

# FORVIS®

## A2HA Spring Meeting

*April 2024*

**Hospital Strategies to Improve  
Financial Performance**

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Principal**

# Agenda

- Healthcare Financial Landscape

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- Top Revenue Generating Strategies

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- Top Expense Management Strategies

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- Service Line Rationalization

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# Healthcare Financial Landscape

- Financial performance stabilizing in early 2024 with median operating margins 3% - 4%\*
- However, many hospitals still have **negative operating margins** and are at risk of breaching debt covenants and/or master trust indentures (MTIs)
- Important for healthcare executives to understand their debt portfolio, key ratios, and associated terms for curing breaches/violations before a default occurs
- 2023 rating agency downgrade ratio: **3:1**

## Expenses Remain High

*Expense growth per adjusted discharge/\*Calendar Day  
(Jul 2020 - Jul 2023)*

Labor*	<b>19%</b>
Supplies	<b>22%</b>
Drug Costs	<b>24%</b>
Purchased Svcs	<b>20%</b>

*\*KH, National Hospital Flash Report*

# Healthcare Financial Landscape

- What can happen if my organization has a covenant breach?
  - May have 1-2 years to cure before formal default
  - Consultant call-in report on performance improvement opportunities
  - Restrictions on ability to merge
  - Limitations on additional borrowing
  - Limitations on ability to sell or lease property
  - Restructure debt
- A borrower's most recently audited financial statements are typically used for testing.
- Important to **accelerate performance improvement efforts** if financial results are nearing/at covenant thresholds

# Top Margin Improvement Strategies

## Revenue Enhancement

- Payer and pricing strategy
- Denial prevention and management
- Patient liability strategies
- 340B
- Provider alignment

## Expense Management

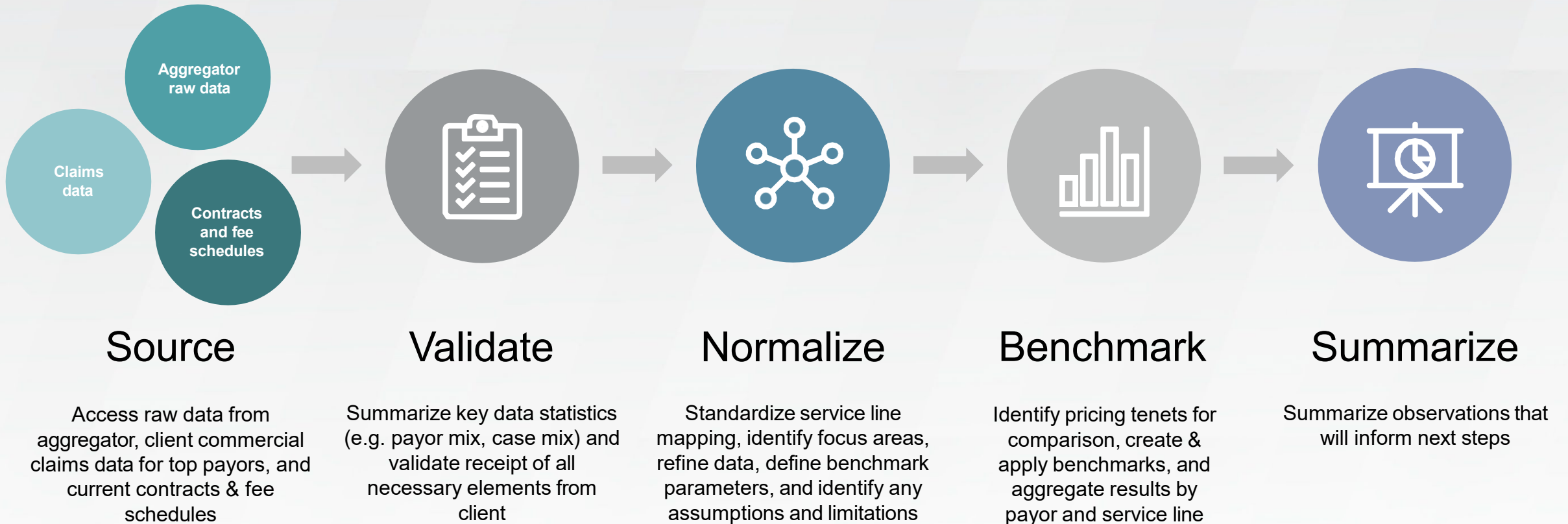
- NonLabor
  - GPO
  - Clinical Variation
  - Pharmacy
  - Employee Benefits
  - IT
- Labor
- Service line rationalization

# Payer and Pricing Strategy

## CMS Transparency in Coverage Ruling

- Effective 1.1.21 **hospitals** required to publish negotiated rates with all payors
  - Historically confidential information
  - Limited services provided in a consumer-friendly format; “machine-readable file” (MRF)
  - Standardization template detailing pricing methodology implemented 01/01/2024 (penalties effective 07/01/2024)
- Effective 7.1.22 **payors** required to publish negotiated rates for all provider types
  - Hospitals plus physicians, ASCs, post-acute facilities, etc.
  - Phased roll-out; all services now required to be published
  - Standardization template does not detail pricing methodology

# Rate Benchmarking



# Rate Variance by Payor

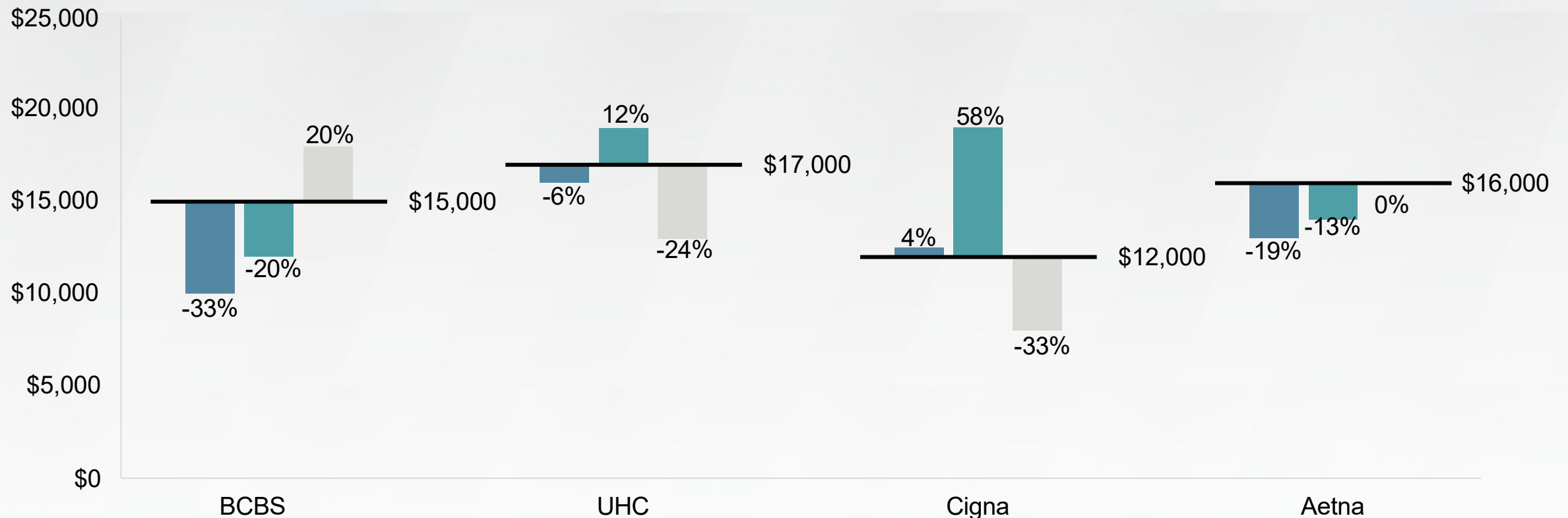
Summary comparing provider's overall pricing by payor to competitors identified by the client, shown as a % variance relative to each competitor

	Competitor 1	Competitor 2	Competitor 3
BCBS	+15%	+30%	-10%
UHC	-18%	+12%	-4%
Cigna	+26%	+17%	-8%
Aetna	-10%	+7%	-19%



