



Elevating Revenue Cycle Performance

Best practices for managing the financial needs of patients, providers and payers.

HFMA Presentation – January 2018



The best practices are the ones that work for **you.**SM

AT THE CORE

For 35+ years, our **research** has been the health care industry's guiding light, bringing members closer to best practice performance.

RESEARCH Platform

Every major player in your health care organization gets a direct line to the industry's most-needed insights and most-successful ideas.

WHERE WE RUN THE DEEPEST

In three critical areas, we run even deeper, providing you with the **technology** and **consulting** solutions needed to hardwire best practices.

Drive Health System GROWTH

Attract and retain the patients you aspire to serve by offering the care network, access, and experience they need.

Reduce CARE VARIATION

Improve quality and outcomes and lower costs by eliminating unwarranted deviation from the best standard of care.

Optimize the REVENUE CYCLE

Sustain the financial stability necessary to serve your community by making sure you are paid efficiently for services rendered.

4,000+

health care organizations in our membership

\$2 billion+

in documented ROI each year

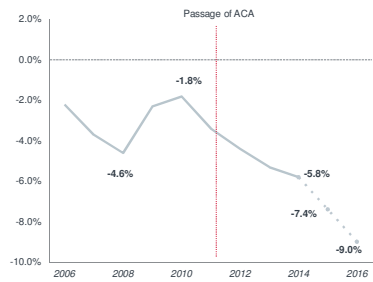
250,000+

health care leaders in our network

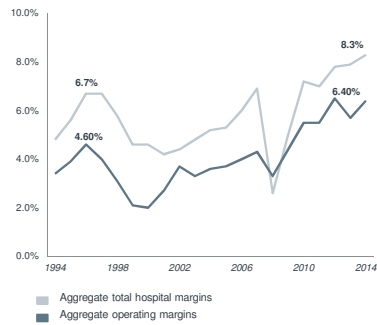
Hospital Margins Strong Despite Medicare Reimbursement Cuts...

Reimbursement Reductions Hasn't Sapped Historically High Net Margins...yet...

Medicare Acute Care Facility PPS Margins



Hospital Industry Margin Performance



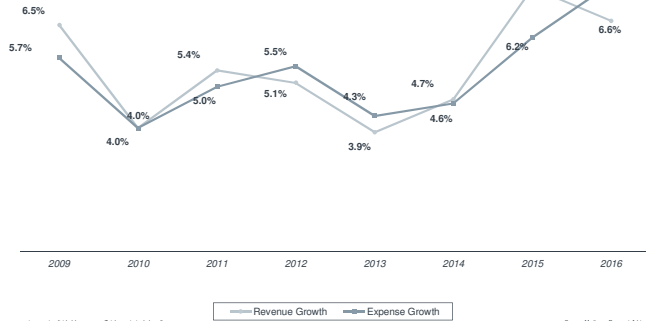
23 days Improvement in Net AR days from 2000 to 2011

Source: Medicare Payment Advisory Commission, A Data Book: Health Care Spending and the Medicare Program, June 2016, available at medpac.gov; American Hospital Association, Research Chartbook 2016, available at aha.org; Financial Leadership Council, Revenue Cycle Benchmarking Survey, 2011; Financial Leadership Council interviews and analysis.

Leveraging Price...Not the Panacea from the Past

The Challenging Margin Environment Requires Refocus on Revenue Cycle with Efficiency as a Key Tenet

Revenue and Expense Growth Rates for Non-Profit Hospitals 2009-2016



1) Margin calculated as revenue minus costs, divided by revenue. Total margin includes all patient care services billed to all payors, plus nonpatient revenue. Analysis excludes critical access hospitals and Maryland hospitals.

