



October 25, 2022

No Margin, No Mission- Strategies To Improve Hospital Net Income

Dan Clark

Managing Director

Health Care Performance Advisory Services

Kevin Rash, MPT, FACHE

Director

Health Care Performance Advisory Services

Chris Ekrem, FACHE

Forum Moderator

EqualizeRCM



www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/



DANIEL E. CLARK

Managing Director, *FORVIS*

FORVIS

Dan is a member of FORVIS National Health Care Performance Improvement Team. He has more than 30 years of health care experience, including 22 years with academic medical centers serving in a management and executive leadership capacity and ten years providing consulting services with other large international accounting firms. Dan has extensive experience related to hospital and provider revenue cycle transformation, financial yield and operational improvement. Key practice areas include revenue cycle performance improvement, including assessment and strategic road mapping; process re-design; patient access, denials management; cash acceleration; and patient liability programming and physician/provider integration and compensation. He is a member of the Northeast Ohio Chapter of the Healthcare Financial Management Association and the Medical Group Managers Association.

📞 (330) 903-7905

✉️ Dan.Clark@FORVIS.com



KEVIN A. RASH, MPT, FACHE
Director, *FORVIS*

FORVIS

Kevin is a member of FORVIS Health Care Performance Improvement Team. He leverages his clinical insight and leadership experience to help health care providers improve their processes, create efficiencies, and navigate major initiatives without costly operational disruptions. Kevin also assists clients in margin improvement with operational flow, cost structure management, workforce productivity, clinical and operational strategy. In addition, he has the experience from two specialty hospital builds; an Orthopedic, followed by a Rehabilitation Hospital to create programs to serve communities and population needs. He has multiple surgery center builds and established surgical excellence programs in all settings.

 (417) 865-8701

 Kevin.Rash@FORVIS.com

Agenda

No Margin, No Mission - Strategies To Improve Hospital Net Income

October 25, 2022

1

Why Margin Improvement

2

Building a Margin Improvement Plan

3

Non-Labor Opportunities

4

Labor

5

Revenue Cycle

6

Case Study – Rural Western Colorado

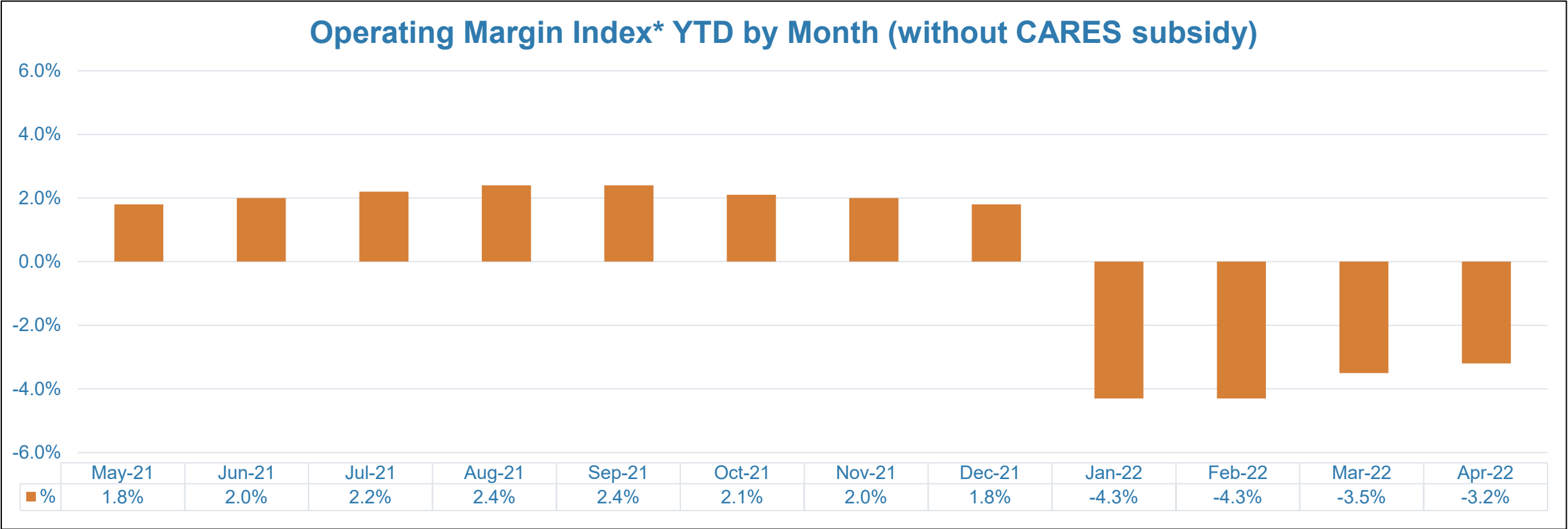
Why Margin Improvement?

Post-pandemic headwinds for healthcare executives:

- Supply costs at all time high
- Revenue cycle metrics off track
- Remote workforce
- Labor shortages, contractors, and employee benefit rates unprecedented
- Inflation driving increases in non-supply areas (e.g., Utilities)
- CARES act funding suspended
- "The right" volumes sluggish to return

National Margin Results

More than a third of hospitals posted negative operating margins during 2021 and most US hospitals reported significantly greater margin declines in Q1 2022



* Comprised of national median of results adjusted for allocations to hospitals from corporate, physician and other entities. National Hospital Flashreport, May 2022 KH