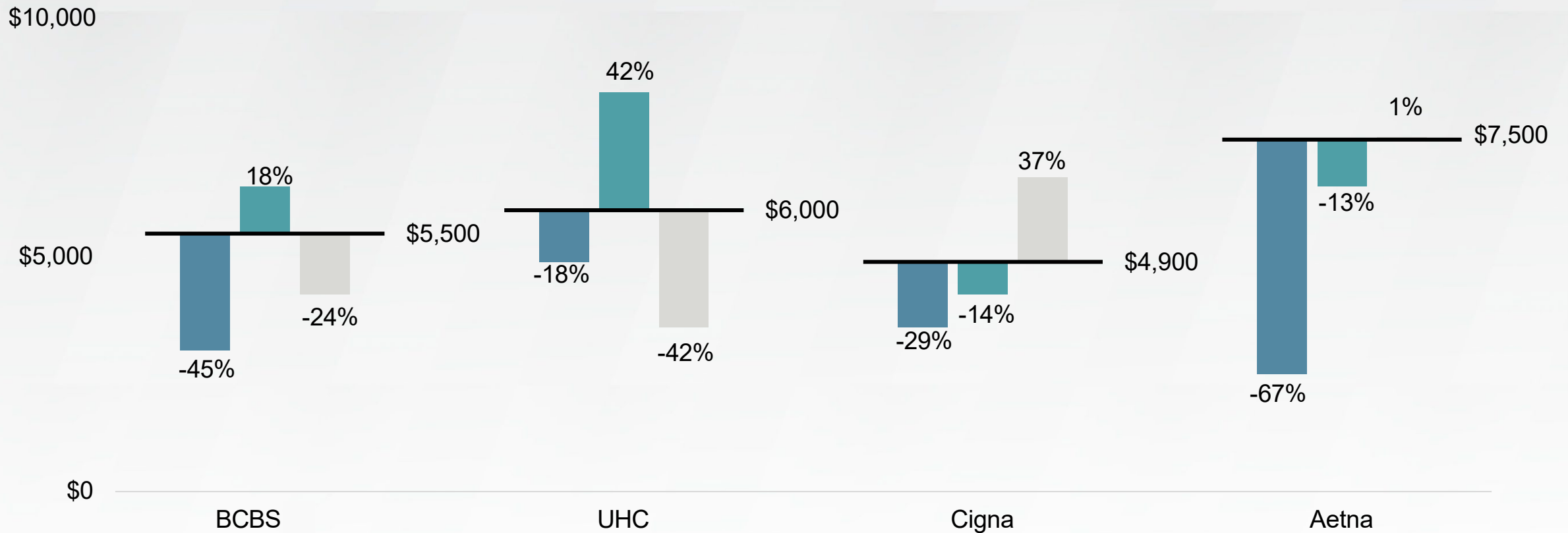
# Inpatient

Payor-specific rates relative to competitors for inpatient services (shown here as weighted average case rates) along with competitor % rate variance from client rates



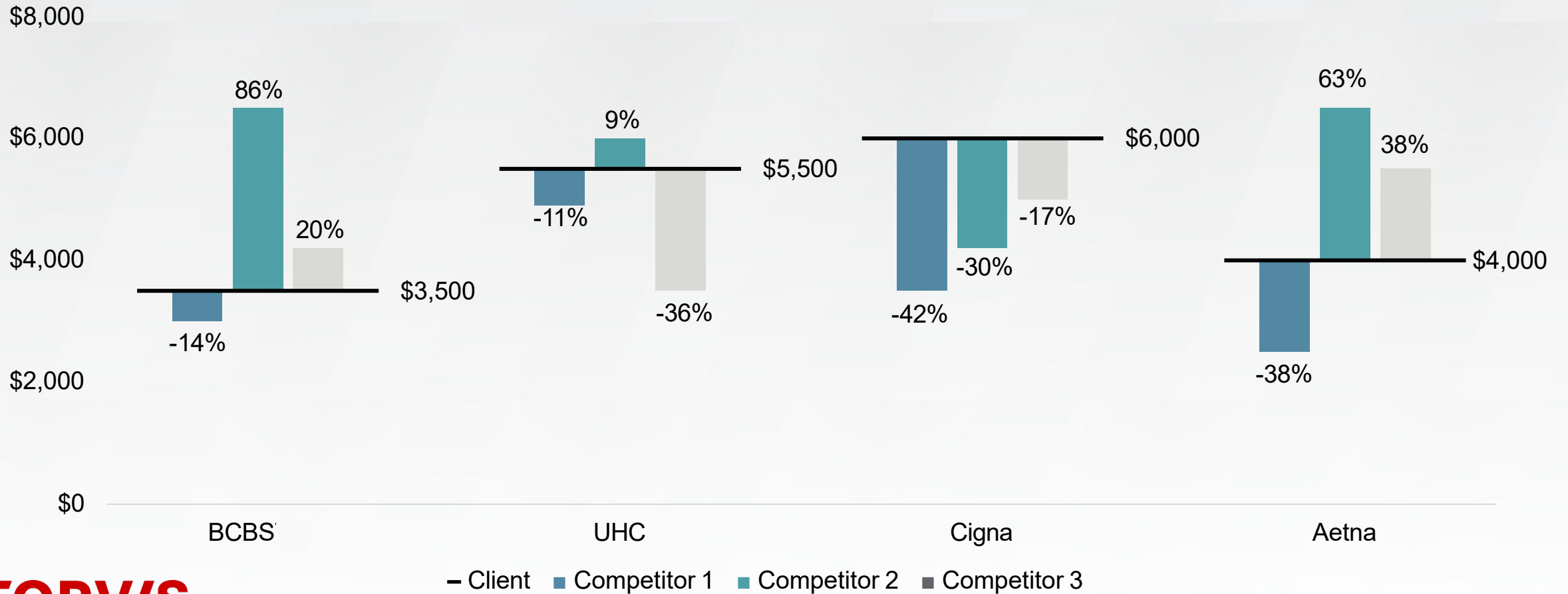
# HOPD Surgery

Payor-specific rates relative to competitors for HOPD surgery services (shown here as weighted average case rates) along with competitor % rate variance from client rates



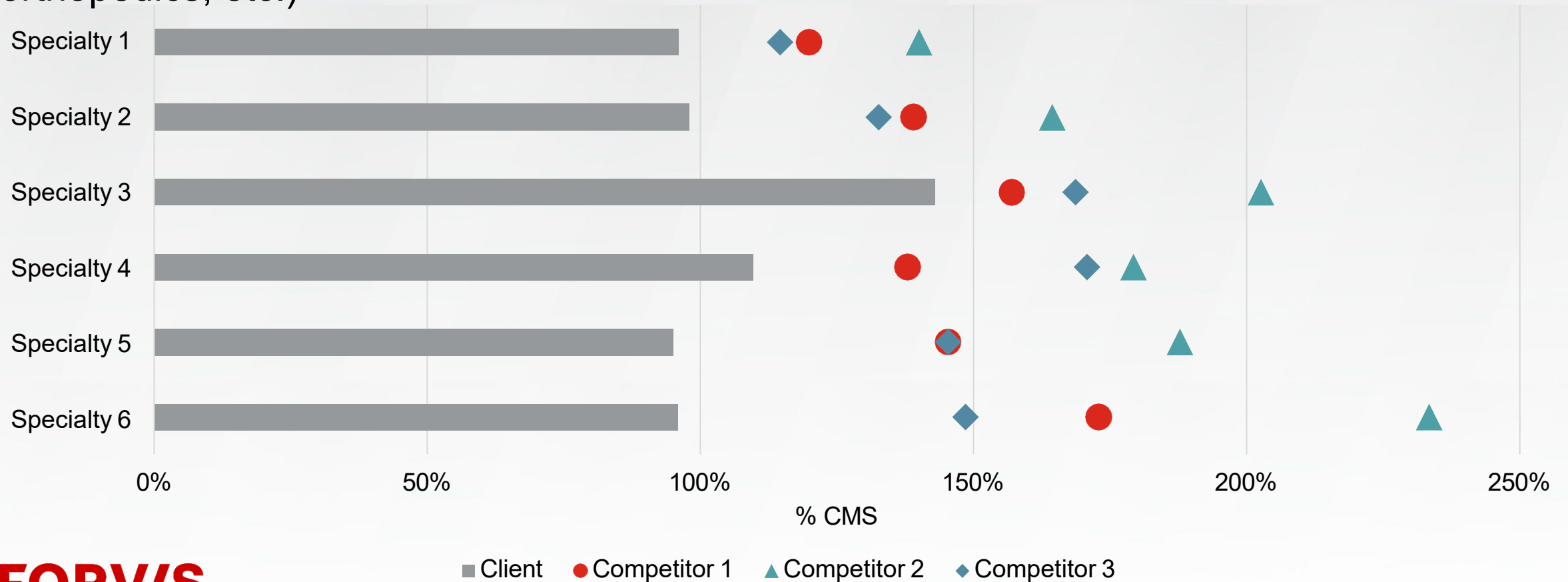
# Emergency Department

Visual graphing client's payor-specific rates relative to competitors for ED services, such as outpatient surgeries (shown here as weighted average case rates) along with competitor % rate variance from client rates



# Physician Benchmarking // BCBS

For each payor, a summary of pricing performance can be derived alongside competitor benchmarks specific to key specialties as a percentage of CMS (e.g. primary care, orthopedics, etc.)