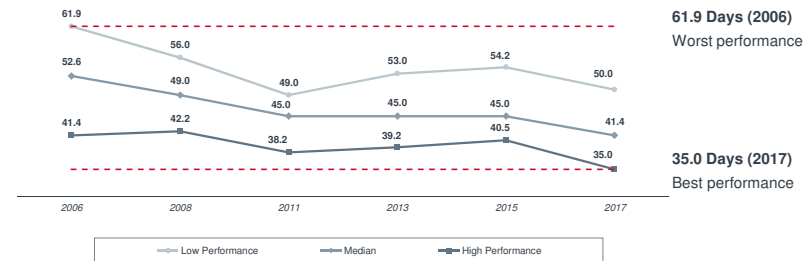
Source: Medicare Payment Advisory Commission, A Data Book: Health Care Spending and the Medicare Program, June 2017, available at medpac.gov; Financial Leadership Council interviews and analysis.

A Low Watermark for AR Performance


Across the Board Improvements in Business Office Efficiency

Trended Net AR Days from 2006 to 2017^{1,2}


n=60 (2006); n=35 (2008); n=98 (2011); n=47 (2013); n=58 (2015); n=154 (2017)




Multiple Factors Improving AR



Automation of the Revenue Cycle



Focus on Pre-Bill and Prevention



Strategy for Denial Write-Offs

1. Survey and Technology data.
 2. Low, median, and high performance categories correspond to 75th, 50th, and 25th percentiles, respectively.
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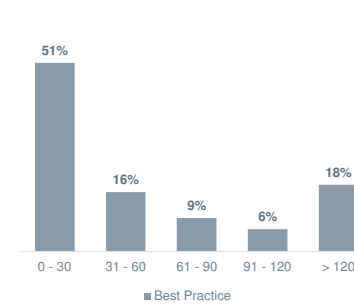
Source: 2006-2017 Hospital Revenue Cycle Benchmarking Survey; Financial Leadership Council interviews and analysis. advisory.com

Managing Amidst Increasing Payer Scrutiny

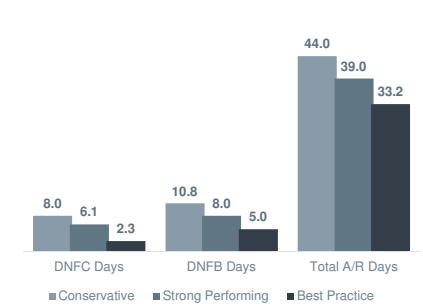
Aged A/R Indicates Substantial Opportunity

Slower cash flow impacts overall collectability, debt ratings

A/R Aging from Discharge Date



Current DNFC, DNFB, and Total A/R

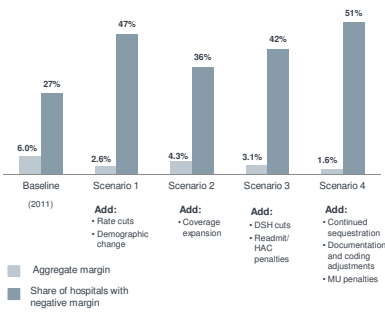


...But Trouble Lies Ahead

Most Models Conclude with a Reduction in Public Reimbursement and a Resulting Impact on Margin

Hospital Financial Performance

CBO Projection for 2025, Assuming 0.4% Yearly Productivity Growth



27% Increase in gap in Net AR days between high and low performers, 2011-2015

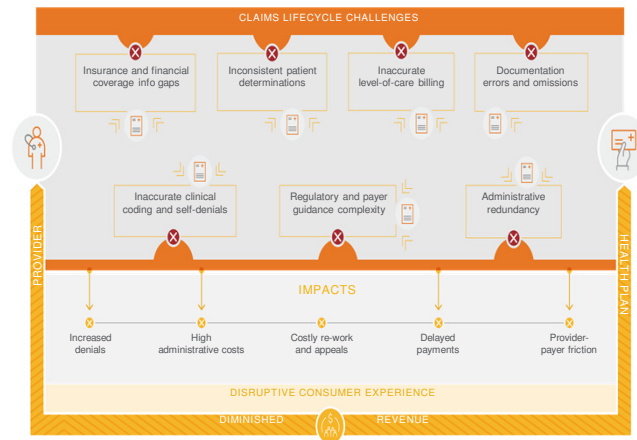
Not Modeled

- Provider response
- VBP Adjustments
- Episodic payment expansion
- ACO models

“Even under the most optimistic assumption about hospitals’ productivity growth, the combined effect of all the factors considered in this analysis would reduce hospitals’ margins considerably”

