HEALTHLEADERS MEDIA

CFO EXCHANGE Insights Report

NOVEMBER 2015

DAVID HARTIG

MAKING VALUE WORK:

Cost, Risk, and Portfolio Management

Analysis and in-depth discussion from healthcare leaders at the HealthLeaders Media CFO Exchange in August 2015

Analysis

Artful Reductions, Investments, and Improvements Foster Viability in a Value-Based World

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Transitions are never easy, and often there's no one pointing the way to the future. For healthcare organizations to move from volume- to value-based care, success depends on leaders exploring and developing necessary strategies to improve clinical performance while delivering care at a cost that maximizes reimbursement.

While the precise road map is unclear, leaders are defining and employing effective ways to address the inevitable shift to a value-based model through a closer look at operational inefficiencies, investment in outpatient and ambulatory services, better management of population health, and an adroit assessment of risk. Central to all decisions is the use of analytics to measure performance and variability systemwide.

At HealthLeaders Media's 2015 CFO Exchange, held in August at the Broadmoor in Colorado Springs, Colorado, more than 40 financial executives stressed that effective cost management paired with quality improvement largely relies on business fundamentals of performance improvement and the right leadership to guide initiatives. Adding to that, innovative services and products that encourage utilization and capture increased market share are generating positive changes. Leaders are also emphasizing partnerships and affiliations to advance the care continuum and focusing efforts on a shared savings payment model.

While value-based care is in its early stages, effective efforts today are essential to secure a successful future. Leaders who develop comprehensive plans, make judicious investments, and implement necessary improvements will help ensure a healthy and fiscally sound organization, and gain a competitive advantage to meet the healthcare industry's continuing challenges.

Discussion

Focus on Utilization, Process, and Risk

JULIE AUTON

Healthcare chief financial officers are increasingly focusing on cost management, risk management, and portfolio management as they develop structural changes and operations initiatives—all to improve performance and create a more efficient organization that provides greater value. While cost and quality management are ingrained in any center of excellence, financial leaders are tasked with examining these areas in greater depth than ever before—to unearth deeper levels of waste and inefficiencies with inpatient episodes and across the continuum.

More than 40 financial executives from leading hospitals and healthcare systems across the United States convened in Colorado Springs, Colorado, in August for the 2015 HealthLeaders Media CFO Exchange to discuss success strategies in shifting from volume- to value-based care.

TAKEAWAYS

- **The changing portfolio**
- **Controlling costs through risk management**
- **Creating a model for coordinated high-quality care**

"We're trying to address utilization, and at the core of caring for the patient, what can we do," says Peg Burnette, chief financial officer at Denver Health, an integrated, academic, safety-net system. "In addition, we put in a care management program, and we're focused on avoiding unnecessary admissions."

Sometimes powerful change boils down to the basics, like process improvement and effective leadership.

"I think cost efficiencies can be gained from continual performance improvement," notes Beth Ward, chief financial officer at UT Southwestern University Hospitals and Clinics, an academic medical center in Dallas. "If we're not continually doing value stream mappings and looking at how new products are being used or replaced, we're going to lose the opportunity in reducing costs."

Mark Bogen, senior vice president of finance and chief financial officer at South Nassau Communities Hospital in Oceanside, New York, a 455-bed general medical and surgical hospital, says process is fundamental. "We all know it's people, process, and technology. Fix the process first and then augment with people and technology."

Burnette stresses that effective leadership ultimately drives performance improvement. "In our Lean projects, the events and projects that took off were those with strong leadership. The ones that didn't may have been great process interventions, but didn't sustain because the people at the top didn't understand what they were trying to do."

The changing portfolio

Critical to efficiencies and cost reduction is managing the shifting portfolio of services—understanding each business unit's performance and investing in the right programs directed at the right population, the right interventions, and the right gaps in the system to ensure positive clinical and financial outcomes.

"We start relatively small with pilots and do a proof-of-concept before we roll it out further," Burnette explains. "We prioritize where our investment should go, and we're targeting and focusing versus spreading money all over the place and only having a bunch of half-started projects that don't come to completion."