Short and Long-Term Challenges Remain

FOUR CHALLENGES



Manage capacity, staff
resiliency through
remaining Covid-19 surges



Stabilize financials,
recover volume



Adjust to new consumer
behaviors, preferences

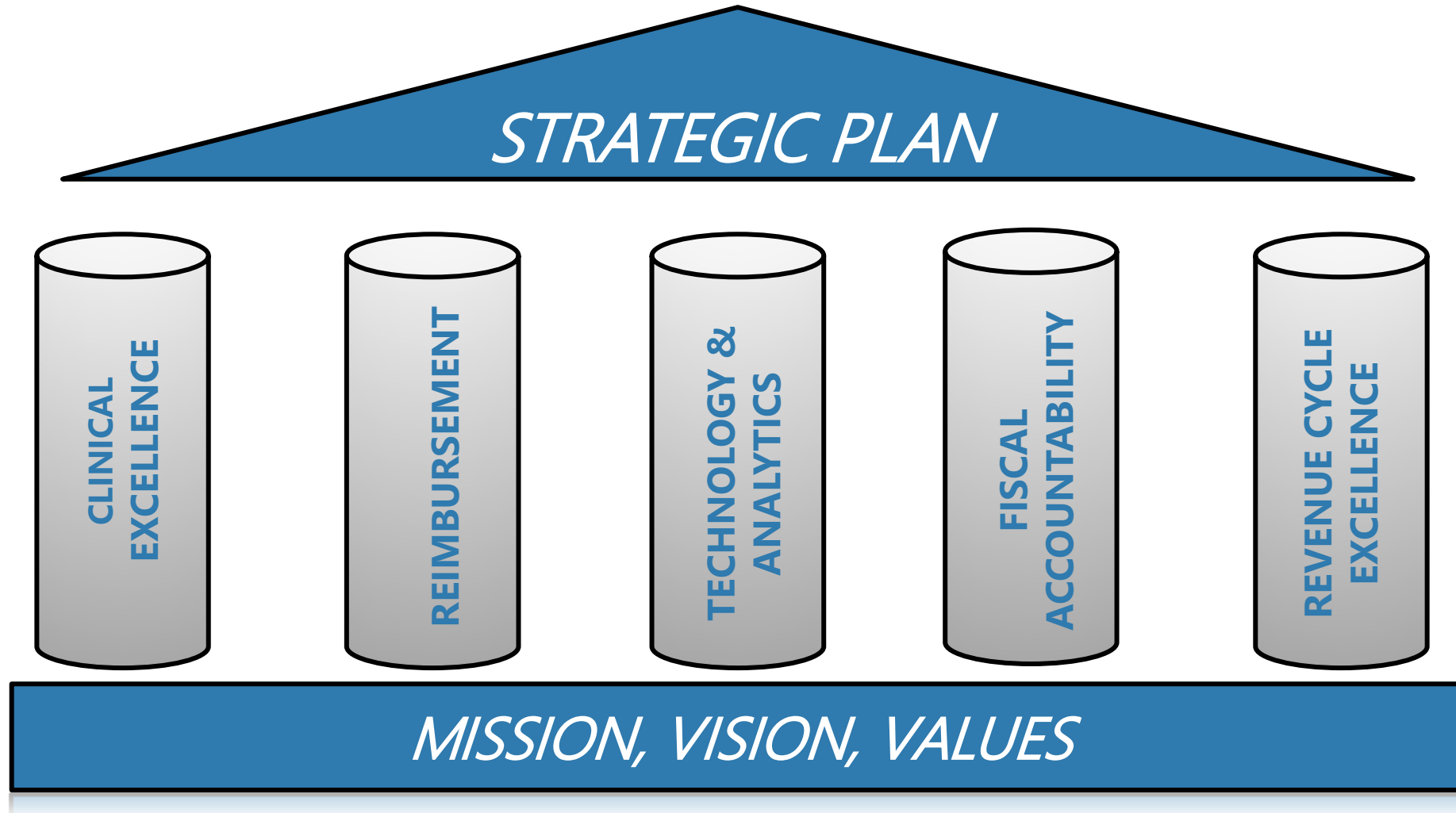


Address changing
health status, equity

NEAR TERM

LONGER TERM

Building a Margin Improvement Plan



Opportunities within a Margin Improvement Plan

Revenue Cycle & Revenue Integrity



- Patient Liability
- Denials Management
- System Optimization
- Vendor Management
- Charge Capture
- Pricing Strategy
- Status Determination
- KPI Monitoring

Reimbursement & 340B



- Payor Strategies & Solutions
- Cost Reporting
- DSH, DRG & UC
- Medicare Bad Debt
- Managed Care Strategy
- 340B
- Provider Based Clinics
- Pharmacy

Physician Enterprise



- Population-Based Models
- Medicare at-risk Modeling
- Compensation Plan
- Office Performance Optimization

Labor



- Organizational KPIs
- Organizational Structure
- Span of Control
- Productivity Benchmarking and Monitoring
- Contract Staff

Non-labor Expense Management



- Expense Benchmarking
- GPO Performance
- Purchased Services
- Benefit Plan
- Implants