Projecting Hospitals’ Profit Margins Under Several Illustrative Scenarios
 Congressional Budget Office, September 2016

Revenue Integrity Roadblocks



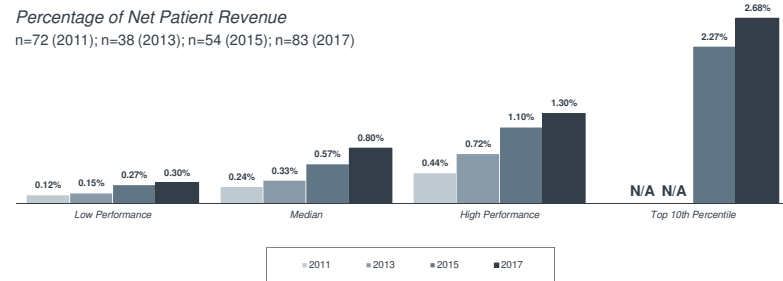
Increased Focus on Point-of-Service Collections

More Efforts Required as Financial Responsibility Shifts to Patients

Point-of-Service Collections^{1,2}

Percentage of Net Patient Revenue

n=72 (2011); n=38 (2013); n=54 (2015); n=83 (2017)



Prompt-Pay Discounts: An Effective Strategy to Boost Collections

44% Hospitals offering discounts for full patient payments at point-of-service

20% Average reported discount on patient obligation for full payment upfront

90% Boost in point-of-service collections where prompt-pay discount is offered

¹⁾ Source: Kantar Health data.
²⁾ Low, median, and high performance categories correspond to 25th, 50th, and 75th percentiles.

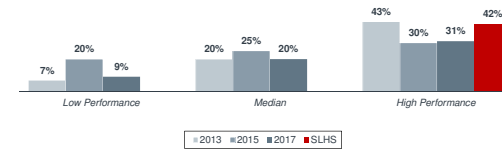
Source: 2011-2017 Hospital Revenue Cycle Benchmarking Survey, Finance Leadership Council interview, and analysis.
 advisory.com

External Collection Agencies Also Taking a Hit

Recovery Rates Remain Unchanged While Patient Obligations Grow. Stronger Performance in Early-Out Services May Indicate Opportunity for Improvement on the Front-End

Early-Out Self-Pay Collection Agency Recovery Rate^{1,2}

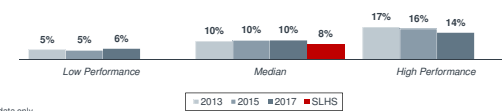
n=22 (2013); n=37 (2015); n=20 (2017)



5%
Median early-out collection agency commission

Long-Term Self-Pay Collection Agency Recovery Rate^{1,2}

n=32 (2013); n=52 (2015); n=38 (2017)



16%
Median long-term collection agency commission

¹⁾ Survey data only.

²⁾ Low, median, and high performance categories correspond to 25th, 50th, and 75th percentiles.

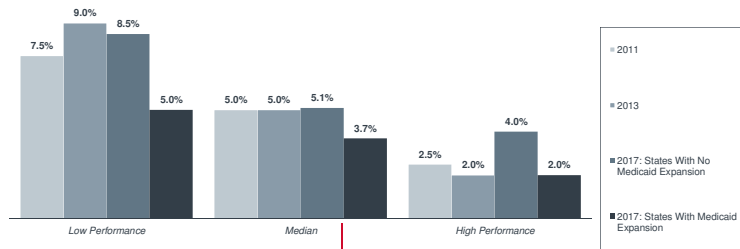
Source: 2013-2017 Hospital Revenue Cycle Benchmarking Survey, Finance Leadership Council interview, and analysis.
 advisory.com

