INDUSTRY SURVEY
HEALTHLEADERS MEDIA 2011

HealthLeaders Media | Intelligence

Finance Leaders

WWW.HEALTHLEADERSMEDIA.COM/INTELLIGENCE

powered by

HEALTHLEADERS MEDIA Council

Access. Insight. Analysis.

Finance: Cutting Costs Top Priority

OF **FINANCE LEADERS** SURVEYED:

49 PERCENT Have a positive or strongly positive financial forecast for 2011

59 PERCENT Say healthcare reform is having a negative impact on their organization's financial position

16 PERCENT Expect a negative EBIDA/EBIDTA margin in 2011

As the economy makes a slow assent out of recession, finance leaders are shuffling their hospital or health system's top priorities and nearly 60% feel the financial position of their organization is being weakened by healthcare reform, according to the *2011 HealthLeaders Media Industry Survey*. Still, only 14% project a negative fiscal performance in 2011.

Cost-cutting measures are the metric most cited as being among the top three priorities over the next three years, selected by 39% of respondents. Also making the 2011 top-priority list for finance leaders, in order, are quality initiatives (34%), reimbursement (32%), patient experience (30%), and physician recruitment (21%).

As providers prepare for reductions in reimbursements from Medicare, Medicaid, and other payers, and as reimbursement becomes more tied to quality, it makes sense that finance leaders would rank their priorities in that order, says Robin LaBonte, CFO at the 79-staffed-bed York (ME) Hospital.

"As insurers reduce payments to hospitals, the only way to make it all work is with cost reductions. There has to be a refocus on cost because there is so much unknown with reimbursements. Everyone wants to be positioned well and right now no one knows what's going to happen, so they are conservative with their costs."

Over the past three years, as the recession progressed, the No. 1 priority for finance leaders also shifted somewhat. For instance, in 2010 they ranked their top three priorities for the next three years as:

1. Physician recruitment and retention (38%)
2. Cost reduction (36%)
3. Patient experience/patient satisfaction (34%)

Compare that to 2009 when finance leaders said their top priorities were:

1. Quality/patient safety (68%)
2. Physician recruitment and retention (38%)
3. Reimbursement (31%)

Physician recruitment, which hit the top of the priority list in 2010 slipped down the list to the fifth priority this year. One possible reason for the change, according to LaBonte, is that having spent this past year recruiting to help grow the bottom line, finance leaders are now preparing to elevate their quality initiatives, which also ties in to the need to strengthen reimbursements.

"A lot of this has to do with health reform," she says. "People are now more focused on the upcoming changes and the quality and patient experience pieces are going to start factoring in. Physician recruitment is still important but it makes sense that it is now ranking lower."

LaBonte notes that last year her hospital, which generates a net revenue of $155 million annually and currently employs more than 100 healthcare providers, hired three primary care physicians in anticipation of the increase of newly insured patients attributable to the Patient Protection and Affordable Care Act.

LaBonte also says it's not surprising that 59% of respondents ranked labor cost as the No. 1 healthcare cost driver. Many providers put off market wage increases over the past couple of years, she says, but they are now likely reinstating these and other benefits. In 2010, 46% of finance leaders cited labor as the top driver, earning it second place overall, while this year that fell to second. Clinical technology as a cost driver, meanwhile, rose from sixth place in 2010 (21%) to third place in 2011 (48%).

"That change is because of meaningful use ... everyone is scrambling to try to figure out how to get that money and meet those needs," LaBonte notes. "Most systems aren't fully capable of meeting this requirement yet, so people are investing rapidly to meet that requirement."

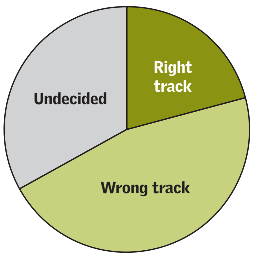
> "As insurers reduce payments to hospitals the only way make it all work is with cost reductions. There has to be a refocus on cost because there is so much unknown with reimbursements."

