

Flat Patient Volume Adds to Fiscal Concerns for 2012

CFO Exchange participants cite concerns about reimbursement declines, but also expect positive outcomes from consolidation and commercial payer collaboration.

BY KAREN MINICH-POURSHADI

CFOs continue to grapple with a snaillike economic recovery and now have the added challenge of a federal deficit crisis that promises to put Medicare and Medicaid reimbursement rates in further jeopardy. So, in an atmosphere with uncertainty in the national economic picture, shaky patient volumes, and reimbursement declines, finance leaders are understandably concerned about the coming year. Still, they do expect some positive developments in

opportunities for capital projects and see potential for improved relations with commercial payers.

Here, four of the 30 CFOs who participated in September's inaugural HealthLeaders Media CFO Exchange in La Jolla, CA, offer their insights on the coming year.

Robert S. Shapiro
Senior Vice President and CFO
North Shore–Long Island Jewish
Health System, Great Neck, NY

Total operating revenue 2011:
\$6.1 billion (projected)

Total operating revenue 2010:
\$5.6 billion

Total number of licensed beds:
5,300

What are the key areas you believe will affect your hospital in 2012?

Industry consolidation. The only positive from my perspective is that healthcare, like insurance and banking, is consolidating. That's a positive because there are many costs in



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healthcare, administrative and otherwise, so at least with administrative costs you can get some economies of scale.

Reimbursements. I'm not expecting any increases from Medicare or Medicaid in the foreseeable future—I see it as a zero. I see managed care doing the same thing as the government—pushing back on rates and then these negotiations will become more challenging.

Patient volume. I'm worried about [patient] volume. It's flat, and that trend only started in the past six months. We aren't sure what the cause is for it flattening out; perhaps we're just catching up with the other industries that got hit early in the economic downturn.

Which area do you anticipate affecting your margins most and how will you try to offset the impact to your bottom line?

Patient volume. We've suffered through periods of time when payment trends didn't keep up with appropriate care, but I've never experienced flat volume and zero increases from Medicare and Medicaid at the same time. We can't let the margins decline because it will impact our ability to reinvest, so it has to be made up in other ways. We have to go back through the supply chain and find more places we can be more efficient.

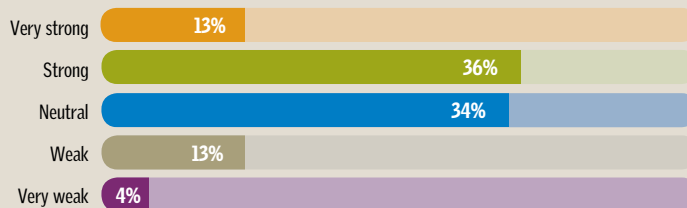
What areas are you analyzing for growth opportunities?

Ambulatory surgery centers. We're looking ambulatory; with pay-for-performance, outpatient services will continue to increase.

What do you see happening with payer-provider relationships in 2012?

Partnerships. The opportunity here is in getting all those involved from the beginning, middle, and end to work together to become more efficient. I see providers contracting directly with employers or engaging in partnerships with insurers. If you look at the insurance and the employer processes, it's redundant and inefficient. Hospitals and insurance

HOW WOULD YOU RATE THE CURRENT STATUS OF YOUR ORGANIZATION'S PROSPECTS FOR GROWTH?



SOURCE: HealthLeaders Media Industry Survey 2011, Finance Report, February 2011; www.healthleadersmedia.com/pdf/survey_project/2011/Finance_press.pdf.

companies will develop partnerships and eliminate these redundancies—that can benefit everyone.

Lisa M. Carlson
Corporate CFO
Sanford Health, Fargo, ND,
and Sioux Falls, SD

Total net revenue 2011:

\$2.313 billion

Total net revenue 2010:

\$2.076 billion

Total number of licensed beds:

1,133 in PPS hospitals,
plus 16 critical access locations

What are the key areas you believe will affect your health system in 2012?

Payment reform. There's the payer payment system redesign and the federal Medicaid changes. With the commercial payers, there's at least the potential for a stable payment system, though I think

rates. So if you can manage through the financial uncertainty, it's a great time to invest in your business, perhaps expansion or a deferred project.

