



# Opportunities From Financial Efficiencies

The Fourth in a series of four Executive Insight Reports from Bank of America Merrill Lynch produced in collaboration with HealthLeaders Media

**Bank of America  
Merrill Lynch**



**HealthLeaders** *Media*  
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A collage of financial documents and a pie chart. The documents show numbers like 67,228,166, 13,946,511, 6,504,606, and 660,477. The pie chart has labels for 'Dividends 41%' and 'Member Pkgs & Benefits 10%'.

# Perspective: Financial Efficiencies

## Healthcare leaders say the greatest financial efficiencies are to be found in the revenue cycle. How do you make your revenue cycle clean and lean once and for all?

In this era of consolidation and healthcare reform, it is more important than ever for leaders to make sure their healthcare organizations are working at peak efficiency. In this quarter's HealthLeaders Media and Bank of America Merrill Lynch *Buzz Survey*, CFOs weigh in on where they see the most opportunity for streamlining.

Spoiler alert: Financial leaders who participated in the survey overwhelmingly say revenue cycle is where they could find the most efficiencies. The revenue cycle has been a focus of the industry for years, but the need for improvement is increasing given the payment model shifts that will come as a result of healthcare reform. Many organizations consistently feel they are below optimum in operational performance. There is no better time to begin conversations that combine the best of internal and external intelligence to design the right revenue cycle system for your organization.

The *Buzz Survey* also showed that financial leaders are seeking efficiencies – and are concerned about the potential for loss – in several other areas. As consolidation continues, we're seeing the central business office rise in importance. Also noted as an area for improvement are comprehensive payables, which represent a well-tested and valuable area for hospitals to explore as they convert from paper to electronic payments. Vendor management and fraud/risk were also highlighted as areas of concern.

As it does so often, problem-solving comes down to expertise and capabilities. It is critical that healthcare organizations select partners, including financial partners, who fully understand the dynamics changing healthcare today. Those partners must show that they are committing the financial and people investments needed to keep pace with the rapid changes in the industry.

I hope the following pages bring you insight into the opportunities for financial efficiencies – both for the health of your organizations and the patients you care for.



**John Hesselmann**

Senior Vice President, Specialized Industries Executive  
Bank of America Merrill Lynch

Top healthcare executives are looking to improve their revenue cycle – whether with tweaks, new technologies, or complete revamps – to keep up with ever-tighter reimbursement policies and to stay afloat in a sea of payment reform. That’s the consensus among respondents to a recent survey on finding financial efficiencies in healthcare organizations. Three out of four respondents said the revenue cycle represents their single-largest opportunity to find net new revenue through changing the way they do business.

“Downward pressure on revenue is the overarching theme,” says Derek Ellington, senior vice president and regional healthcare treasury manager for Bank of America Merrill Lynch, which cosponsored the survey with HealthLeaders Media. Even as reimbursements fall, healthcare organizations need