Non-Labor Opportunities

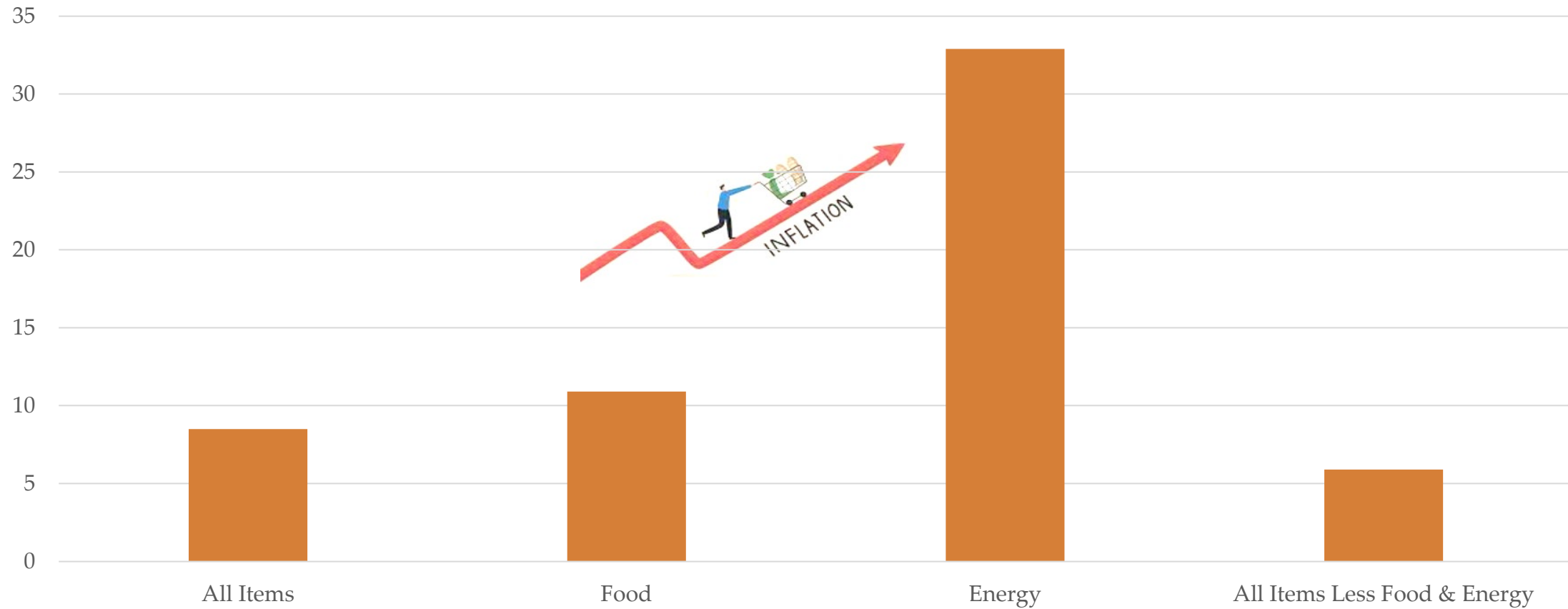


www.CAHForum.com

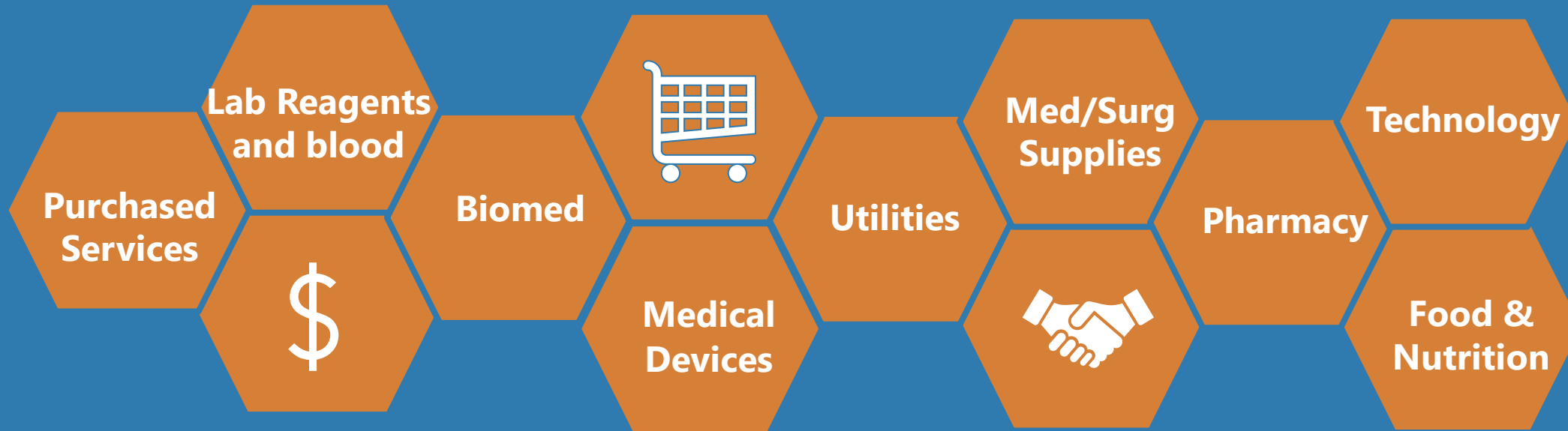


www.linkedin.com/company/CAH-CFO-Administrator-Forum/

Feeling the Impacts of Inflation



Source: U.S. Bureau of Labor Statistics Consumer Price Index, Select Categories, July 2022, Not Seasonally Adjusted

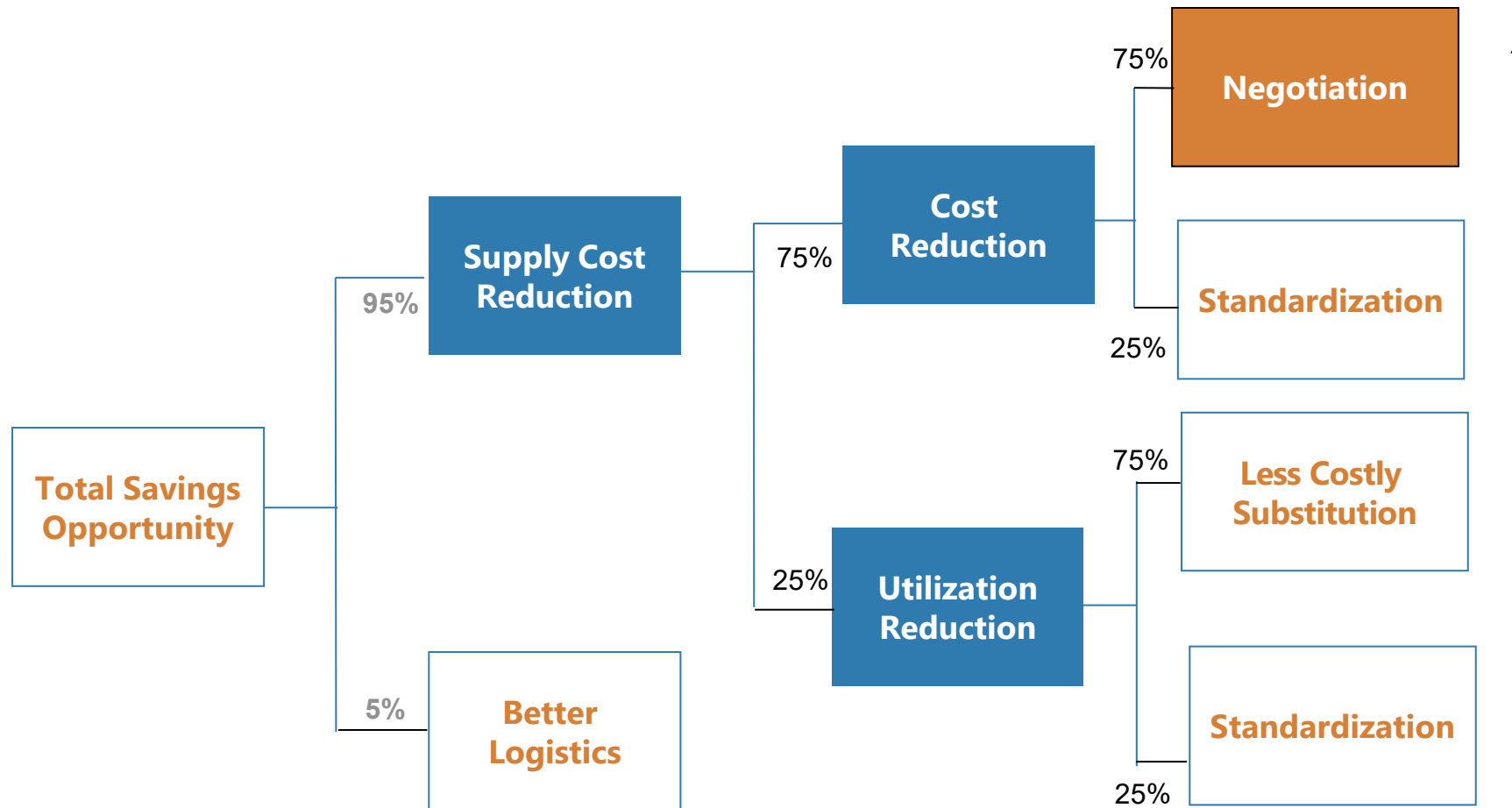


Nonlabor Cost Management

- The supply chain for most health systems is vast and complex. However, with the right strategy and skills, it can be leveraged to generate reliable savings.
- Average cost reduction initiatives increase margins by **1%** to **3%** of NPSR.



Savings Not Just Driven by Change



Costs on the Rise

Expense growth per adjusted discharge
(Jan 2019- Jan 2022)

Labor 19%

Supply Chain 21%

Prescription Rx 37%

Non-operating 20%

Source: "Financial Effects of COVID-19: Hospital Outlook for the Remainder of 2021," KH, September 2021; "Medical cost trend: Behind the numbers 2022," PWC, 2022; "National Hospital Flash Report"

Recent Non-Labor Case Studies

Small Community Hospital

- 65-bed rural hospital
- Change in GPOs was not preferred due to internal staff changes. Savings of \$400,000 achieved through coloration with incumbent to optimize offering.
- PPI: shoulders and implement protocols
- Retail capture of 340B prescriptions. Software setup errors and orphan drug errors corrected and rebilled. Savings \$750,000.
- Pharmacy Benefits Management had been renegotiated twice in the past two years, yet J-Code rebates were still withheld. Savings achieved with the incumbent totaling \$260,000, or 25%.
- Reduced rates of collection agency 28% while increasing liquidation rates by 38%. Savings over \$600,000.
- \$1.8M savings as of Q1 2022

Midsized Community Hospital

- 30% - 40% savings in physician preference items (PPI) categories of: total joints, trauma and neurostimulators
- \$464,000 in ED revenue charge capture
- New GPO affiliation reduced med/surg costs by 22% (over \$1M annually)
- Supply costs down more than 7.5% as volumes increased 10%
- Reversed years of negative margins to breakeven for FY20
- \$3.5M savings in 1st year

Key Non-Labor Metrics To Monitor



- Non-labor Cost Per Day
- Med/Surg Cost per Day
- Supply Costs per Adj Discharge
- Laundry/Linen per Patient Day
- Benefits as a % of Salaries/Wages
- Pharmacy Cost per Bed



- Utilities per Square Foot
- EVS per Square Foot
- Benefits as a Percent of Salaries and Wages
- Pharmacy Cost per Bed
- BioMed as a Percent of Total Expenses
- Reprocessing

Expense Opportunity Areas



- Competitive market assessment for GPO
- Negotiate for best pricing with direct contracts
- Investigate potential savings outside of supplies
 - Purchased Services
 - Benefits
 - Utilities
- Consider holistic approach on equipment



Labor



www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/

Rising Costs



Rising costs

are decimating provider margins, which will also impact payers and commercially insured patients.