Which area do you anticipate affecting your margins most, and how will you try to offset the impact to your bottom line?

Federal budget deficit. We're very concerned about this. They have to take money out of Medicare and, related to that, take it out of the support for state Medicaid. With the economy as it is now ... when the federal government reduces funding to the states, we are all going to have to figure out what to do about it.

Generally, we have a robust strategic planning process that dovetails into our budget process. Our budget is accompanied by a five-year forecast. We expanded that forecast to a 10-year one. We're also doing "most likely" and "worst-case" scenario plans for a five- to 10-year period. You really want to try to gauge the scope of these issues and get your arms around

"You really want to try to gauge the scope of these issues and get your arms around them the best you can. If things change you can make decisions in a timely manner.

You can't afford to look in the rearview mirror and say, 'I wish made the decision earlier.'"

that one could be positive and negative. **Federal budget deficit.** The impact of the federal deficit situation is going to be negative. Although a positive coming from this is the ongoing low interest

them the best you can. If things change, you can make decisions in a timely manner. You can't afford to look in the rearview mirror and say, "I wish I made the decision earlier."

FINANCE

What areas are you analyzing for growth opportunities?

Patient retention. As a system, we know that we are still losing business in our service area. Our greatest revenue growth is fundamentally providing access—especially in service areas where we know people are traveling out of the service area [to be treated]. So for us, it's more a “retention of business” strategy. We want to keep every patient and to have the services close to us.

What do you see happening with payer-provider relationships in 2012?

Collaboration. Commercial payers are really important to us, and we are really important to them. We have a good relationship with our primary payers, and in the coming year I think it will lead to a partnership approach

Marlene Weatherwax

**CPA, Vice President and CFO
Columbus Regional Hospital,
Columbus, IN**

Total net revenue 2011:

\$204.6 million (projected)

Total net revenue 2010:

\$196.4 million

Total licensed beds:

325

What are the key areas you believe will affect your hospital in 2012?

Technology. We're changing over our information technology system. We wanted an integrated platform, and we still needed to meet meaningful use, ICD-10, and get the CPOE [computerized physician order entry] piece in place. It was just as cost-effective for us to replace our entire system as it was to upgrade it.

CMS points, but because other systems have improved and our scores have stayed at the same percentage, we have moved down in percentage rankings. Our clinical people are really struggling to get used to the HCAHPS survey and what we need to do in order to get better patient feedback; with Press Ganey, we had been in the 90th percentile.

Process standardization. We have a strong Lean program, and this year every department had to have one process standardization project. Next year our focus will be on standardizing handoff processes between departments. We're hoping this will help us improve our service quality and reduce costs.

Which area do you anticipate affecting your margins most, and how will you try to offset the impact to your bottom line?

Technology. I think implementing this new IT system is going to have a positive and a negative impact, but we'll mostly see the negative in 2012. The positive is, once we get it in place, we will spend a lot less time manually capturing the information we need to report to CMS for the publicly reported measures. I think that might also help us achieve better quality metrics. The negative is the expense of doing this project.

“I think implementing this new IT system is going to have a positive and a negative impact, but we'll mostly see the negative in 2012. **The positive is, once we get it in place, we will spend a lot less time manually capturing the information** we need to report to CMS for the publicly reported measures.”

in redesigning incentives for providers within the health plans. We expect to have a very collaborative partnership approach in the next year—I think that's been coming for three or four years now.

Value-based purchasing. I think value-based purchasing will have a negative impact on our reimbursements simply because we aren't doing as well on CMS' scores as we had been in the past. We haven't actually lost ground on raw

What areas are you analyzing for growth opportunities?

Service lines. There is still growth opportunity in orthopedics. We are trying to work with our orthopedic surgeons to come up with growth strategies. Unfortunately, there is still a lot of growth in

FINANCE PRIORITIES

Rank your organization's top three priorities for the next three years.

| | No. 1 Priority | No. 2 Priority | No. 3 Priority | 2011 Percent | 2011 Rank |
|---|----------------|----------------|----------------|--------------|-----------|
| Cost reduction | 15% | 13% | 12% | 39% | 1 |
| Quality/patient safety | 14% | 12% | 9% | 34% | 2 |
| Reimbursement | 4% | 15% | 13% | 32% | 3 |
| Patient experience/patient satisfaction | 12% | 10% | 9% | 30% | 4 |
| Physician recruitment and retention | 6% | 10% | 5% | 21% | 5 |

SOURCE: HealthLeaders Media Industry Survey 2011, Finance Report, February 2011; www.healthleadersmedia.com/pdf/survey_project/2011/Finance_press.pdf.