# Top Revenue Cycle Opportunities

## ■ Front

- Patient liability strategy
- Automation

## ■ Middle

- Status determination
- Coding and DRG downgrades
- DNFB

## ■ Back

- Denials
- A/R Management
- Vendor Management

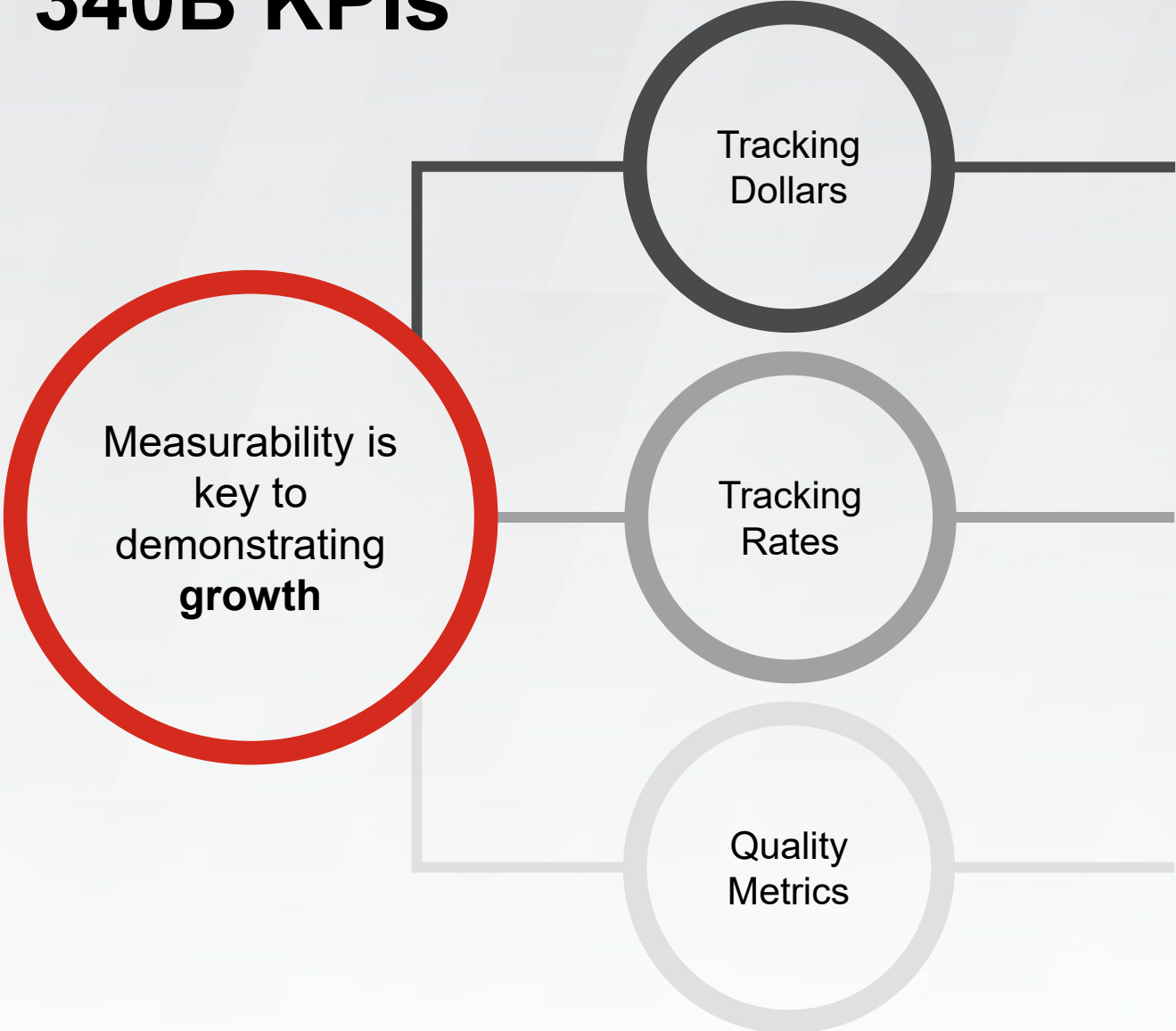
## Denial Stats

- ~5% hospital net rev lost due to claim denials
- 14% of total hospital claim charges submitted received an initial denial
- \$118 avg to formally appeal denied claim
- Negative patient experience

# 340B Opportunities

- Provider-Based Clinic Conversion
- 340B Drug Pricing Program
  - Contract Pharmacy Arrangement Expansion
  - Manufacturer Restrictions
    - 340B ESP
    - Alternative Distribution Model / Direct Replenishment
    - Prescribing Trends
- Entity-Owned Retail Pharmacy
- Operational (Process and Efficiency) Improvements
- Pharmacy Charge Capture/Structure

# 340B KPIs



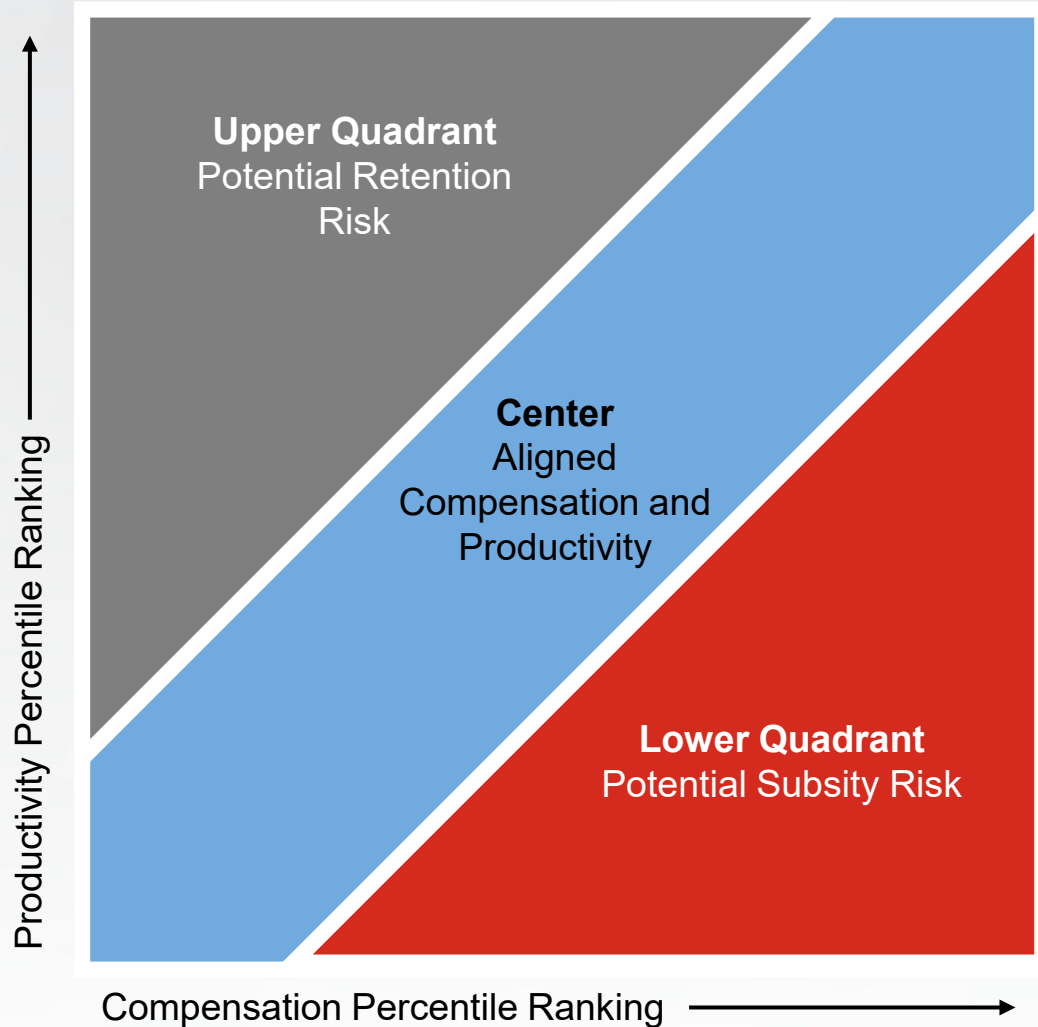
- 340B Revenue (Savings)
- 340B Purchases
- Provider Productivity & Prescription Value
- Capture Rate
- Participation Rate
- 340B and non-340B Spend
- Maintenance Medication Adherence
- Percentage of Refills Filled
- Social Determinants of Health