Skyrocketing expenses, 2022 vs 2019¹

+37% Labor costs per adjusted discharge

+37% Drug costs per adjusted discharge

+21% Supply costs per adjusted discharge

IMPACT

69%

Of health system strategic planners reported operating margins below pre-pandemic performance in 2022²

10%

Median proposed premium increase for individual market plans across 72 insurers in 13 states and Washington, D.C., in 2023³

Workforce Top Concern of CEOs for 1st time since 2004

Personnel Shortages Top Issue Confronting Hospitals in 2021

Results by ACHE's Executive Office, Research.

"...clearly understand that shortages and financial challenges go hand in hand as labor costs rise and solutions seem elusive...." – Deborah Bowen, President / CEO ACHE

Issue	2021	2019	2018
Personnel Shortages	1.6	4.6	5.2
Financial challenges	4.1	2.7	2.8
Patient safety and quality	5	5.3	5.1
Behavioral health/addiction issues	5.4	5	5.3
Governmental mandates	5.4	5.2	5.1
Access to care	5.7	5.9	6.2
Patient satisfaction	6.1	6.3	6.1
Physician-hospital relations	7.8	7.7	6.6
Technology	8.1	7.7	7.7
Population health management	8.4	8.1	8.1
Reorganization (e.g., mergers, acquisitions, restructuring, partnership)	9.4	8.7	8.3

Workforce Top Concern of CEOs for 1st time since 2004

Personnel Shortages Top Issue Confronting Hospitals in 2021

Results by ACHE's Executive Office, Research.

"...clearly understand that shortages and financial challenges go hand in hand as labor costs rise and solutions seem elusive...." – Deborah Bowen, President / CEO ACHE

Financial Challenges (n=310)

Increasing costs for staff, supplies, etc.	87%
Reducing operating costs	53%
Medicaid reimbursement (including adequacy & timeliness of payment, etc.)	52%
Managed care & other commercial insurance payments	44%
Bad debt (including uncollectable Emergency Department & other charges)	39%
Competition from other providers (of any type-inpatient, outpatient, ambulatory care, diagnostic, retail, etc.)	39%
Government funding cuts (other than reduced reimbursement for Medicaid or Medicare)	39%
Medicare reimbursement (including adequacy & timeliness of payment, etc.)	39%
Transition from volume of value	39%
Inadequate funding for capital improvements	35%
Revenue cycle management (converting charges to cash)	32%
Pricing & price transparency	27%
Emergency Department overuse	26%
Moving away from fee-for-service	25%
Other	n=11

Workforce Top Concern of CEOs for 1st time since 2004

Personnel Shortages Top Issue Confronting Hospitals in 2021









Results by ACHE's Executive Office, Research.

“...clearly understand that shortages and financial challenges go hand in hand as labor costs rise and solutions seem elusive....” – Deborah Bowen, President / CEO ACHE

Personnel shortages (n=310)

Registered nurses	94%
Technicians (e.g., medical technicians, lab technicians)	85%
Therapists (e.g., physical therapists, respiratory therapists)	67%
Primary care physicians	45%
Physicians' specialists	43%
Physician extenders and specially certified nurses (physician assistants, nurse practitioners, certified nurse midwives etc.)	31%
Other	17%

Staffing Stretched with Turnover Across Key Roles

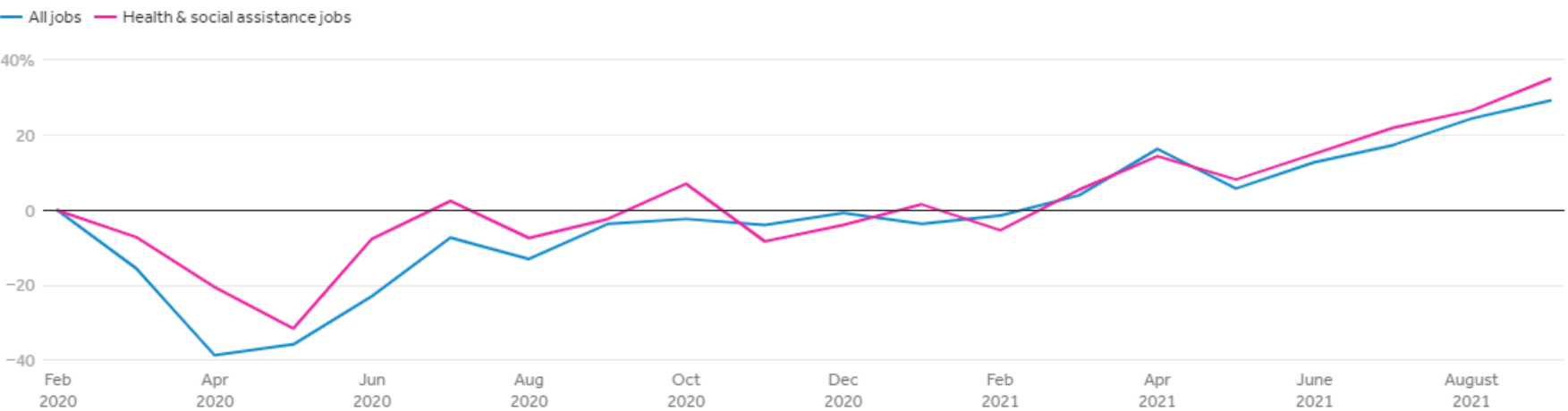
ROLE		TURNOVER NUMBERS	PIPELINE STATUS
	Registered nurses	18% turned over in 2021	Weakening ; qualified applicants being turned away due to academic capacity
	Licensed practical nurses	20% left the workforce, Apr 2020 to Jun 2021 compared to pre-pandemic	Weak ; lack of schools available, historical reduction in hiring hinders interest
	Nursing aides	35% turned over in 2021	Weak ; lack of training programs available, difficulty enticing interest in role
	Physicians	7% median turnover in 2020	Moderate ; varies by specialty; length of training delays new physician availability
	Pharmacy technicians	21% turned over in 2021	Weakening ; scope of role changing as techs take on more patient-centric work
	Medical assistants	21% plan to seek training and/or employment in an occupation outside health care in the next 5 years	Weak ; lack of training programs available, difficulty enticing interest in role
	Pharmacists	10% turned over in 2021	Weak ; lengthy training program delays new pharmacist availability
	Nurse practitioners	15% turned over in 2021	Strong ; predicted surplus of NPs over the next decade

Source: Advisory Board -Sources: "MAs MIA? The COVID-19 pandemic made hiring medical assistants harder than ever," MGMA, May 2021; "Nurse Employment During the First Fifteen Months of the COVID-19 Pandemic," Health Affairs, Jan 2022; Healthcare Occupations, Bureau of Labor Statistics, Apr 2022; "2022 NSI National Health Care Retention & RN Staffing Report," NSI Nursing Solutions, March 2022.