Multiresponse

cancer services. There's opportunity there, but that's not such great news for patients. Those are the two areas projected to have growth because of the baby boomer population. So we're studying the demographics in the marketplace to come up with programs.

What do you see happening with payer-provider relationships in 2012?

Collaboration. We've always had a contentious relationship with [payers], but we have to figure out how to work together to manage the health of the population differently. We have to figure out how to collaborate ... because it's in everyone's best interest to come up with some way to do a better job.

Michelle Mahan

Senior Vice President and CFO
Frederick (MD) Regional
Health System

Total net revenue 2011:

\$354 million

Total net revenue 2010:

\$316 million

Total number of licensed beds:

309

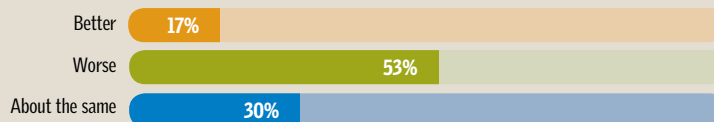
Editor's note: Last year, Michelle Mahan offered her financial outlook for 2011. We asked her to tell us how this year panned out and what she anticipates for her organization in 2012.

What are the key areas you believe will affect your hospital in 2012, and how does it differ from 2011?

Reimbursement and healthcare reform. It's very interesting that not a lot has changed since last year. Our top issues then were healthcare reform, Medicare and Medicaid reimbursements, and outpatient competition. Maryland is adding a new reimbursement concept to the two existing models. This new concept is charge-per-episode and will result in shifting more financial risk to hospitals.

Medicare and Medicaid are still a concern because without funding, the hospital and payers will have to pick up that

WHAT IS YOUR EXPECTATION FOR YOUR PAYER-PROVIDER RELATIONSHIPS IN THE COMING YEAR?



SOURCE: HealthLeaders Media Industry Survey 2011, Finance Report, February 2011; www.healthleadersmedia.com/pdf/survey_project/2011/Finance_press.pdf

piece of the cost. Everyone is pulling back in our area due to what's happening with the economy, and there's a reduction in demand for inpatient services.

Patient volume. Doctors are having cancellations and empty slots, and our inpatient volumes are off—the first time in five years. So we're doing a deeper

program on hold, and we hoped to put an increase back in for 2011. We were able to put a modest merit increase of 1.5% this year. However, next year we expect reimbursement changes to affect our margins the most, along with whatever is causing our volumes to drop. We're looking to get more process standardization and process improvement in place.

“Doctors are having cancellations and empty slots, and **our inpatient volumes are off—the first time in five years.** So we're doing a deeper dive into our service lines to understand new sources of changing inpatient volumes.”

dive into our service lines to understand new sources of changing inpatient volumes. As people's needs for outpatient services continue to morph, we find this will be a major focus for hospitals in order to maintain market share. We're putting a performance plan in place to reduce expenses to match our new revenue base due to lower volumes.

Meaningful use. We are really moving on completing our meaningful use requirements, and we're well-positioned for 2012. We received just shy of \$3 million back for it. We will continue to develop our business intelligence platform to reap the benefit of data that meaningful use has provided.


Which area do you anticipate affecting your margins most, and how will you try to offset the impact to your bottom line?

Reimbursements. We had put our merit

What areas are you analyzing for growth opportunities?

Service lines. We do have key service line acquisitions of physician practices. We are also continuing to expand our outside surgeons for general surgery growth. We'd also like to continue to grow our women's health.

What do you see happening with payer-provider relationships in 2012?

Neutral. We're rate controlled so it's not as much of an issue, but we do still negotiate for unregulated business. I don't see any reasons why things will change for the better or worse next year; I think we're probably on a neutral outlook. 

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