In addition to the financial complexities brought on by the recession, now that portions of the PPACA have taken effect, many finance leaders are concerned how it will hurt their bottom line—59% of respondents said that healthcare reform is weakening their organization's financial position, while 31% said they would be unaffected and 10% said it would improve their situation.

"I can't say it has had any impact on our financial position," says LaBonte. "I don't think that there will be financial improvements, but there's still too much unknown."

—KAREN MINICH-POURSHADI

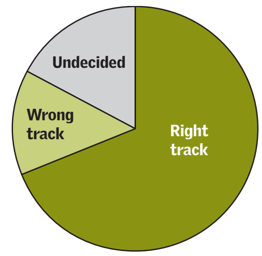
1. Overall, how do you assess the current state of the healthcare industry?



Right track – 21%
Wrong track – 46%
Undecided – 33%

BASE: 168

2. Overall, how do you assess the current state of your own organization?



Right track – 69%
Wrong track – 14%
Undecided – 17%

BASE: 167

3. Rank your organization's top 3 priorities for the next 3 years.

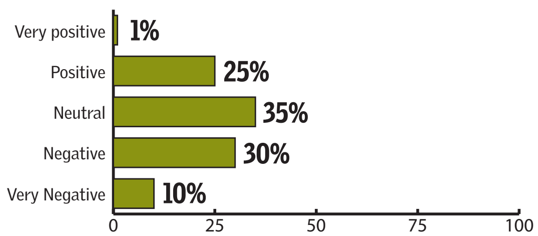
	Priority 1	Priority 2	Priority 3	2011 Percent selected	2011 Rank	2010 Percent selected	2010 Rank	2009 Percent selected	2009 Rank
Cost reduction	15%	13%	12%	39%	1	36%	2	23%	6
Quality/patient safety	14%	12%	9%	34%	2	27%	4	68%	1
Reimbursement	4%	15%	13%	32%	3	24%	6	31%	3
Patient experience/patient satisfaction[1]	12%	10%	9%	30%	4	34%	3	18%	7
Physician recruitment and retention	6%	10%	5%	21%	5	38%	1	38%	2
Technology system/equipment	2%	10%	8%	21%	6	18%	7	13%	9
Developing an accountable care organization	7%	4%	6%	17%	7	NA	NA	NA	NA
Revenue cycle	7%	3%	5%	15%	8	14%	9	26%	4
Care coordination	7%	4%	3%	14%	9	16%	8	NA	NA
Dealing with uncompensated care	5%	2%	7%	14%	10	10%	12	NA	NA
Construction/capital improvements	6%	4%	3%	13%	11	26%	5	26%	5
Physician staff ventures/realignment	3%	2%	6%	12%	12	11%	11	7%	12
Mergers and Acquisitions	3%	1%	3%	7%	13	4%	17	NA	NA
Physician employment	2%	2%	2%	7%	14	NA	NA	NA	NA
Employee satisfaction	0%	2%	4%	6%	15	9%	13	7%	13
New clinical products/services	2%	1%	1%	5%	16	7%	14	12%	10
RACs	1%	2%	2%	5%	17	11%	10	NA	NA
Leadership development	2%	1%	1%	4%	18	6%	16	9%	11
Nurse/staff recruitment and retention	1%	1%	1%	3%	19	7%	15	14%	8
Episode of care/bundling	0%	1%	1%	2%	20	3%	19	NA	NA
Base				164		152		168	