Labor Challenges

Job quits hit all-time highs in all sectors, including health & social assistance

Cumulative % change in job quits since February 2020, by month, health & social assistance jobs, and all jobs



Note: "All jobs" includes nonfarm jobs only

Source: Bureau of Labor Statistics Job Openings & Labor Turnover Survey (JOLTS) • [Get the data](#) • PNG

Peterson-KFF
Health System Tracker



Staffing Strategies that Require Work and Effort

AREAS OF EXTENSIVE WORK



Market-driven compensation



Professional development



Resilience



Staffing model innovation



*Strategies to
stabilize the
workforce*

EMERGING EFFORTS



“Life” support (i.e., childcare)



Flexibility



Mental health support



Revenue Cycle



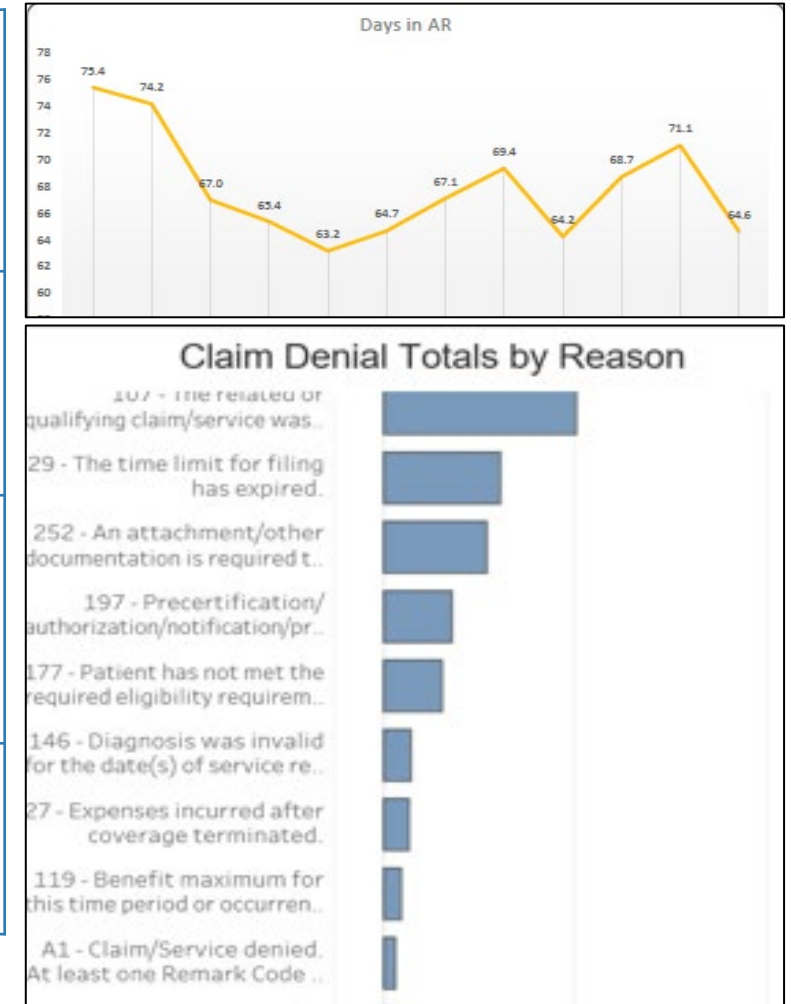
www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/

Revenue Cycle: Operational Improvement Initiatives *Analysis & Reporting*

Revenue Cycle Dashboards	Critical assessment of your organizational dashboards for completeness, trending and year over year variance	Moderate effort level
Daily Productivity Monitoring	Whether staff are in-house or remote, daily monitoring of incoming volumes and staff productivity assist in avoiding backlogs and establishing staffing levels	Moderate to high effort level
Charge Reconciliation Reporting	Daily departmental charge reconciliation reporting	Moderate to high effort level
Denial Management Tracking	Denial management tracking for root cause analysis	Moderate effort level



Revenue Cycle: Operational Improvement Initiatives *Patient Access*

Patient Liability Strategy	Approach patient liability as a strategic initiative focused on driving overall improved yield results: • Measure self pay and balance after insurance performance and establish growth goals	Moderate effort level	Example Opportunity Measures	Hospital	Industry Benchmark
			Point-of-Service Collections as a % of Net Revenue	0.20%	0.70%
			Primary Self Pay Yield	4.90%	7.00%
			Self Pay after Insurance Yield	14.70%	44.90%
			Bad Debt Write-off as a % of Net Revenue	2.60%	1.80%
Pre-service and Point-of-Service Collections	In the absence of estimator tools, establish deposit guidelines to drive improved collections performance	Moderate effort level	Medicaid Conversion Rate	18.00%	60%
Patient Access Related Denials	Aggressively monitor registration and authorization related denials for root cause and training opportunities	Moderate effort level			
Adopt Technology	Assess adoption of self-directed registration and mobile technology	High effort level			

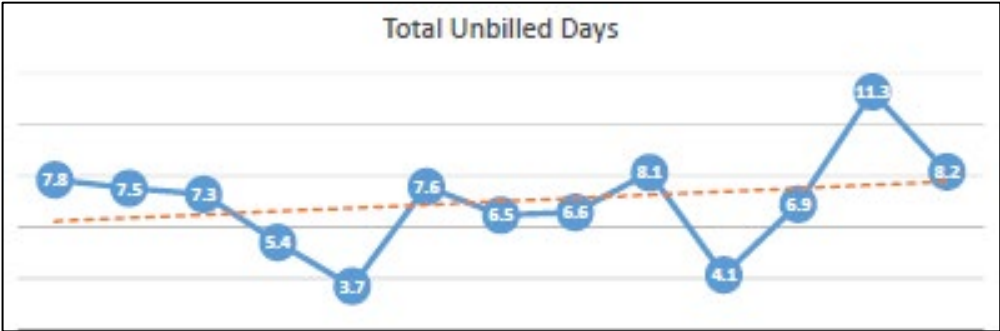
Revenue Cycle: Operational Improvement Initiatives Revenue Integrity (middle)

Examine Revenue Integrity Team	Robust Revenue Integrity teams support all facets of revenue cycle; denials, CDM, charge capture, contract management, compliance, training	Moderate to high effort level
Case Management and Utilization Review	Continuous monitoring of status determination and wrap around provider education	Moderate effort level
Charge Capture	Maximize system capabilities to automate and optimize capture of charges for procedures performed	Moderate to high effort level
Charge Reconciliation	Departmental accountability for daily charge reconciliation	Moderate to high effort level



Revenue Cycle: Operational Improvement Initiatives *AR Management and Denials*

Right Size Staffing and Lean Management	Monitor incoming and completed (work queue) tasks to optimize staffing levels <ul style="list-style-type: none"> Measure individual productivity 	Moderate to high effort level
Denials Prevention Focus	Utilization of denials data to drive prevention (internally) via denials committee and externally with payers	Moderate to high effort level
Improved Education and Communication with Regulatory Functions	The Business Office can impact regulatory reimbursement related to uncompensated care (S10) and Medicare Bad Debts	Moderate to high effort level
Vendor Management	Organizational accountability related to vendor management and performance	Moderate effort level



Initiative	Status	Hospital
Gross Days in A/R	●	62.6 Days
Credit Days in A/R	●	2.5 Days
Discharge Not Final Billed Days in Gross A/R	●	11.2 Days
Clean Claim Rate	●	Not Reported



Case Study – Rural Western Colorado



www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/

The Journey Begins

- New CEO Driven Journey
- Board Strategic Planning Retreat
- Mission, Vision, Values
- Big Hairy Audacious Goals (BHAG)
- Organizations Priorities
- Brought in Consultant to Assist, Starting with Strategic Retreat



Delta Health Goals: BHAG

Financial

Achieve budgeted net income of 1% or \$900K

Quality

Achieve 70th percentile of surveyed inpatients & 70th percentile of surveyed ED patients on the HCAHPS questions that pertain to discharge instructions

