are the top three areas you will focus on next year to control costs?



SOURCE: *HealthLeaders Media Industry Survey 2013: Strategic Imperatives for an Evolving Industry,* January 2013.

the transition occurs. They were all moved to a central, corporate site and had to leave the hospital or clinic where they had friends, so there were cultural transition issues involved with melding together staff that had been at different locations. You need to have a solid, comprehensive welcoming and adjustment program that deals with these cultural issues. While the cost savings realized from consolidation is important, nothing is more critical than an engaged, comfortable, and happy workforce."

Julie Soekoro, CFO at Trinity Medical Center in Birmingham, Ala., an affiliate of Community Health Systems, says tackling cultural concerns has also helped her organization find efficiencies.

"I think the biggest cost savings we've achieved have been through addressing some cultural issues," she says. "I've been addressing some of those cultural issues and standardization of internal processes and controls. We are also finding cost savings by changing the culture to eliminate some of those silos that have traditionally existed between finance and nursing and ancillary. We've been able to achieve some great things by eliminating those silos and working closely together and deciding together what we're going to be held accountable for and what we'll hold our department leaders accountable for. Putting those accountability measures in place has been a big part of our cost savings."

The Intangible ROI of IT

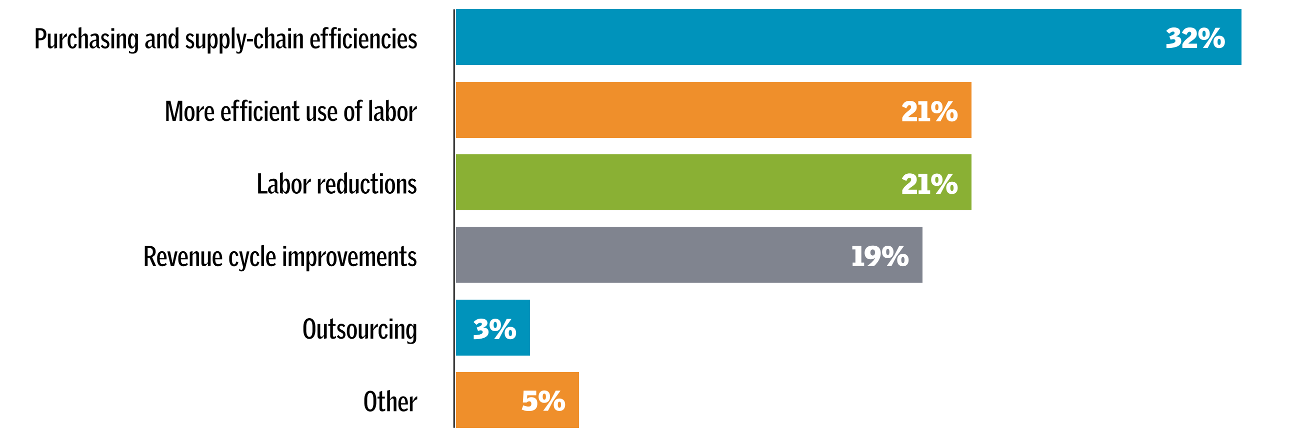
As several CFOs noted, installing a systemwide electronic health record and upgrading other IT capabilities are critical to future success despite the high price tag and an ROI that is often difficult to demonstrate in the short term.

Rick Hinds, CPA, executive vice president and CFO at UC Health in Cincinnati, says purchasing an EHR was necessary to remain competitive.

"It's hard or nearly impossible to justify the investment needed for a state-of-the-art EHR with hard-dollar savings," Hinds says. "You have to look beyond that to the intangible benefits, the improvements in delivery of care and positioning your

COST-CONTAINMENT CONTRIBUTIONS

Which of the following provided the highest dollar value in cost-containment contributions in this fiscal year?



SOURCE: HealthLeaders Media Intelligence Report, *Cost Containment: Targeting Cuts, Enhancing Efficiency, and Using IT*, October 2012.

organization to be competitive in the future. Fortunately our board is pretty savvy regarding healthcare issues, plus we have a number of physicians on the board, so they understand the benefits of the improvements in care."

MetroHealth's Richmond agrees that providers need to look beyond the bottom line to find the true value of IT.

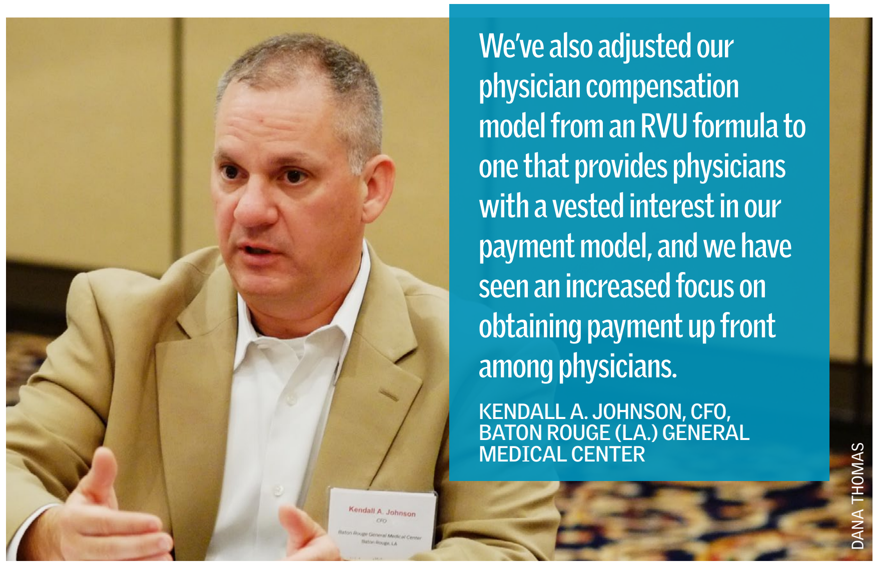
"You can look at ROI in many different ways," he says. "You can look at ROI from a financial perspective. You can look at ROI from mitigating compliance risk. There are a lot of different ways you can look at it. Don't even call it an ROI, but look at the value proposition associated with it."