[1] In 2009, asked as Consumer satisfaction

4. How will the following healthcare issues impact your organization in the next 3 years?

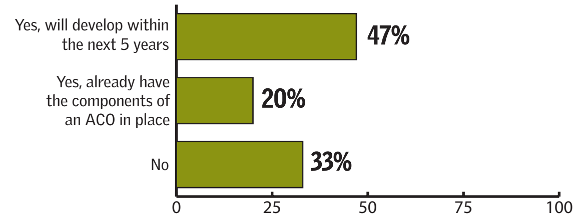
	Strongly Positive Impact	Positive Impact	Neutral	Negative Impact	Strongly Negative Impact	Base
Patient experience, patient-centered care	22%	49%	22%	5%	1%	166
EHR adoption	19%	50%	18%	12%	2%	165
Increase of insured patients	13%	49%	21%	10%	7%	167
Quality improvement initiatives	11%	59%	23%	7%	1%	166
Accountable care organizations	9%	35%	43%	10%	3%	164
Physician supply, primary care	7%	21%	36%	32%	4%	165
Meaningful use criteria	6%	38%	36%	18%	1%	165
Medical home	6%	29%	58%	6%	1%	163
Medicare/Medicaid/Tricare reimbursement rates	6%	3%	14%	50%	28%	167
Private payer reimbursement rates	5%	15%	24%	47%	9%	165
Comparative effectiveness research	4%	31%	60%	4%	1%	162
Mergers and acquisitions	4%	19%	70%	7%	1%	165
Physician supply, specialty care	4%	27%	34%	33%	2%	166
Episode of care/bundled payments	3%	13%	29%	48%	7%	166
ICD-10	3%	13%	50%	31%	4%	163
Stimulus package	3%	26%	51%	16%	4%	166
Malpractice concerns	2%	5%	69%	20%	4%	167
72-hour payment window	2%	11%	50%	34%	3%	164
Increased regulatory scrutiny	1%	7%	17%	57%	18%	164
Nurse supply	1%	10%	57%	30%	2%	165
Organized labor	1%	5%	54%	26%	15%	165
RACs	1%	4%	33%	48%	13%	166
Uncompensated care	1%	5%	16%	50%	27%	164

5. What is your assessment of the Patient Protection Act?



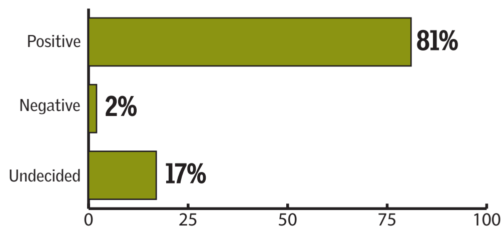
Base: 167

6. Will your organization be part of an accountable care organization within the next 5 years?



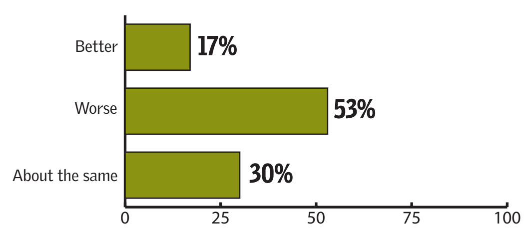
Base: 166

7. How do you view the growing role of mid-level providers in primary care?



Base: 167

8. What is your expectation for your payer-provider relationships in the coming year?



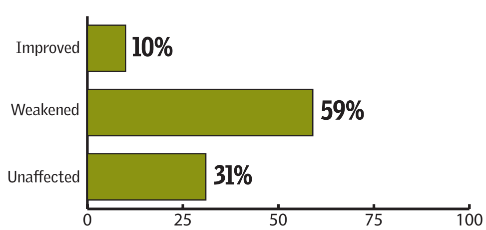
Base: 168

 |

9. Rank your organization's top 3 drivers of healthcare costs.

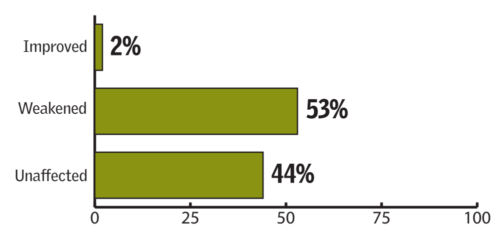
	No. 1 Driver	No. 2 Driver	No. 3 Driver	2011 Percent	2011 Rank	2010 Percent selected	2010 Rank	2009 Percent selected	2009 Rank
Labor costs	37%	11%	11%	59%	1	46%	2	53%	2
Government laws and mandates	24%	16%	16%	56%	2	60%	1	63%	1
Clinical technology	13%	21%	14%	48%	3	21%	6	36%	3
Physician inefficiency	4%	12%	17%	33%	4	15%	10	28%	4
Overutilization of services	13%	11%	7%	30%	5	46%	3	17%	9
Patient lack of responsibility	2%	11%	11%	24%	6	29%	4	20%	7
Pharmaceuticals	1%	7%	10%	18%	7	26%	5	28%	5
Health plan overhead	3%	4%	8%	14%	8	18%	8	17%	8
Medical devices	2%	6%	4%	12%	9	19%	7	22%	6
Malpractice litigation	1%	2%	2%	5%	10	17%	9	13%	10
Hospital errors	0%	0%	1%	1%	11	3%	11	2%	11
Base				168		144		163	