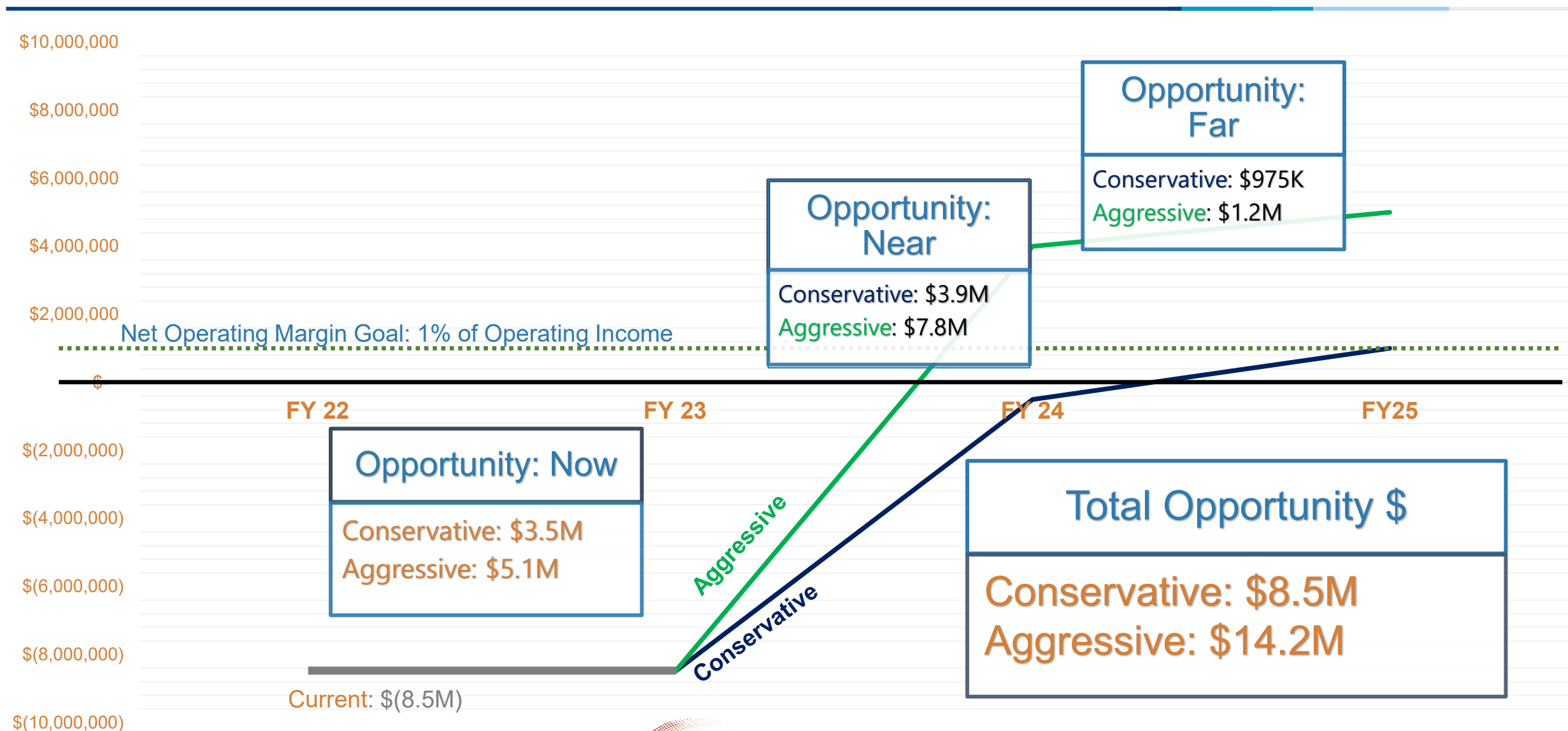
Patient Satisfaction

Achieve 75th percentile ranking of surveyed inpatients & ED patients rating DCMH a 9 or 10 on the HCAHPS "Overall Rating" question

People

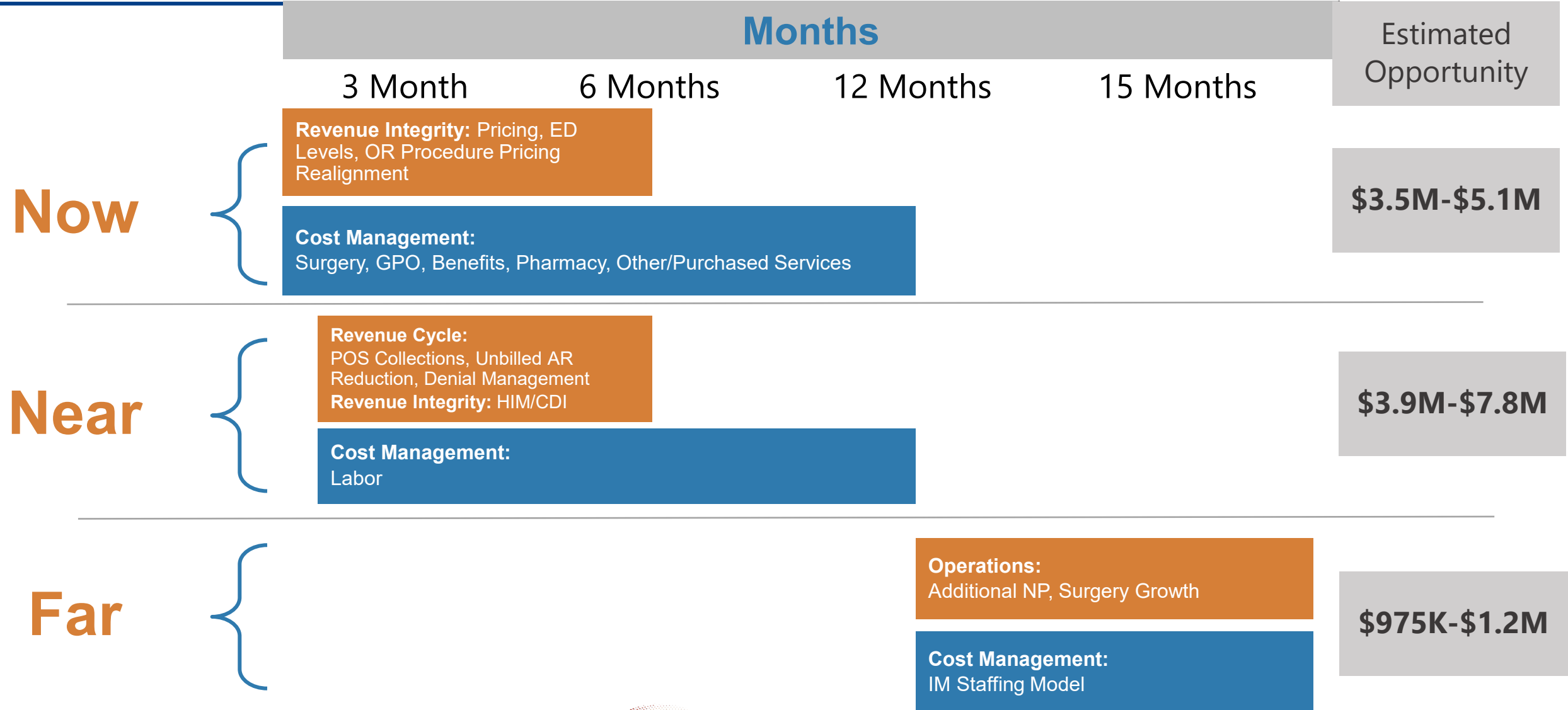
Improve interdepartmental communication at DCMH using departmental focus groups