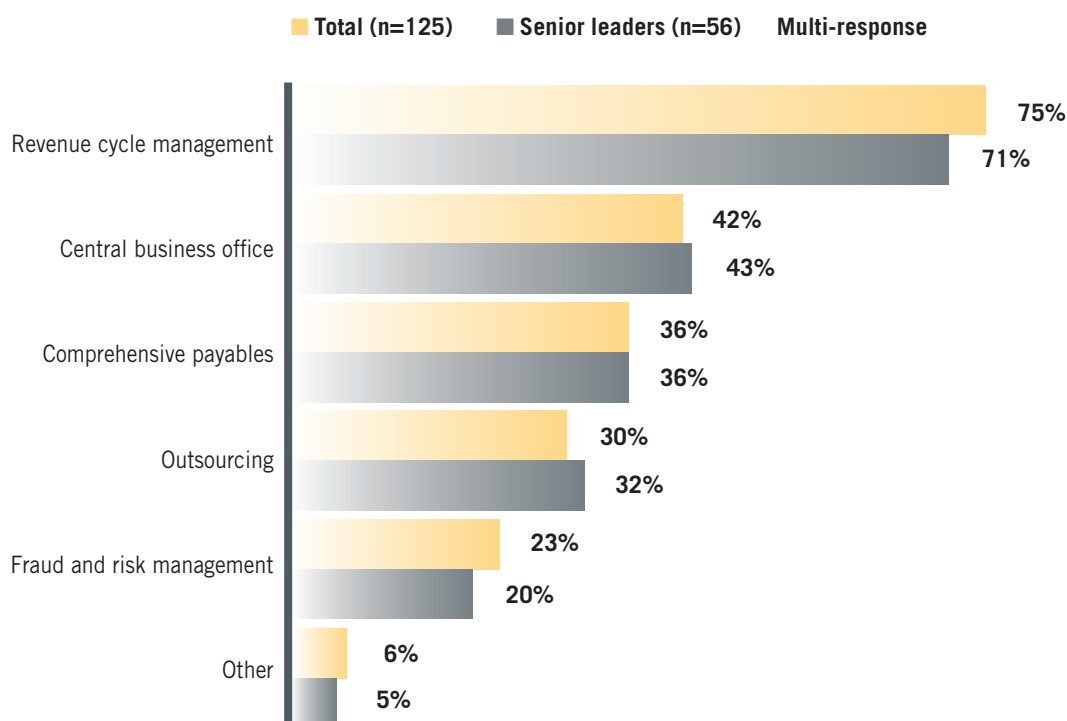
**Derek Ellington**

Senior Vice President and  
Regional Healthcare Treasury Manager  
Bank of America Merrill Lynch

to spend to automate or upgrade internal information systems and keep their facilities and technologies up to date.

“Technology is fairly expensive and requires a high degree of customization,” Ellington says. “When we ask our clients where they think they need to be in terms of tech and automation [on a scale of one to

**AREAS OF OPPORTUNITIES FOR FINANCIAL EFFICIENCIES:** In which of the following areas do you see opportunities for financial efficiencies in your organization?



**EXPOSURE TO POTENTIAL LOSSES:** How exposed is your organization to potential losses in each of the following areas?

**TOTAL / BASE = 125**

	Very exposed	Somewhat exposed	Not at all exposed
Revenue cycle management	27%	56%	17%
Vendor management	11%	62%	27%
Central business office	10%	54%	36%
Comprehensive payables	10%	65%	26%
Fraud and risk	9%	65%	26%

**EXPOSURE TO POTENTIAL LOSSES:** How exposed is your organization to potential losses in each of the following areas?

**SENIOR LEADERS / BASE = 56**

	Very exposed	Somewhat exposed	Not at all exposed
Revenue cycle management	25%	54%	21%
Comprehensive payables	9%	61%	30%
Central business office	7%	45%	48%
Vendor management	5%	59%	36%
Fraud and risk	5%	64%	30%

10], they say they're at about a five. But they seek to be at least eight or nine."

The picture is further complicated by the acquisitions that many providers have made and are planning to make in order to position themselves competitively in the markets they serve.

"If you were to ask today who [a provider's] acquisition targets are, the models are likely mixed," Ellington says. "We are seeing some providers acquire physician

practices while others shy away. Additionally, we see increased numbers of successful for-profit and not-for-profit joint ventures." Each acquisition can pose challenges in integrating both clinical and financial operations, and can slow collections down substantially in the process, making efficient integration a key to survival.

Revenue cycle issues also caused the most anxiety among survey respondents, with 25% saying they felt "very" exposed to potential losses.

# EXECUTIVE SPOTLIGHT

Tim Rice recently had surgery in one of the six hospitals of Cone Health, which he's worked at in one capacity or another for 36 years, and has led since 2004. He was reassured that by the time he showed up for his procedure, all of his insurance information and copays had already been collected, thanks to a revenue cycle revamp that went live in July. It's just one element of a general attention to financial detail that Rice says is a requirement for today's healthcare environment.

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"We used to be in an era where maybe we could have been able to get by with being sloppy, but now we have to do everything well," he says.

Cone Health is the dominant provider in Greensboro, N.C., a city of 277,000 that, along with Winston-Salem, forms what's known as the Piedmont Triad. While Cone Health could be overshadowed by the large university hospitals in Raleigh and Chapel Hill about an hour's drive to the east, the system holds its own very well, serving about a million patients in the surrounding area. It's also, by far, the area's largest private employer, with 10,000 employees, and it has 400 employed physicians and

relationships with another 800. It has been recognized by *U.S. News and World Report's* "Best Hospitals" list in nine adult specialties, including such diverse areas as endocrinology, neurology, and orthopedics.