10. Describe the impact healthcare reform is having on your organization's financial position.



Base: 167

11. Describe the impact healthcare reform is having on morale at your organization.



Base: 167

12. How would you rate the current quality/status of these aspects of your organization?

	Very Strong	Strong	Neutral	Weak	Very Weak	Base
Dedication to mission	46%	41%	10%	3%	0%	166
Patient safety	28%	58%	12%	2%	0%	165
Fiscal management	27%	52%	14%	6%	1%	165
Medical quality	26%	53%	16%	4%	1%	166
Nursing staff	20%	51%	22%	6%	1%	166
Construction/capital improvements	19%	45%	22%	11%	2%	165
Patient experience	17%	52%	19%	10%	1%	166
Physician staff	13%	40%	32%	12%	4%	165
Prospects for growth	13%	36%	34%	13%	4%	165
Care coordination	11%	51%	25%	13%	1%	166
Physician recruitment and retention	11%	32%	34%	17%	5%	166
Dealing with uncompensated care	8%	22%	41%	22%	7%	166

	2011 Very Strong/Strong	2010 Very Strong/Strong	2009 Very Strong/Strong
Dedication to mission	87%	78%	75%
Patient safety	86%	NA	NA
Fiscal management	79%	85%	76%
Medical quality	79%	84%	85%
Nursing staff	71%	72%	65%
Patient experience	69%	75%	81%
Construction/capital improvements	64%	NA	NA
Care coordination	62%	NA	NA
Physician staff	53%	61%	62%
Prospects for growth	49%	60%	58%
Physician recruitment and retention	43%	NA	NA
Dealing with uncompensated care	30%	NA	NA

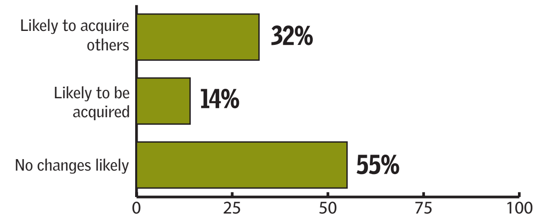
13. Describe your overall job satisfaction.

	2011 Percent	2010 Percent	2009 Percent
Very satisfied	28%	34%	39%
Satisfied	46%	52%	49%
Neutral	17%	10%	10%
Dissatisfied	8%	3%	3%
Very dissatisfied	2%	1%	1%
Base	167	152	175