Expansion States Fare Better on Bad Debt

While Some Markets are Advantaged by Medicaid Expansion, HDHPs Still Threaten to Erode Recent Gains

Bad Debt as a Percentage of Net Patient Revenue^{1,2,3}

n=79 (2011); n=43 (2013); n=67 (2017)



+2%

Change in bad debt for median hospital in a state with no coverage expansion since 2013

-26%

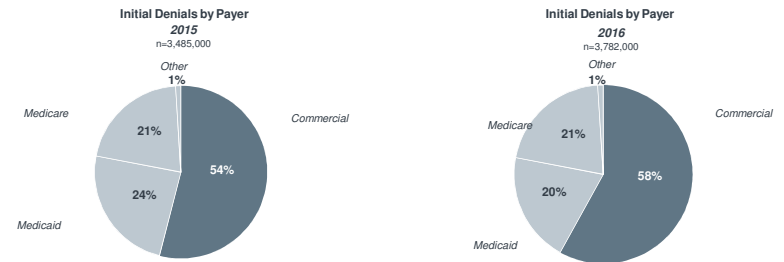
Change in bad debt for median hospital in a state with coverage expansion since 2013

¹ Survey data only
² Low, median, and high performance categories correspond to 75th, 50th, and 25th percentiles
³ 61% of survey participants were located in states with Medicaid coverage expansion

Source: 2011-2017 Hospital Revenue Cycle Benchmarking Survey; Financial Leadership Council Interview, and analysis
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On the Back-end...Commercial Payers Scrutinizing Claims More than Ever

Commercial Denials, Write-offs, Underpayments, Low Contract Yield Impact Cross-Subsidy



Case Study
2x Increase in requests to medical records companies over the last five years seeking information related to denials, case review and legal challenges

5% Average annual hospital revenue lost to underpayments, denials, and suboptimal contract negotiations.

Impacted Revenue Cycle Metrics

- Denial Write-offs
- Underpayments
- Contract Yield
- Cost-to-collect
- A/R Days

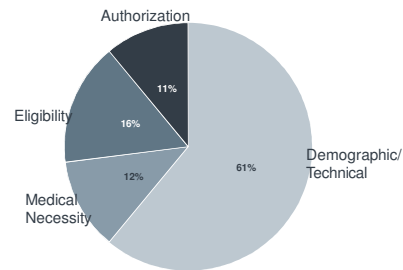
Growing Teams Shrinking Margins

Staffing Up Not Necessarily The Solution To Denial Management...prevention Is Critical

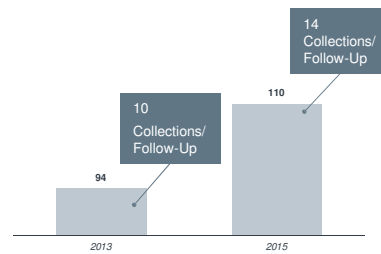
Expensive Errors Create Endless **Rework**

Increasing Staffing **Not Paying Off**

Initial Denials in 2015



Total Revenue Cycle Median Number of FTEs



Cost to Collect Has **Increased**
37% Growth in cost to collect since 2011

Source: Financial Leadership Council interviews and analysis

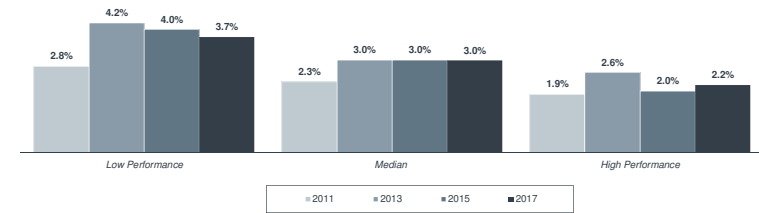
No Improvement on Cost to Collect

Dollars (Staffing, Outsourcing, etc), Not Efficiency, Likely Driving Revenue Cycle Improvements

Full Cost to Collect^{1,2}

Percentage of Net Patient Revenue

n=51 (2011); n=31 (2013); n=59 (2015); n=48 (2017)