**Tim Rice**

CEO

Cone Health

Greensboro, N.C.

In 2012 Cone Health entered into a management services agreement with Carolinas HealthCare System, in Charlotte, N.C. The goal was to exchange best practices and share access to healthcare management experts and clinical quality teams.

Tough economic times in the region have combined with changes in reimbursement policy to put the system under financial stress that will sound familiar to many hospital executives. Formerly a manufacturing and financial services center, the Greensboro area still suffers with 9% unemployment. Cone Health had layoffs this year for the first time in its history as well as a large number of uninsured or underinsured patients. Rice says Cone Health often has to absorb the deductibles and copays of the high-deductible health plans that its patients enroll in to save money on premiums.

A concerted effort to reduce readmissions for Medicare patients through an accountable-care

strategy has cut them by 10% – and has reduced Cone Health’s inpatient business accordingly, to its financial detriment. “We’re doing all the right things – we’re maxing out our quality scores – but we’re struggling financially,” Rice says. Adding to the stress is North Carolina’s decision not to expand its Medicaid program, which Rice says will cost Cone Health about \$20 million per year.

Rice expects challenging times to continue, even though efforts to bring high-tech employment to the area are beginning to bear fruit. “We’re under a new financial scrutiny that’s unlike anything we’ve seen before,” he says. Below, he talks about the issues affecting financial efficiency.

### Overhauling financial processes

“We overlaid new clinical and financial information systems over a badly managed revenue cycle, and it took us about three months to realize we were in a bad place. We’ve had to rebuild our whole finance function, but especially the revenue cycle. The term “revenue cycle” wasn’t one that our employees were familiar with a year ago, but now they are.

We’ve retooled our whole preregistration function into a group of experts under one roof, and we’re trying very hard to reach people before their elective surgeries and make sure we have their copay. They can call in, or go online. If we don’t hear from them, we call them.

We had a huge pile of denials because of bad coding. If you have bad information on the front end, the bills are not going to get paid. We run a large cancer center, and if the staff does not input all the coding perfectly, we’re not going to get

“We’re doing all the right things – we’re maxing out our quality scores – but we’re struggling financially.”

paid for that very expensive chemotherapy. We’ve worked hard to make the physicians understand this problem, and now they’re really helping us. They’re a lot more willing to talk about coding and documentation, and we’re doing much better.”