14. Would you encourage your child to enter a career in the healthcare industry?

	2011 Percent	2010 Percent	2009 Percent
Yes	72%	85%	86%
No	28%	15%	14%
Base	168	151	177

15. Regarding merger and acquisition activity in the industry, what do you expect for your organization?

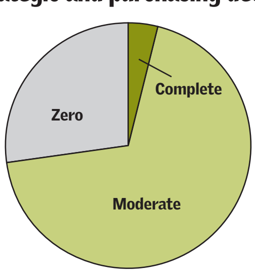


Base: 168

16. Please rank the following service lines for growth potential within your organization in the next 3 to 5 years:

	Grow 6% or more	Grow 1%–5%	Remain flat	Decline 1%–5%	Decline 6% or more	Total Respondents
Geriatrics	23%	49%	25%	2%	0%	150
Cancer/oncology	22%	41%	35%	2%	0%	149
Orthopedics	20%	53%	24%	3%	0%	152
Primary care	19%	46%	31%	3%	0%	155
Hospitalists	18%	39%	42%	1%	0%	152
Heart (cardiology, cardiovascular, pulmonary medicine, vascular surgery)	16%	42%	40%	1%	0%	146
Emergency medicine	15%	52%	31%	2%	0%	155
Wellness	15%	40%	42%	3%	0%	151
General surgery	11%	56%	28%	4%	1%	151
Physical medicine and rehabilitation	11%	40%	40%	9%	0%	156
Imaging/radiology	10%	50%	31%	9%	1%	153
Pain management	9%	41%	48%	2%	1%	155
Women's health, OB/GYN	8%	43%	43%	5%	0%	150
Neurosurgery	8%	31%	56%	4%	0%	143
Intensive care	7%	39%	51%	3%	0%	152
Spine	7%	35%	52%	6%	0%	147
Sleep	6%	29%	54%	11%	0%	149
Pediatrics	5%	26%	55%	13%	1%	152
Psychiatry	5%	28%	57%	9%	1%	152
Sports medicine	5%	27%	64%	3%	0%	148
Transplant center	3%	7%	83%	7%	0%	140

17. How much autonomy do the service line leaders have to make strategic and purchasing decisions?



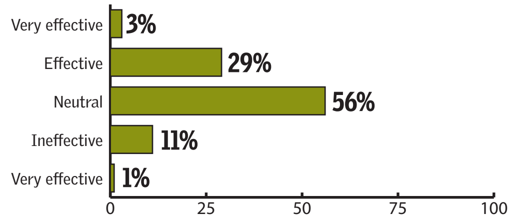
Complete: Decisions can be made largely independent of other hospital initiatives and priorities. – 4%

Moderate: Some independence, but major decisions must incorporate other hospital initiatives and priorities. – 69%

Zero: Service line decisions largely driven by hospital-wide initiatives and priorities. – 27%

BASE: 165

18. How effective are comanagement models for service lines?



Base: 158

 |

19. Regarding the purchase or use of clinical technology, rank your organization's top 3 priorities.

	No. 1 Priority	No. 2 Priority	No. 3 Priority	2011 Percent	2011 Rank
Providing highest-quality clinical care	47%	17%	12%	75%	1
Attracting/aligning with physicians	23%	26%	26%	66%	2
Establishing financial return on investment	6%	21%	18%	45%	3
Attracting new patients	10%	17%	10%	37%	4
Improving reimbursement rate	9%	10%	14%	34%	5
Increasing referrals	2%	5%	14%	21%	6
Improving organization's image	1%	2%	13%	17%	7
Attracting IT staff	1%	2%	1%	3%	8
Base				163	

Multi Response

20. Which of these methods will likely be implemented or continued during the next 12 months?

	Percent
Hiring freeze	33%
Permanent layoffs	15%
Unpaid furloughs	8%
Reduced hours	30%
Supply chain management improvement	72%
Revenue cycle improvement	81%
Reduced travel	47%
Reduced training	15%
Reduced employee benefits	39%
Pay freeze	28%
Pay cuts	7%
Deferred maintenance	19%
Base	165

Multi Response

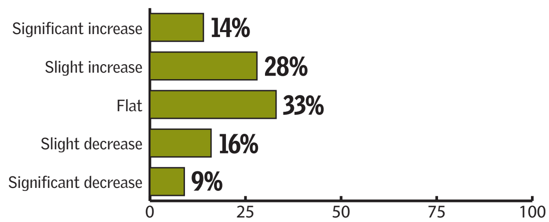
21. Rate the impact of each of the following trends on your organization's revenue stream over the next 3 years.