Median Cost to Collect by Area (% NPR)

0.7% Patient Access

0.8% Mid-Cycle

1.2% Business Office

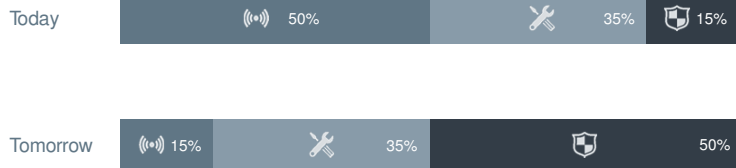
¹ Source: 2017 survey
² Cost metrics and high performance categories correspond to 75th, 50th, and 25th percentiles

Source: 2011-2017 Hospital Revenue Cycle Benchmarking Survey
 Financial Leadership Council interviews and analysis

Need to Shift From Diagnosis to Prevention



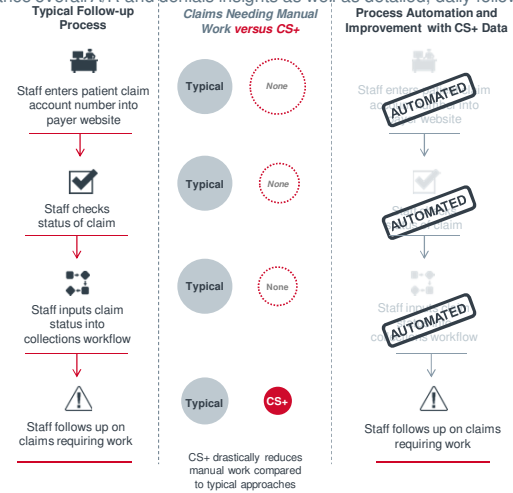
Percent of Time Spent In Each Area

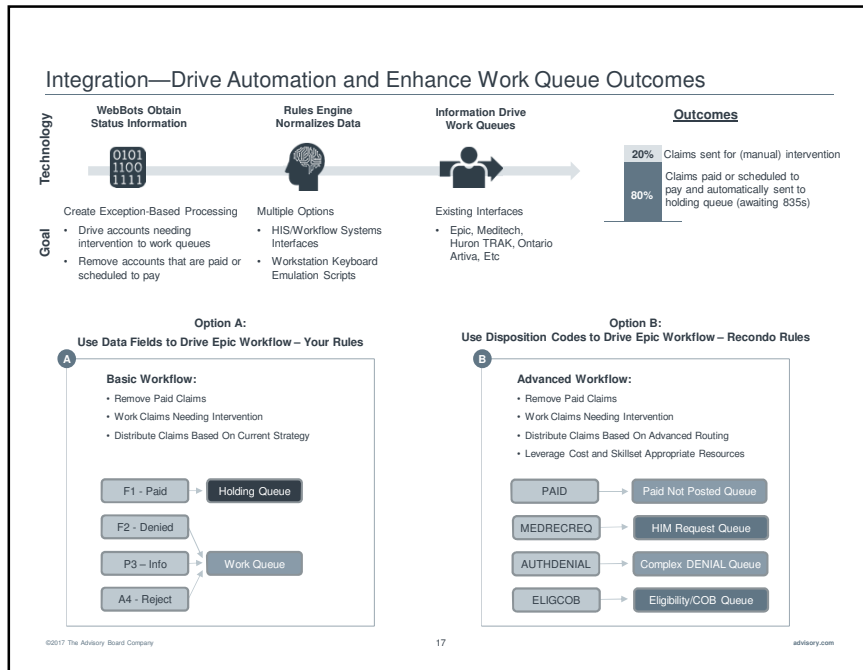


Create a More Nimble Organization

Claims Status Becomes More Critical for Effective AR Management

Bring actionable payer portal data and innovative automation into your collections and workflow processes; enhance overall A/R and denials insights as well as detailed, daily follow-up processes.





Deploy a "Smarter" A/R Strategy

Business offices are playing catch-up when it comes to payer collections ...