Finding Deeper Supply Chain Cuts

Although hospitals and health systems have long been focused on finding supply chain efficiencies, CFOs say there are still gains to be made in this area, especially with physician preference items (PPI).

The keys to success, they say, are to have physician leaders at the table during the vendor selection process and to do a value analysis that provides hard data on the efficacy of each item.

"For high-cost physician preference items, we limited vendor selection pursuant to an RFP process that was physician-led—not all of



We've also adjusted our physician compensation model from an RVU formula to one that provides physicians with a vested interest in our payment model, and we have seen an increased focus on obtaining payment up front among physicians.

KENDALL A. JOHNSON, CFO, BATON ROUGE (LA.) GENERAL MEDICAL CENTER

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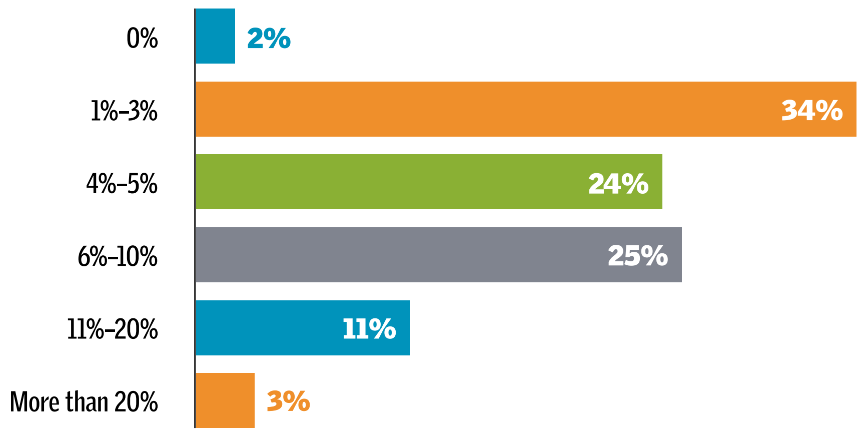
COST-REDUCTION SAVINGS

What is your best estimate of your average annual savings from cost reduction programs over the past three years?



SOURCE: HealthLeaders Media Intelligence Report, *Cost Containment: Targeting Cuts, Enhancing Efficiency, and Using IT*, October 2012.

our physicians took advantage of that opportunity. That RFP process, resulted in the selection of a subset of vendors and those vendors are now providing substantially all of our needs in those product classifications," says Al Mansfield, senior vice president, finance and CFO at Saint Vincent Health System in Erie, Pa.

Saint Vincent's recent affiliation with Allegheny Health Network has also yielded new opportunities for supply chain savings, Mansfield says.

"Our new system created a subsidiary focused on the supply chain just over one year ago. This entity will serve our hospitals and others with a range of services from GPO to distribution and will provide advisory services to the organizations. ... One of the key value-add services they have relates to PPI. They brought some significant sophistication to the table as it relates to PPI enabling us to more effectively address PPI, including total joints, knees, hips, neurosurgical devices, implants, neurostimulators, and things of that nature for a significant savings opportunity," he says.

"I have a word of caution on our experience from when we limited the number of vendors and physicians began to use products from other vendors," he warns. "We learned that you need to remain focused on the details. You have to spend a lot more time after the fact to identify changes in practice patterns. We found some physicians began to use higher performance equipment than they had in the past. That was mitigating the initial savings that we thought we were going to capture at the outset."

Tracy Narvet, CFO at Memorial Health System, University of Colorado Health, in Colorado Springs., says her organization created an online process for physicians to request a full analysis of a product so they can understand how the cost and quality measure up to other items. "We have a database that compares it to other products being used at other places. The physician receives the data and gets to review the products, and it's a fully automated process."

Elizabeth "Beth" Ward, CFO at University Hospitals UT Southwestern in Dallas, says doing value analyses and setting a price limit on physician preference items has helped her organization cap costs.

"As an example of how the value analysis process works, we will pay so much for total joints, and anybody that wants to play will play," she says. "We haven't limited the vendors, but a lot of them have dropped out because they won't meet our pricing. If the providers want to bring them in, they will work with the vendors to get the pricing down, and that has happened in several instances. No product is allowed into the system without going through the value analysis process." EIR

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