	Very Positive	Positive	Neutral	Negative	Very Negative	Base
EMR	10%	48%	27%	12%	3%	164
Quality improvement	9%	60%	23%	7%	1%	163
Accountable care organizations	5%	24%	53%	16%	2%	163
Pay for performance	4%	38%	42%	15%	1%	164
Increased importance of consumer discretionary/ out-of-pocket services to the bottom line	3%	16%	31%	42%	7%	163
Consumer-directed healthcare	2%	30%	41%	27%	0%	164
Third-party payer negotiations	2%	24%	34%	37%	4%	164
Medicaid reimbursement	1%	7%	9%	53%	30%	162
Medicare reimbursement	1%	10%	13%	53%	22%	164
Migration of profitable services to outside competition	1%	3%	42%	45%	9%	163
Readmission/reutilization	1%	12%	43%	40%	4%	162
Uncompensated care/charity care	1%	7%	21%	49%	22%	164
Uncompensated never events	1%	5%	56%	30%	8%	163
Episode of care	0%	26%	52%	21%	1%	162
RACs	0%	4%	31%	52%	14%	163

22. What do you expect your organization's EBIDA/EBITDA margin to be for the 2010 fiscal year?

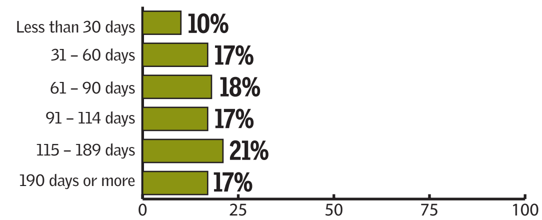
	2011 Percent	2010 Percent	2009 Percent
Less than 0%	16%	9%	8%
0%–1.5%	20%	19%	20%
1.6%–3.5%	29%	26%	23%
3.6%–5%	12%	6%	16%
More than 5%	24%	39%	33%
Base	164	140	172