Recent trends show:

- \$10.2M** opportunity for average hospitals improving to best practice A/R cash acceleration
- 37%** increase in cost to collect (as percent of NPR since 2011)
- 6.8%** increase in A/R days for average-size hospital since 2011

Organizations have to start:

- Getting ahead of payer "run around" tactics that impede staff effectiveness
- Optimizing workflow to achieve proactive—not reactive—strategies for payer follow-up
- More closely scrutinizing payer performance, assessing them more frequently and with greater focus on both **yield and efficiency**

... and Smart A/R analytics can optimize your team's revenue capture to make up for lost ground.

SmartA/R analytics engine uses data from your organization's historical A/R to calculate payer-specific payment trends that drive workflow, reduce cost-to-collect, and improve collection yield.

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Smart AR Management

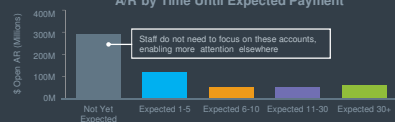
When to expect payment

- Tailor collection follow-up queues to optimize staff effort and expertise, focusing them on accounts nearing or recently surpassing payment due dates
- Improve staff efficiency with customized logic to filter out accounts not requiring immediate follow-up

Drive payer performance

- Leverage detailed payer scorecards comparing variances against expected time-to-pay—alongside traditional payment success measures
- Increase informed decision-making when it comes to current payer management strategy or future contract negotiations

A/R by Time Until Expected Payment



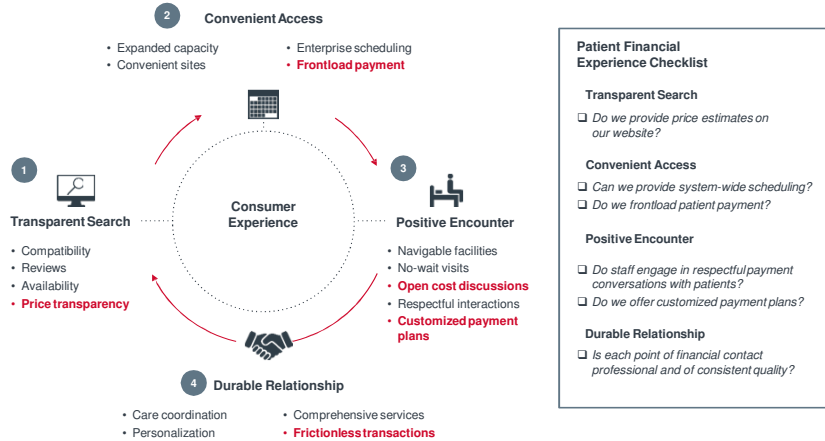
Continuous Diagnosis, Monitoring and Analytics are Key