Roadmap to a 1% Net Operation Margin



Project Timeline, Call to Action, & ROI

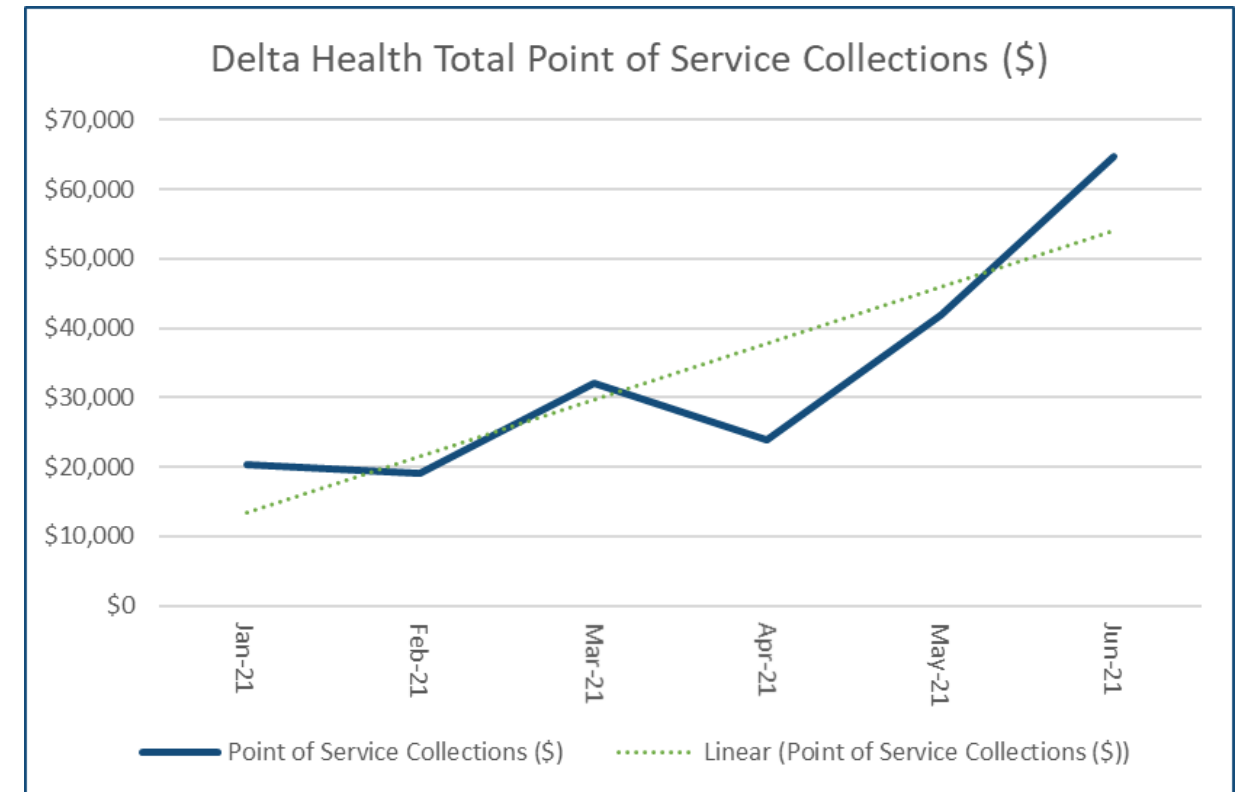
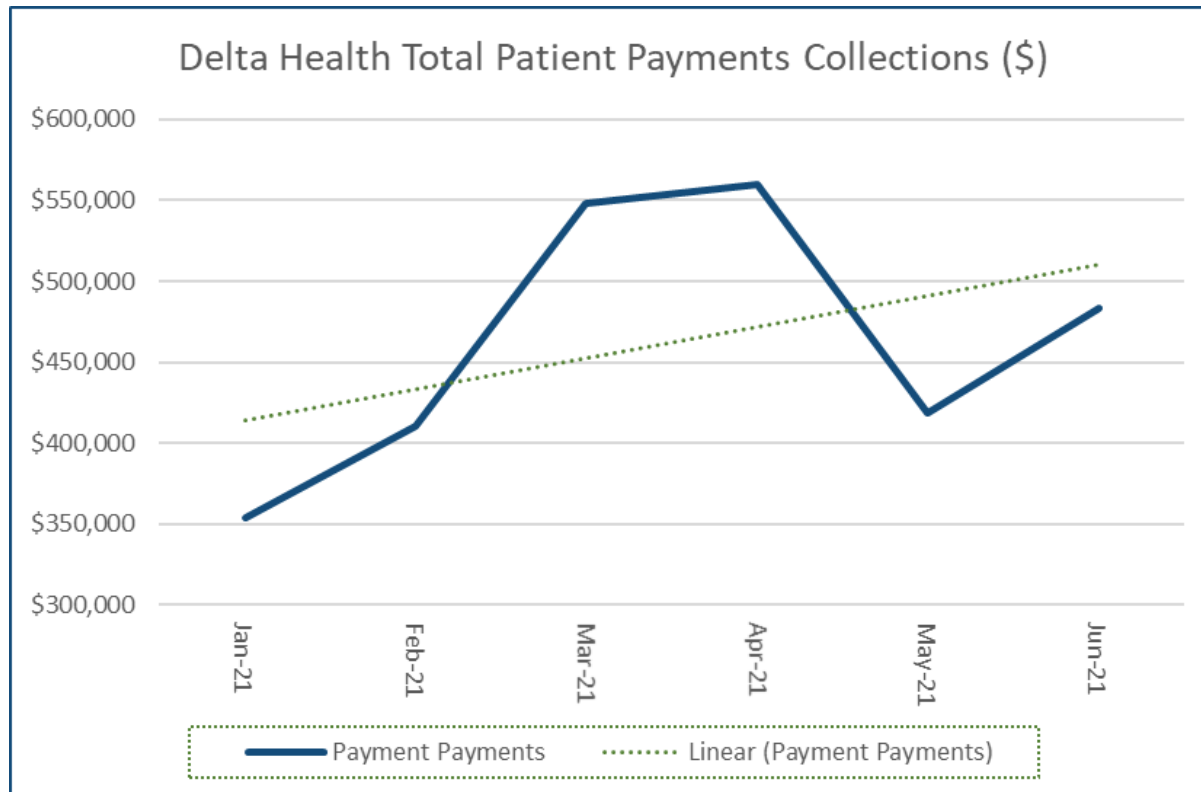
Key: Revenue Cost