# Provider Alignment

- Increased willingness to re-evaluate compensation design for physicians and APPs.
- Subsidies continue to grow
- “Alignment is the Aim”
  - Productivity and Compensation
  - Payer expectations
  - Quality of Care
- Standardization of compensation models

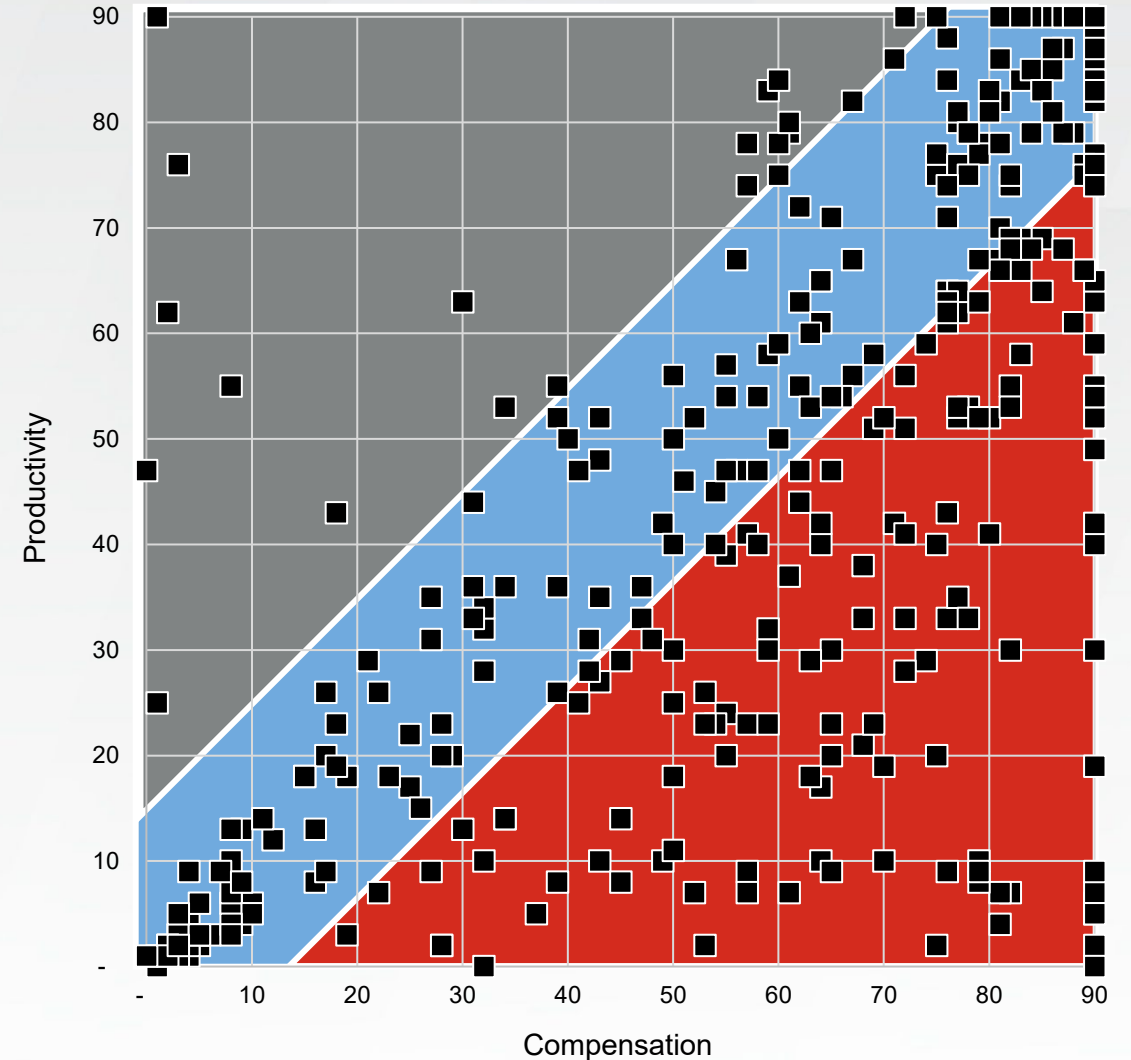


# Physician Benchmarking

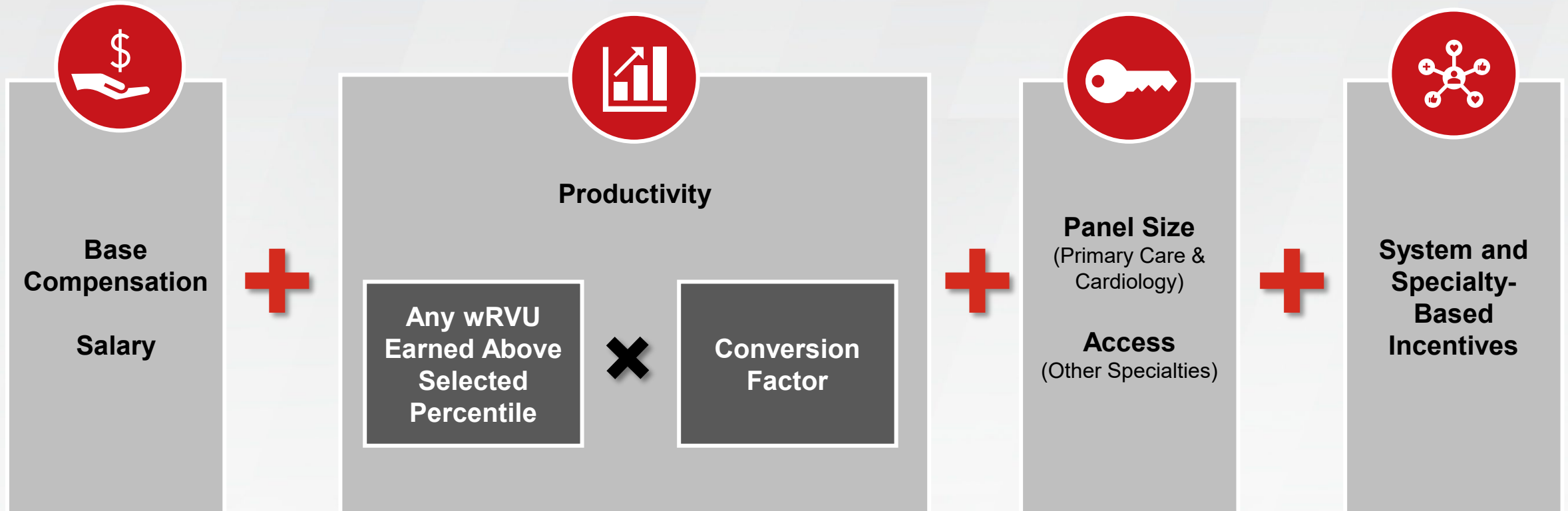


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## Case Study: Initial Analysis