23. What are your plans for capital spending in 2011 versus your capital spending in 2010?



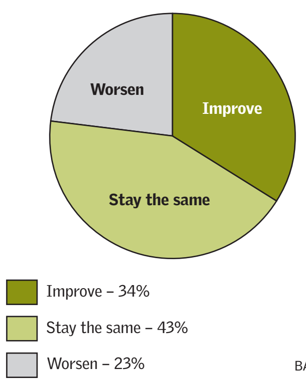
Base: 166

24. What is your current days cash on hand?



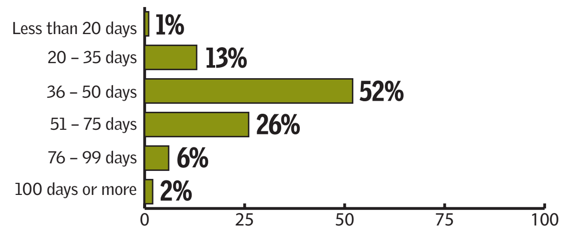
Base: 163

25. In the coming year, do you expect your days cash on hand to:



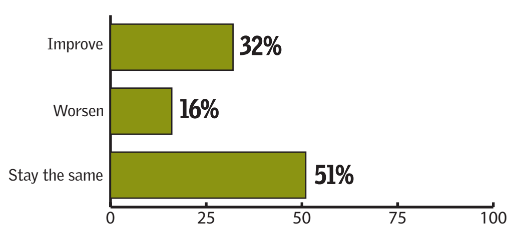
BASE: 164

26. What is your current accounts receivable days?



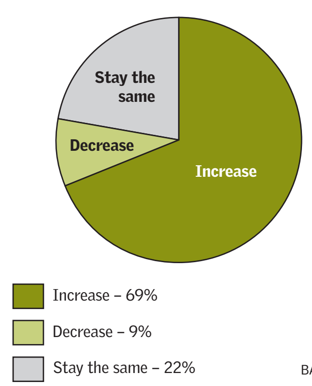
Base: 163

27. In the coming year, do you expect your accounts receivable days to:



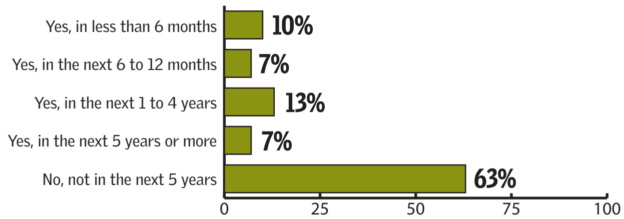
Base: 164

28. In the next year, will your uncompensated care costs:



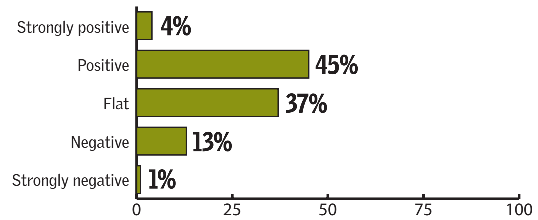
BASE: 166

29. Will you participate in a bond sale in the next five years, and if so, how soon?



Base: 164

30. What is your organization's financial forecast for 2011?



Base: 166

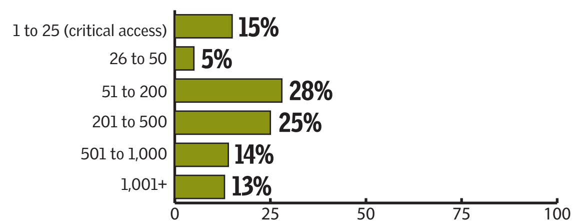
31. Rate the difficulty of developing valid financial forecasts for each of the following.

	Very easy	Easy	Neutral	Difficult	Very difficult	Base
Local economy	2%	27%	29%	37%	5%	164
National economy	1%	11%	24%	48%	16%	164
Federal legislation	0%	3%	17%	55%	26%	163
State/local legislation	1%	9%	23%	49%	18%	164
Philanthropic donations	3%	9%	49%	31%	7%	162
Uninsured populations	1%	18%	29%	46%	6%	164
Uncompensated care	1%	18%	28%	44%	10%	163

32. Which best describes your healthcare organization?

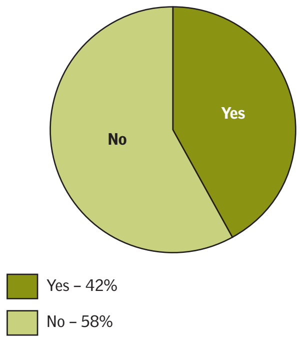
	Percent
Hospital or health system	68%
Critical access hospital	12%
Academic medical center	7%
Multispecialty group practice	4%
Single-specialty group practice	2%
Ambulatory or outpatient center	3%
Physician-owned specialty hospital	1%
Health insurance plan	2%
Disease management/wellness plan provider	1%
Base	166

33. Which best describes your organization by number of beds?



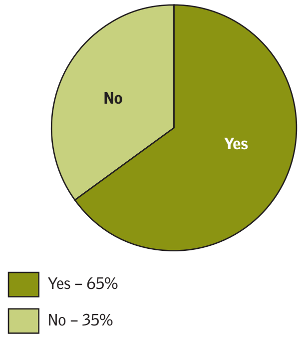
Base: 145

34. Is your healthcare organization in a rural area?



BASE: 165

35. Is your hospital a community hospital?

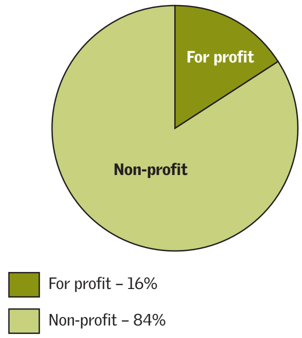


BASE: 147

36. What best describes your primary market area?

	Percent
Northeast	22%
Southeast	17%
Midwest	33%
Southwest	15%
Northwest	4%
West Coast	6%
Other	4%
Base	165

37. Which best describes your type of organization?



BASE: 165

38. Please indicate your age range.

	2011 Percent	2010 Percent	2009 Percent
35 or younger	8%	5%	3%
36–45	23%	24%	25%
46–55	43%	36%	40%
56–65	22%	33%	31%
66 or older	3%	2%	1%
Base	166	152	176

39. What is your gender?

	2011 Percent	2010 Percent	2009 Percent
Male	67%	74%	69%
Female	33%	26%	31%
Base	166	152	177