Diagnosing Key Drivers of Suboptimal Performance



Do Not Underestimate the Financial Experience

The Last Impression is the Lasting Impression

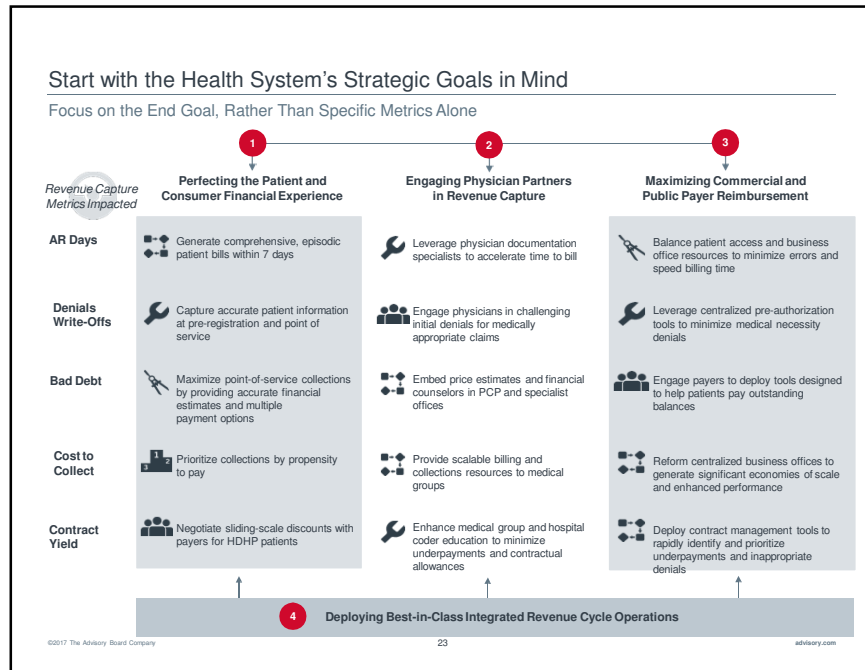


Leverage Integration to Reduce Costs and Improve Efficiency

Emerging Best Practice Transforms Revenue Cycle From Cost Center Into Value-Generator

Opportunities for Revenue Cycle Integration

Type of Integration	1 Across Multiple Sites of Care	2 Between Hospital and Physicians	3 Within the Hospital
Traditional Tactics	<p><i>Centralized Business Office</i></p> <ul style="list-style-type: none"> • Consolidation of revenue cycle functions into one location • Eliminates inefficiency, redundancy, streamlines procedures and ensures consistent patient financial experience 	<p><i>Comprehensive Pre-Service Patient Obligation Estimates</i></p> <ul style="list-style-type: none"> • Provides patients with total estimate owed to hospital and physician • Easy for patients to get appointment/procedure scheduled, reduction in FTEs 	<p><i>Combined Scheduling and Pre-Registration</i></p> <ul style="list-style-type: none"> • Pre-registration process occurs at time of scheduling • Reduces errors and requires fewer FTEs
Emerging Best Practice	<p><i>Value-Added Shared Services Organizations</i></p> <ul style="list-style-type: none"> • Centralized revenue cycle platform that provides business intelligence across multiple entities and service lines systemwide. • Transforms revenue cycle into strategic asset that continues to accrue value 	<p><i>Single Patient Bill</i></p> <ul style="list-style-type: none"> • One bill for physician and hospital services • Drives improved patient experience and continued loyalty 	<p><i>Clinically-Integrated Coders</i></p> <ul style="list-style-type: none"> • Coders aligned with clinical teams to drive further understanding, coding accuracy • Improved coding accuracy, job satisfaction



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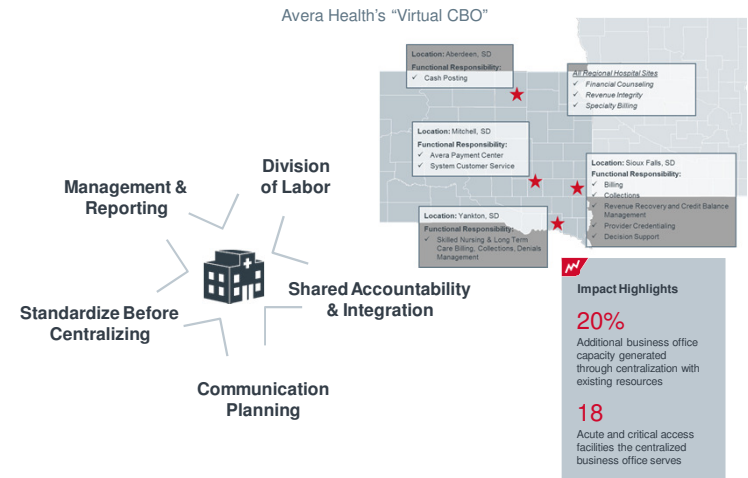
Key Takeaways from the 2017 Revenue Cycle Survey