# Compensation Model Example: Ambulatory



# Compensation Redesign Outcomes



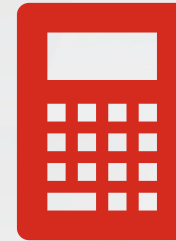
## Increase Provider Productivity

Typically see 5-10% growth in provider wRVU productivity within a 3-month timeframe



## Reduction in Practice Subsidy

Provider volume increases improve bottom line and reduce the subsidies



## Standardized Compensation Model

Reduced opportunity for error and increased ease of compensation adjudication

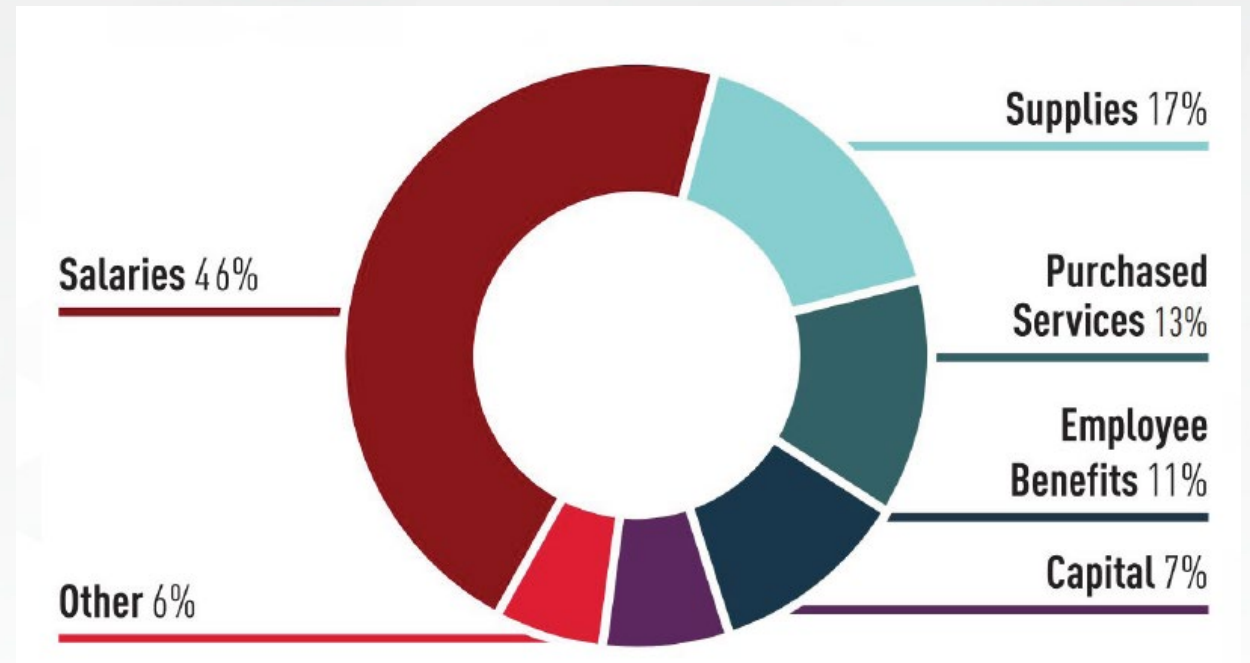


## Increase Provider Engagement

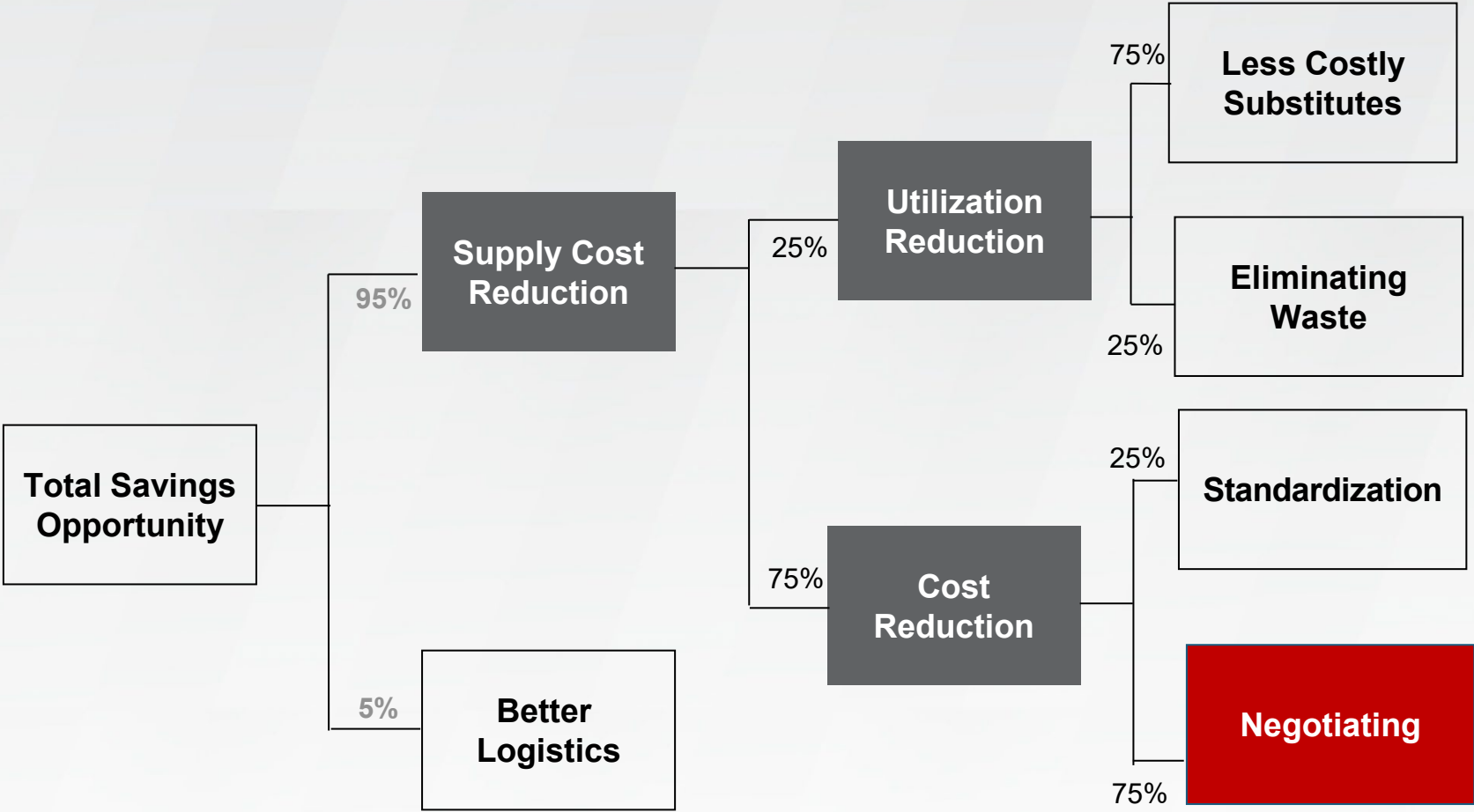
Provider performance driving compensation at or above market median increasing recruitment and retention