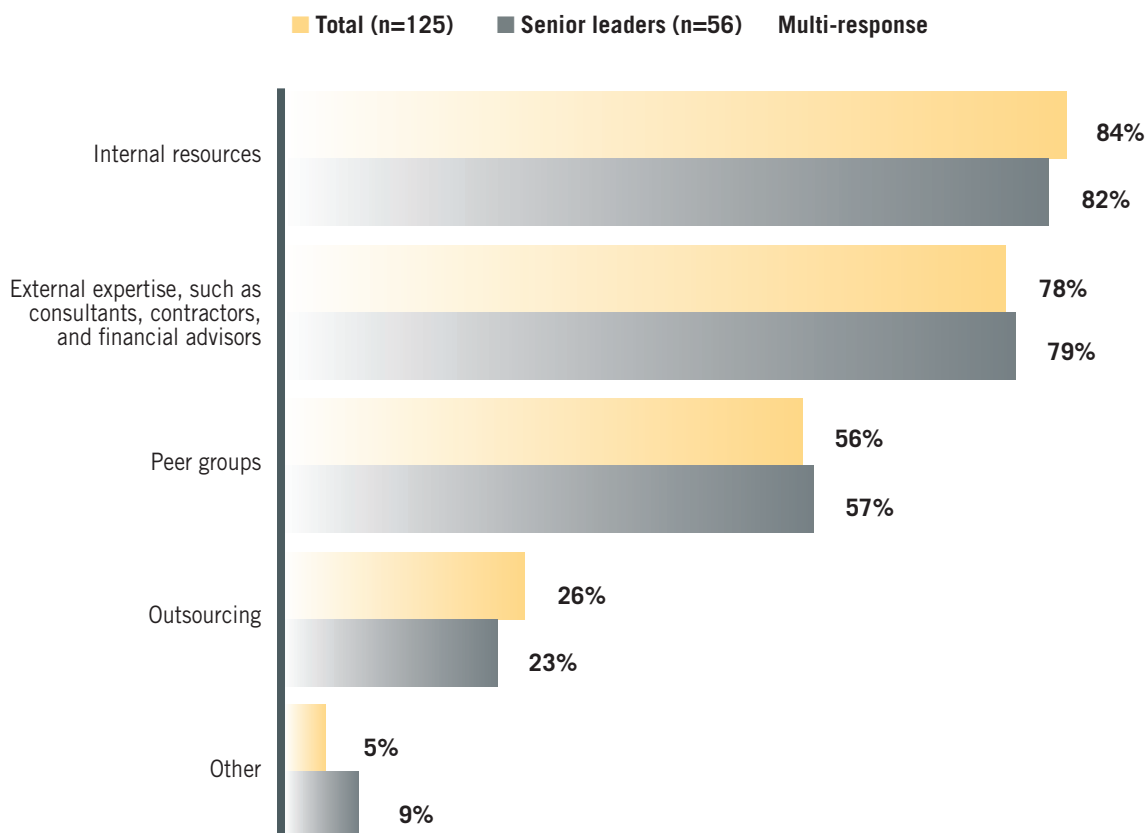
### Where to find advice

“Epic [the vendor for both clinical and financial software] came back to help us rebuild, and we also brought in expertise from Carolinas HealthCare System. We hired Navigant [a consulting firm] to rebuild our revenue cycle to get it to where it should be. “

### On accountable care and shared revenue

*“We have 400 employed doctors out of 1,200 in our system, but it’s more of a construct to get our benefits and our help than us telling them what to do. The accountable care organization is the most powerful tool for physician engagement that we have. [Cone Health backs an accountable care organization, Triad HealthCare Network, that covers 70,000 Medicare lives under the Medicare Shared Savings Program.] They will see the same rewards from the program whether they’re employed or independent. We have moved the needle considerably on physician engagement in the last few years.” ■*

**SOURCES FOR FINANCIAL EFFICIENCIES GUIDANCE AND SOLUTIONS:** What sources does your organization turn to for guidance and solutions for financial efficiencies?



“It’s better to spend \$2 more for a catheter that has been shown to have a lower incidence of causing infection,” he says. “That degree of supply-chain data tracking is increasing.”

By comparison, only 5% felt very exposed to losses from fraud, and only 9% felt very exposed on the payables side. Only 17% felt “not at all” exposed to potential revenue cycle losses.

Ellington identifies a number of ways to reduce that exposure, including careful planning for bundled payment scenarios and incorporating quality data into supply chain management.

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## Internal or External?

As for achieving financial efficiencies, in the revenue cycle or elsewhere, more than four out of five respondents said they turn to internal sources, and almost the same number looked to consultants, contractors, or financial advisors. Peer groups were a less popular source (cited by about three out of five), possibly signaling that providers who have useful advice are outnumbered by those that need it.

Ellington says that outside sources of expertise can provide valuable perspective and spread the professional risk connected with pursuing a new approach, taking pressure off internal staff, and allowing them to think more boldly than they might otherwise. “There needs to be a certain level of accountability, but a decision should include the best available internal and external inputs,” he says.

Regardless of the source, Ellington says solutions should be built for a future of accountable care, bundled payments, increased patient volumes, and a different mix of services. “The key is not adopting a system based on the way the health system is operating today, but thinking about the next five to seven years and understanding that things will change,” he says. “Nimble organizations will be in the best position to capitalize on opportunities.” ■

## A note on the survey

In June, a three-question survey on financial efficiencies was sent to members of the HealthLeaders Media Council, which comprises executives from healthcare provider organizations. A total of 125 council members completed surveys, including 56 senior leaders. The respondents included executives from hospitals (38%), health systems (25%), and physician organizations (11%). Of the hospital respondents, almost a third came from hospitals with fewer than 200 beds, and another 44% came from hospitals with 200 to 499 beds. More than 40% of health system respondents reported having between 21 and 49 sites in their systems, and 35% had between six and 20 sites. About 74% of respondents were from not-for-profit organizations. The survey was conducted jointly by HealthLeaders Media and Bank of America. It's the fourth in a series focusing on issues of concern to healthcare providers.

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