- Critical time to refocus on revenue cycle.** A softening margin picture, driven by a combination of reimbursement pressure and recent cost acceleration, demands hospitals ensure they are receiving payment commensurate with services delivered.
- Consider recent improvements in net AR within a broader context.** The apparent improvement in cash flow, while important, should not necessarily be misinterpreted as a signal of better overall revenue cycle performance, especially in the face of regression on key metrics such as coding productivity and denials.
- Denials are up and likely to remain a persistent challenge.** Hospitals should focus on reducing public and private payer denials—particularly through improved documentation and authorization processes—given that appeals are becoming increasingly difficult.
- Growing patient obligations threaten recent gains under coverage expansion.** While hospitals in expansion states are faring better than their non-expansion counterparts on the whole, the rise in unpaid patient obligations, via HDHPs, represents an increasing threat to hospital financial performance.
- Substantial running room to reduce cost to collect at many organizations.** Hospitals should not view the relatively flat cost to collect data as a win, as costs remain elevated above prior historical benchmarks. Hospitals must seek to drive these figures down given overall hospital margin trends.
- Health systems still to achieve economies of scale.** Given the recent consolidation in the market, the cost to collect numbers above are especially troubling. We would expect to see dramatic improvements in such a metric, however it is evident that there is little to no economies of scale being gained. Many health systems are yet to take advantage of “centralizable” revenue cycle functions, and are likely missing opportunities for reduced costs while capitalizing on economies of intellect.

Case Study

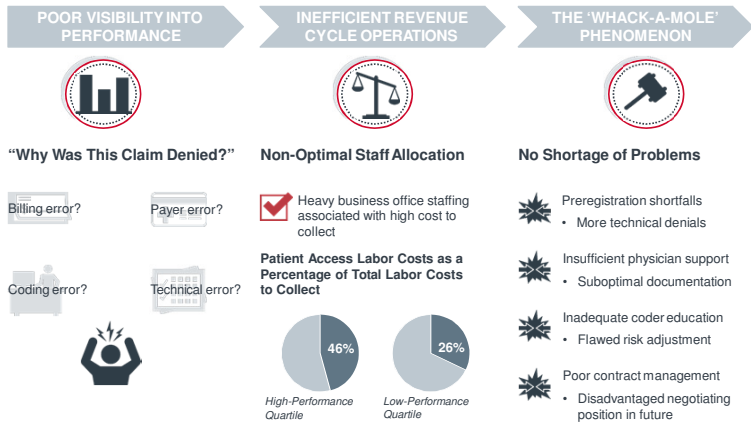
Centralizing Accountabilities and Gaining Efficiencies

Avera Health, a system of five acute-care hospitals, 13 critical access facilities, and 11 skilled nursing and long-term care facilities headquartered in Sioux Falls, SD



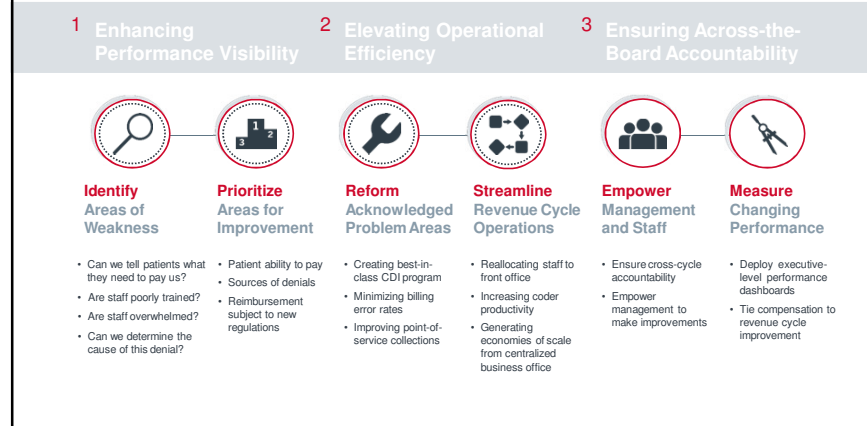
What's Holding Us Back?

Poor Data and Resource Allocation Underlie 'Permanent Emergency' Mentality



The Blueprint for Revenue Cycle Transformation

Three Pillars of Performance Improvement



Revenue Cycle Best Practices: A Well-Known Solution Set

Execution on Tried and True Best Practice Remains a Key Ingredient for Success