# Non-Labor Cost Management

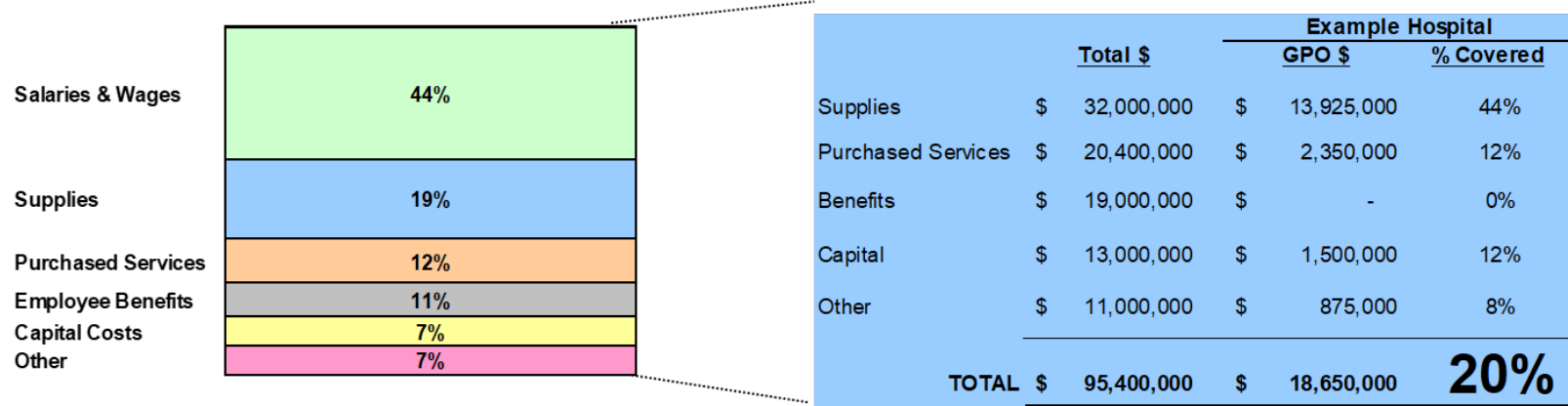
- The supply chain for most hospitals is vast and complex. However, with the right strategy and skills, it can be leveraged to generate reliable savings.
- Average cost reduction initiatives increase margins by 1% to 3% of NPSR.
- Common initiatives include:
  - Supplies & medical devices
  - Pharmaceuticals
  - Food & nutrition
  - Employee benefits
  - Utilities
  - Biomed & Service Contracts
  - Technology
  - Purchased Services



# The Art of the Deal



# GPOs



Source: HIDA and Arthur Andersen

Outside GPO		Complement GPO		Replaced GPO	
Furniture	\$ 18,000	Plastic/ paper	\$ 28,000	Office Supplies	\$ 132,000
Maint- Clin (2)	\$ 96,000	Bed Rentals*	\$ 126,000	Forms	\$ 63,000
Cleaning	\$ 10,000	Radiology (4)	\$ 165,000	Surg- Ortho (3)	\$ 217,000
Telecomm	\$ 89,000	Lab (5)	\$ 208,000	Surg- Card (4)	\$ 128,000
Maint- Bldg (2)	\$ 37,000	Surgery (4)*	\$ 86,000		
Cardiac (3)	\$ 110,000	Surgery (6)	\$ 123,000		
Surgery (8)	\$ 168,000	Dietary*	\$ 91,000		
Dietary (3)	\$ 31,000				
Agency (6)	\$ 306,000				
Other	\$ 207,000				
<b>29 Contracts</b>	<b>\$1,072,000</b>	<b>22 Contracts</b>	<b>\$ 827,000</b>	<b>9 contracts</b>	<b>\$ 540,000</b>
	44%		34%		22%

**TOTAL \$2,439,000**

# Myth Busters

- Self contracting is futile
- Contracting for high technology areas is a waste of time
- I don't have the resources to generate savings on my own

Mfg	Description	Old Price	Old Spend	New Price	New Spend	Savings
Dart	8 oz foam cup	\$ 12.04	\$ 6,287.05	\$ 11.23	\$ 5,862.06	\$ 424.99
Tyco	30x36 black liner (now HD 24x33)	\$ 21.01	\$ 23,275.23	\$ 18.60	\$ 20,608.80	\$ 2,666.43
Tyco	38x58 Xhvy liner	\$ 17.39	\$ 18,222.12	\$ 9.57	\$ 10,029.36	\$ 8,192.76
Tyco	40x46Red Printed Liner	\$ 15.32	\$ 3,553.48	\$ 13.37	\$ 3,101.84	\$ 451.64
GP	Natural multifold towel	\$ 12.83	\$ 38,364.00	\$ 12.39	\$ 37,046.10	\$ 1,317.90
GP	Natural singlefold towel	\$ 13.42	\$ 483.00	\$ 12.39	\$ 446.04	\$ 36.96
			\$ 90,185		\$ 77,094	\$ 13,091
						15%

Item#	Description	Current Price	Target Price	Target Savings \$	Target Savings %
7770723	INTERBODY DEVICE EXP 23X7X10	\$ 4,500	\$ 3,836	\$ 664	14.8%
74200001260	IMPLANT SI JOINT CAGE 12X60MM	\$ 3,960	\$ 2,178	\$ 1,782	45.0%
7770728	SPACER 7X28 LORDOTIC ELEVATE	\$ 4,500	\$ 3,960	\$ 540	12.0%
8880823	SPACER ELEVATE X-LOR 23X8MM	\$ 4,500	\$ 3,838	\$ 662	14.7%
KPX203AB	TAMP BONE SPINAL KYPHO 20X3	\$ 2,700	\$ 2,768	\$ (68)	-2.5%
7510200	GRAFT KIT BONE INFUSE SMALL	\$ 3,990	\$ 3,843	\$ 147	3.7%
7510400	GRAFT KIT BONE INFUSE MEDIUM	\$ 5,460	\$ 5,094	\$ 366	6.7%
54740105545	SCREW SOLERA 5.5X45	\$ 800	\$ 606	\$ 194	24.3%
74200001250	IMPLANT SI JOINT CAGE 12X50MM	\$ 3,960	\$ 2,038	\$ 1,922	48.5%
54740105555	SCREW SOLERA 5.5X55	\$ 800	\$ 505	\$ 295	36.9%
	<b>Totals</b>	<b>\$ 35,170.00</b>	<b>\$28,666.00</b>	<b>\$6,504.00</b>	<b>18.5%</b>

# Pharmacy

- P&T Committee and formulary
- Biosimilar utilization
- Medical Oncology
  - IP Rx
  - Oncology GPO
  - Patient Assistance Programs for Medicaid
  - Medicaid Carve-In (clean site)

Activity Code_Desc	IP Vol	Unit Charge
Rituximab 50242-0053-06 Total	131	\$ 11,786.01
Pegfilgrastim 55513-0190-01 Total	99	\$ 10,129.55
Rituximab 50242-0051-21 Total	175	\$ 2,399.04
Neulasta PF on Body Injector Syringe Total	24	\$ 11,505.42
Ipilimumab 00003-2328-22 Total	3	\$ 73,080.00
Pemetrexed 00002-7623-01 Total	26	\$ 7,875.89
Bortezomib 63020-0049-01 Total	44	\$ 4,606.18
Bevacizumab 50242-0061-01 Total	20	\$ 7,443.78
Keytruda 4ml Vial Total	6	\$ 12,948.00
Denosumab 55513-0730-01 Total	15	\$ 5,018.46
Leuprolide Depot (3 Month) 00074-3346-0	6	\$ 8,839.09
Infliximab 57894-0030-01 Total	8	\$ 2,913.32
Daratumumab 400mg/20ml Vial Total	4	\$ 5,551.20
Bevacizumab 50242-0060-01 Total	10	\$ 1,869.95
Denosumab 55513-0710-01 Total	6	\$ 2,560.88
Nivolumab 100mg/10ml Total	2	\$ 7,327.82

Item Description	VOL	Unit Price	Total	Low Savings	High Savings
MPB KEYTRUDA 100MG/4ML SDV 2 Tot	622	\$ 10,235	\$ 6,366,164	\$ 147,018	\$ 390,491
BRIDION INJ 200MG/2ML 10	509	\$ 1,033	\$ 525,727	\$ 199,776	\$ 299,664
EXPAREL INJ 266MG/20ML DS 10	33	\$ 3,450	\$ 114,826	\$ 22,965	\$ 51,672
ENTEREG CAP 12MG (D/S INST) 30	8	\$ 5,455	\$ 43,642	\$ 10,000	\$ 25,000
SAMSCA TAB 15MG 10 DS	4	\$ 5,176	\$ 20,704	\$ 10,000	\$ 15,000
				\$ 389,759	\$ 781,827



# Pharmacy

Focus on the high-spend therapeutic classes by understanding trends to better manage costs. Examples:

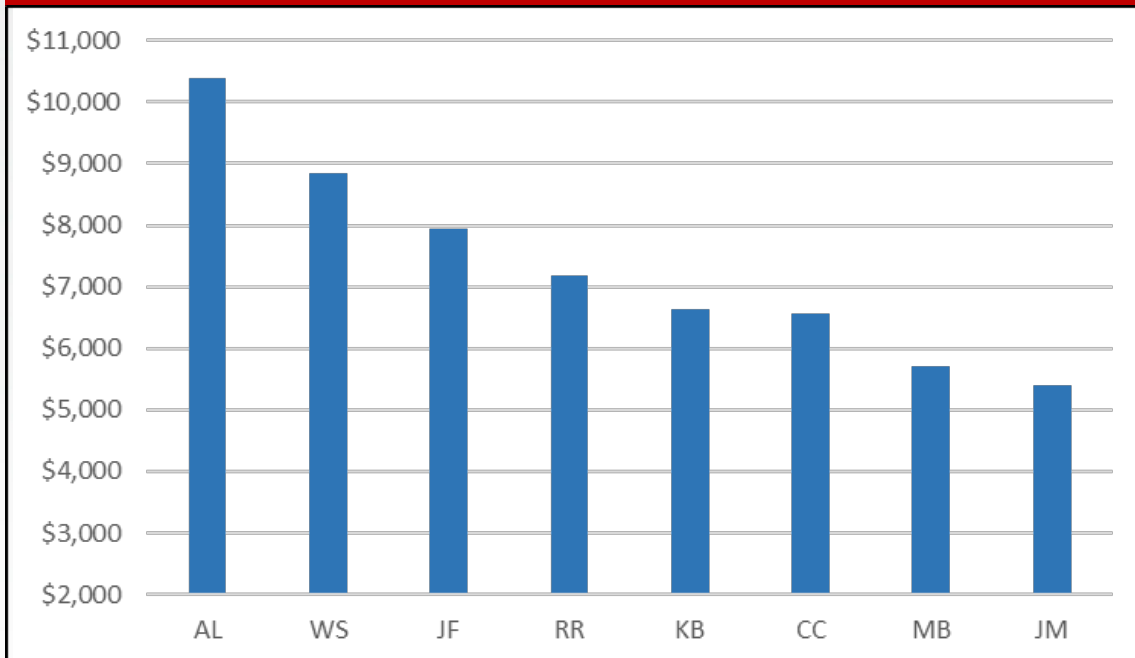
- Antineoplastics (cancer), autoimmune/inflammatory conditions, diabetes, critical care (plasma/fluid products - albumin or IvIG)
  - These are areas that have high utilization and expect prices to continually increase
  - Large changes in rheumatology (Humira coming off patent) & more biosimilar usage
- Specialty products are going to make up more of total spend (traditionally IV products but increasingly seeing self-administered formulations)
  - Both inpatient & outpatient settings. Be prepared to manage both pharmacy & medical benefits
  - Important to support prior authorizations, patient financial assistance and leverage 340B to drive revenue/optimize reimbursement
- Monitor drug shortages - identify critical meds and plan accordingly

# Clinical Variability Case Study

## Observations

- 107 OP Laparoscopic Cholecystectomy analyzed
- 8 physicians
- Average cost per case **best 3 physicians** is **\$5,895**
- Average cost per case **3 highest cost** is **\$9,059**

## COST PER CASE



## Insights

- Showing physicians where they stand compared to their peers can be effective in improvement
- 3 physicians exceed the 3 best performing physicians by 20% in cost per case in sample
- Total cost gap of \$149,052 between top and bottom 3 performers
- 50% improvement **reduces costs by \$75,000**
- Clinical variability over all cases could provide minimum **cost savings of \$750,000**

## Implementation

- Physician champion and buy-in
- Identify best practices of top performers
- Information sharing with lower performers
- Coaching

# Employee Benefits

- HR leaders overwhelmed last 2 years
- Brokers
  - Does your broker have your best interests in mind? Will they be a fiduciary?
  - Benchmark broker spend: Medical \$2 - \$3 PMPM and PBM \$2 - \$2.50 PMPM
  - Ancillaries: Commission or flat fee?
- Stop loss thresholds
  - Most are \$350K individual limit (versus overall). Key is collaboration with carrier
  - Typical opportunity is 10% - 35% savings
- Short term disability
  - Consider premium-based, voluntary program (through carrier) rather than hospital funded benefit. Can create PTO misalignment and abuse incentives
- Employee Assistance Programs: Pharmacy and Medical charitable services/foundations

# Pharmacy Benefits Manager

- What are the rebates...and where are they going?
- Gamesmanship Lever: Defining “Specialty Drugs” and establishing rebate bands
- Specialty Rx is ~ 2% - 3% of total Rx count and should have avg of \$2,600 - \$3,800 rebate per Rx
- Other considerations
  - Spread pricing
  - Step therapy
- Typical PBM savings 15% - 20%

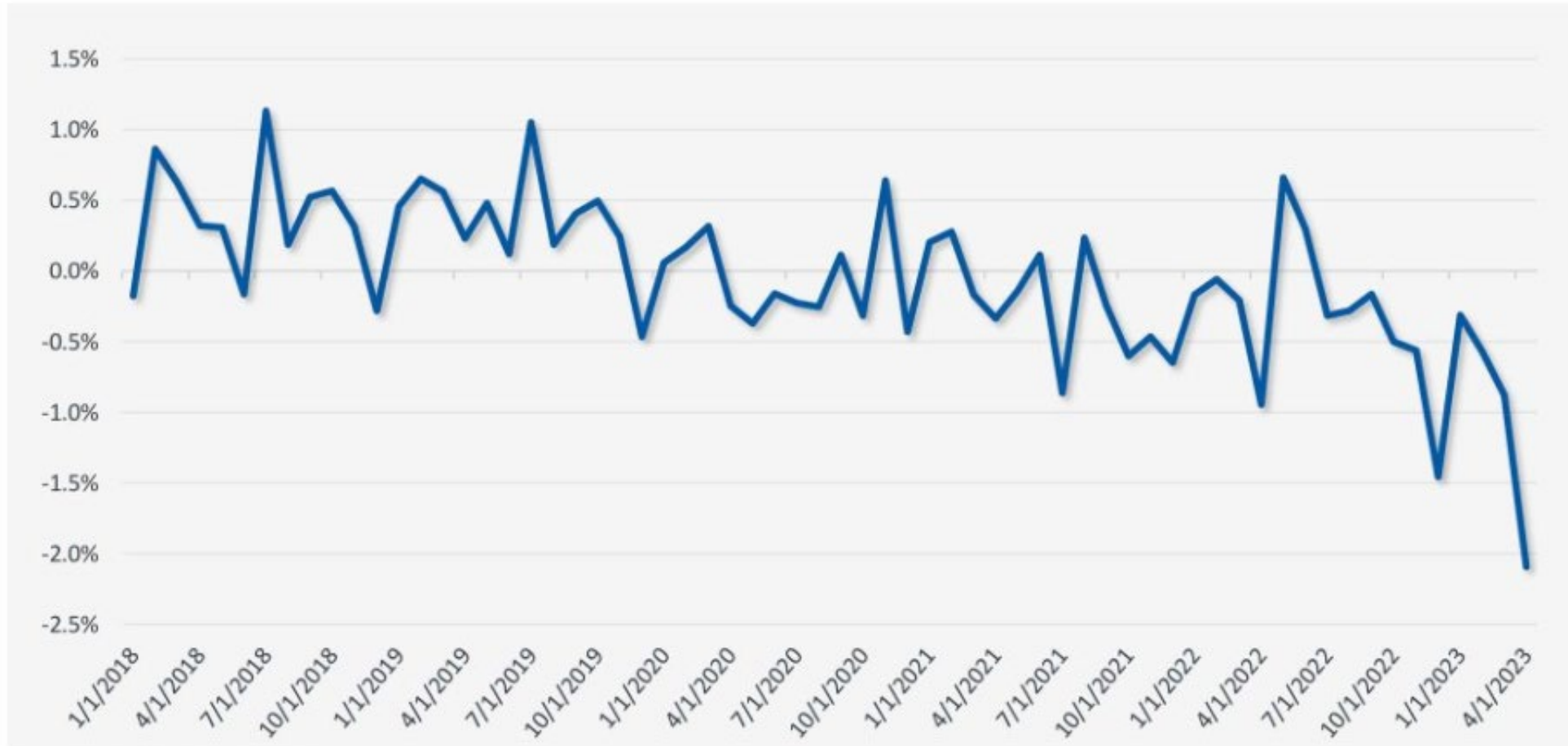
Category	Rebate per Rx
Retail Brand	\$200 - \$220
R90 Brand	\$300 - \$700
Mail Brand	\$600 - \$900
Specialty Brand	\$2,600 - \$3,800