Revenue Integrity, CDM Pricing – Key Accomplishments

	Opportunity	Description	Net Estimate	Occurrence
Clinical Revenue Integrity	Supplies/Misc OR Charges	\$5.1 M gap between PO detail and R&U for "misc implant" code . With no manual process to attach appropriate Revenue code/ HCPCS code resulting in risk for no payment on high-cost implants. 34% net of \$5.1 is high estimate	\$ 830,000	Recurring Annually
	OR 'Each Addtl' Procedure Pricing	Increase price of 'Ea Addtl 15 Minute' charge to align with peer CO hospital average OR case rate charges (currently at 11th percentile vs goal of 50th percentile). Net impact only for identified percent of charge payors.	\$ 559,725	Recurring Annually
	OR Level 1-4 Procedure Structure	Standardize IP/OP procedure levels 1-4 charge structure (OP structure to align with IP structure). Net impact only for identified percent of charge payors.	\$ 38,540	Recurring Annually
	CDM Pricing below APC Rates	Increase pricing of charges below 2x APC	\$ 382,024	Recurring Annually
	CDI	Improve capture rate of CC and MCCs DRGs	\$ 270,000	Recurring Annually
	Bedside Procedure Charge Capture	Improve capture of ancillary bedside procedure in ED and Med/Surg charges	\$ 178,616	Recurring Annually
	ED E&M Visit Level Charge Distribution	Improve ED Visit Level 1-5 Charge Distribution to align with peer hospitals	\$ 156,317	Recurring Annually
	ED LWBS	Reduce Left Without Being Seen Rate (currently 5%) to 4% (as Low Opportunity) or national benchmark of 3% (as High Opportunity)	\$ 66,799	Recurring Annually
	OBS to IP	Reduction in Observation % (as a comparison of IP %). Primary pickup from Traditional Medicare FFS	\$ 121,466	Recurring Annually
	OB Status Determination	Conversion of high LOS Outpatients to Observation	\$ 20,769	Recurring Annually
	OB Missing Ancillary Charges	Improve capture of ancillary OB OP charges (visit levels, infusion services)	\$ 14,642	Recurring Annually
	Pharmacy CDM Drug ID & Pt. Liability	Reduce denials and improve self pay collection on self administer drugs by assigning the appropriate revenue codes and moving charges to non-covered	\$ 5,645	Recurring Annually
Total			\$ 2,814,542	

Revenue Cycle Key Accomplishment

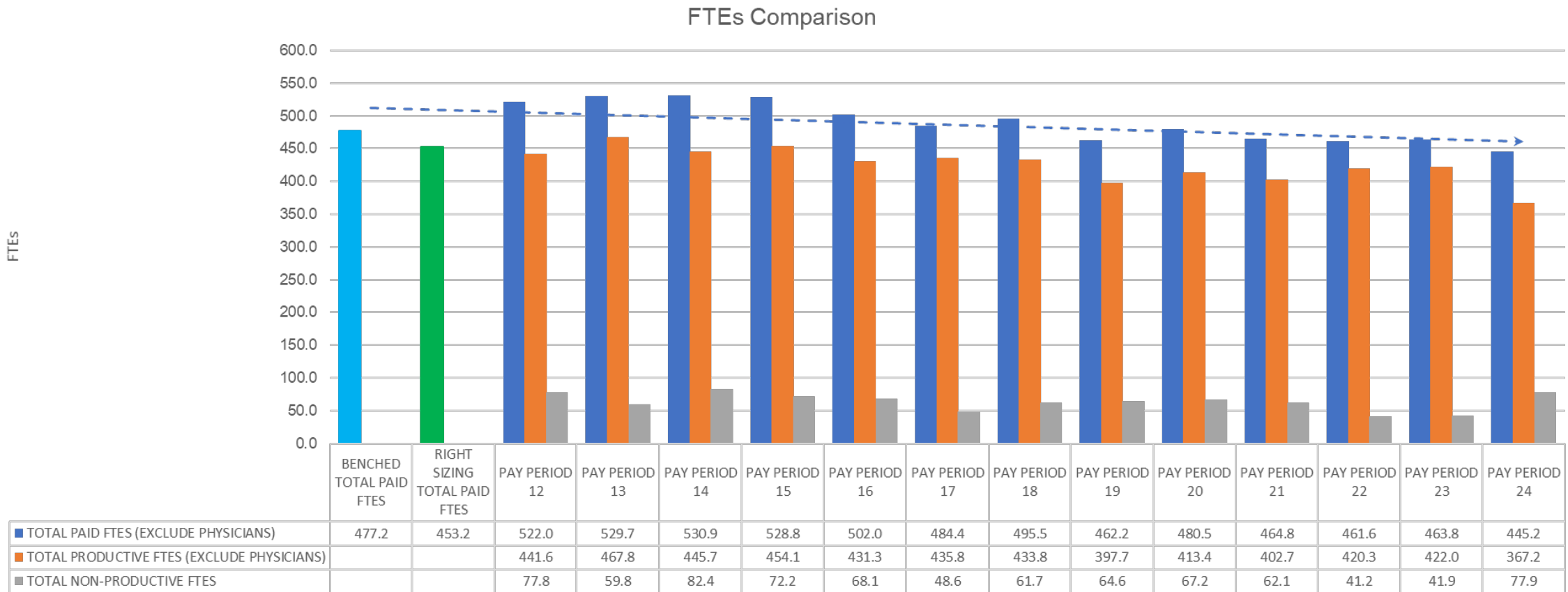


Key Business Office (Patient Liability) Accomplishments

- **\$80k** per month improvement in patient collections in comparison to baseline monthly average¹
- **\$20k** per month improvement in point of service collections in comparison to baseline monthly (project start month)²

- ¹ Average monthly total patient collections from January 2021 – June 2021 in comparison to monthly baseline average (12/19-11/20)
- ² Average monthly point of service collections from January 2021 – June 2021 in comparison to monthly baseline average (12/19-11/20)
- Data Source: Delta Health – Adjustments Payments File

Labor Key Accomplishments



July Salary Savings Target: \$4.85M Annually
540 Total Paid FTE Starting Point, Goal 60 Less

Progress: \$2.2M less Annual Salary Expense
496 Total Paid FTE (Payperiod 18)

Non-Labor Key Accomplishments

GPO savings were identified ranging from \$300,000 - \$900,000.

Through a GPO conversion, current savings were validated totaling >\$250,000. Additional savings are expected as pricing continues to be updated and conversions are implemented.

Total Joint savings were identified ranging from \$200,000 - \$500,000.

Through direct negotiation with vendor, current savings for Total Joints are expected to be \$415,000.

Identified Delta Opportunity Areas (in '000s)

Area	Spend	Savings Range
GPO	\$ 15,000	\$300 - \$900
Total Joints	\$ 1,618	\$200 - \$500

Implemented Delta Savings

	INITIATIVE	VALIDATED SAVINGS	Implemented Savings?
	Total Joints (Zimmer)	\$ 415,394	Yes
GPO			
	Med/Surg (Medline)	\$ 100,758	Yes
	Amerisource	\$ 22,023	Yes
	Bard	\$ 37,835	Yes
	Synthes	\$ 83,680	Yes
	Dietary	\$ 8,366	Yes
	Total	\$ 252,662	
CUMULATIVE TOTALS		\$ 668,056	

Overall Results Impact

IMPROVEMENTS

Rev Cycle

Supply Chain

Workforce

Sole Community Hospital Status

DSH Status/340b

Tax Levy

\$18+ in Annual Benefit

Questions ?



About our Speakers



www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/

Contact Us

DANIEL E. CLARK

Managing Director,
Health Care Performance Advisory Services
FORVIS

(513) 621-8300

Dan.clark@forvis.com

Kevin Rash, MPT, FACHE

Director,
Health Care Performance Advisory Services
FORVIS

(417) 839-4399

Kevin.rash@forvis.com

Chris Ekrem, FACHE

Forum Moderator and Former CAH CEO

(806) 215-0549

Chris@CAHForum.com

To learn more, visit:



www.CAHForum.com



www.linkedin.com/company/CAH-CFO-Administrator-Forum/