# Labor

- Total labor costs (salaries, benefits and contract labor) approximately 15% higher than pre-pandemic levels and Labor Ratios averaging 55%-60% of NPSR.
- **Executive Considerations**
  - Wage increases
  - Contract labor (rates, count, mileage restrictions)
  - Employee health benefits
  - Span of control
  - Turnover and associated costs
  - Remote and hybrid work
  - Leveraging technology
- Labor productivity and rebasing: COVID impact on benchmarking, units of service, and drivers of variance

# Recent Labor Reductions

Figure 1: Net Employee Percentage Change by Month



Source: Kaufman, Hall & Associates, LLC

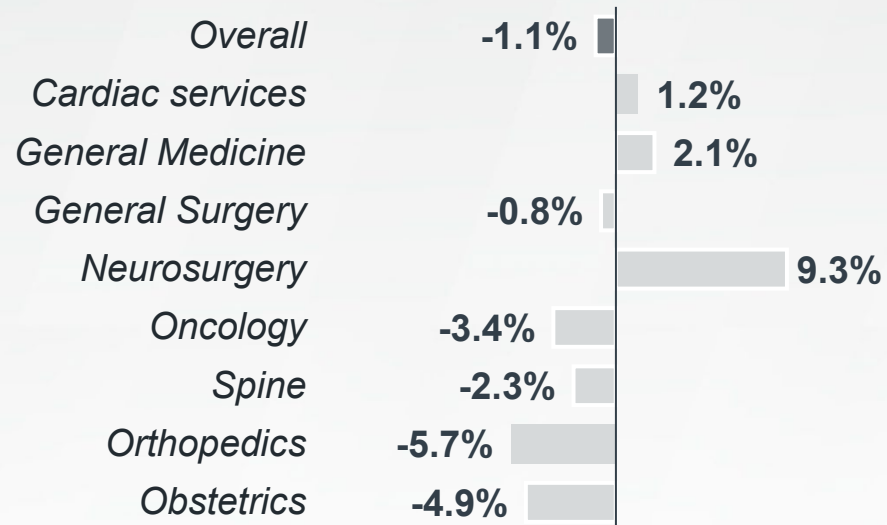
# Labor Recommendations

- Rethinking job duties: General Operations Assistant
- Internal agency/marketplace
- Remote and hybrid positions/departments
- New staffing models and skill mix
- HR policies for pay mechanisms: OT, Premium, Weekend, Disaster
- Ghost hours
- International recruitment: nursing and physicians
- Efficiencies from Automation and EHR optimization
- Update labor productivity tools

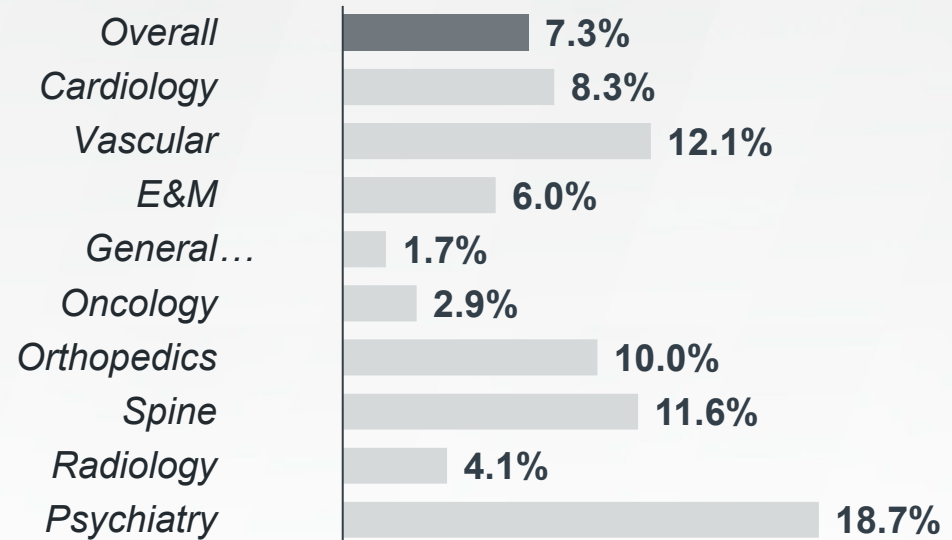
# Service Line Rationalization

- 5-year growth outlook favors ambulatory providers
- Payer pressures fueling shift from IP to OP/Ambulatory settings impacting revenues.
- Significant competition in OP/Ambulatory space
- HOPD revenues at risk

**Inpatient volume growth, 2021 - 2026**



**Outpatient volume growth, 2021 - 2026**



Source: 2022 Advisory Board Market Scenario Planner



# Service Line Rationalization

Service Line	Ancillary	Professional	Service Line	Ancillary	Indirect	Service Line	Ancillary	Fully Loaded	Service Line
	Contribution	Subsidy	Contribution	Indirect	Overhead	Indirect	Net	Subsidy	Net
	Margin		Margin	Overhead		Overhead	Margin		Margin
Cardiac Services	8,784,624	(2,092,081)	6,692,542	5,770,304	116,473	5,886,777	3,014,319	(2,208,554)	805,765
Emergency Medicine	(1,010,160)		(1,010,160)	2,453,376	-	2,453,376	(3,463,536)	-	(3,463,536)
Endocrinology	314,397		314,397	646,727	-	646,727	(332,330)	-	(332,330)
ENT	880,967	(1,106,252)	(225,285)	600,516	213,168	813,684	280,451	(1,319,420)	(1,038,969)
Gastroenterology	921,507		921,507	1,842,535	-	1,842,535	(921,028)	-	(921,028)
General Medicine	27,574,987	(3,009,153)	24,565,834	19,378,078	48,985	19,427,063	8,196,909	(3,058,138)	5,138,771
RHC and PCP		(7,538,236)	(7,538,236)		6,677,865	6,677,865	-	(14,216,101)	(14,216,101)
General Surgery	8,765,563	(1,299,140)	7,466,423	7,851,544	370,840	8,222,384	914,019	(1,669,980)	(755,961)
Neurology	1,041,817	(399,178)	642,639	2,081,434	104,410	2,185,844	(1,039,617)	(503,587)	(1,543,205)
Neurosurgery	48,200		48,200	52,427	-	52,427	(4,227)	-	(4,227)
OBGYN	1,423,872	(939,997)	483,875	2,903,124	570,088	3,473,212	(1,479,252)	(1,510,085)	(2,989,337)
Oncology	10,443,683		10,443,683	3,790,712	-	3,790,712	6,652,970	-	6,652,970
Orthopedic	4,440,812	(2,612,979)	1,827,834	4,986,573	698,842	5,685,414	(545,760)	(3,311,820)	(3,857,580)
Pain	58,851		58,851	412,825	-	412,825	(353,973)	-	(353,973)
Pediatrics	210,250	(561,989)	(351,739)	77,605	117,927	195,532	132,646	(679,916)	(547,270)
Psychiatry	(1,110,000)	(1,386,922)	(2,496,922)	4,078,310	79,774	4,158,084	(5,188,310)	(1,466,696)	(6,655,006)
Pulmonary	1,636,449	(271,337)	1,365,112	2,865,136	75,144	2,940,280	(1,228,687)	(346,482)	(1,575,168)
Urology	2,362,259	(1,299,140)	1,063,118	1,578,181	370,840	1,949,021	784,078	(1,669,980)	(885,903)
All other programs	4,816,054	1,231,643	6,047,697	2,414,867	355,188	2,770,055	2,401,188	876,455	3,277,642
	<b>71,604,131</b>	<b>(21,284,760)</b>	<b>50,319,371</b>	<b>63,784,272</b>	<b>9,799,544</b>	<b>73,583,815</b>	<b>7,819,859</b>	<b>(31,084,304)</b>	<b>(23,264,445)</b>
							Other revenue		6,455,769
							340B rebate revenue		7,574,580
							Senior Ctr and Foundation		(1,002,205)
							Miscellaneous other items		85,375
							Operating Income per Audited		<b>(10,150,925)</b>



# Questions:

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