Deciding on the best use of resources also comes down to having a well-thought-out plan.

"The clinical and operational folks come in with a variety [of financial requests]," says Bogen. "And yet there isn't enough thoughtfulness as to questions such as, 'What are we measuring? What outcomes are we trying to attain? How

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[are we] to measure and make sure, in fact, that staff is held accountable for meeting those objectives?' "

Health systems are also directing dollars to provide wider access for the populations they serve. While this proactive approach requires up-front investment, many organizations are finding that better ambulatory, outpatient, and postacute care services are staving off acute care costs.

"We have implemented an extensive outpatient and ambulatory care setting network," says Todd Anderson, senior vice president of Kettering Health Network, a nonprofit system based in Dayton, Ohio. "On the physician enterprise side, many of our practices have transitioned to a patient-centered medical home, and we are working to strengthen and enhance our access to care strategies.

"We're developing more freestanding emergency departments, transitioning our urgent care centers to open-access primary care settings, working with telehealth and healthcare kiosks, and developing other outpatient care enhancements for our community."

Karen Testman, chief financial officer at MemorialCare Health System, a nonprofit network based in Fountain Valley, California, sees investing in the ambulatory space as a way to maintain some of the revenue that will ultimately move away from the hospital side. "We're investing in surgery centers, freestanding imaging centers, and looking at other opportunities in the market. Since we have a large number of lives that we're responsible for under capitation, those are lower-cost options."

Driving value depends on better serving patients and the community at large, including the complex and expensive cases that involve about 5% of patients. Leaders are finding ways to deploy care coordination resources to ensure a healthier population.

"We have a significant amount of certified primary care medical homes. It's about team care; it's about having physicians practice at the top of their license," says Fred Savelsbergh, chief financial officer at Baylor Scott & White Health, the Dallas-based nonprofit with 49 owned, operated, joint-ventured, and affiliated hospitals

> "We have approximately 45 value stream mapping groups working to determine if we can eliminate waste through the reengineering process."
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Which of the following accountable care or risk-based strategies are now part of your strategic cost control initiatives, or will be within three years?

Value-based care models	68%
Risk-based reimbursement models	46%
Joint ventures with payer organizations	36%
Provider-owned payer unit	18%
No cost control initiatives in this area	14%

SOURCE: HealthLeaders Media Intelligence Report, *Strategic Cost Control: True Cost, Process Redesign, and IT Integration,* June 2015; *hlm.tc/1Kq3BPK.*

and more than 800 patient access points. "It's about redefining care and the way it's given within geographic regions, because we're geographically dispersed across the state of Texas, and matching our care delivery sites to the location of our enrollees.

"We're changing the structure of care coordination," he says. "Historically, a considerable portion of the continuum of care was siloed. We've brought it all together under one leader in the organization. Along with patient navigators, you can get the patient to the right place in the continuum of care. We're also focusing on people with chronic conditions and their compliance with care paths."

Anne Arundel Health System, which includes a 384-bed nonprofit hospital in Annapolis, Maryland, has experienced success in identifying so-called frequent fliers in the ED and assigning care navigators to visit them in their homes and assess their social situation and whether they have primary care. In addition, navigators ensure follow-through.

"We're also utilizing our Epic EHR throughout the community," says Bob Reilly, Anne Arundel's chief financial officer. "The system allows the easier transitions to providers and better care coordination."

Controlling costs through risk management

Essential to financial health is the ability to measure and assess risk, and understand how to medically manage patients to give them the services they need, but at a cost that yields an appropriate operating margin. And for healthcare organizations that have both provider and payer operations, the goal is to provide care at or below the premiums received.

"We have been taking on risk for years with the patient population we serve; as an organization, we have been focused on reducing unnecessary ED visits and hospitalizations for patients assigned to our patient-centered medical home," says Craig Richmond, chief financial officer at

Of the following *operations or administrative activities*, which three provided the highest dollar value in cost containment contributions in this fiscal year?

Purchasing and supply chain efficiencies	64%
Process redesign	58%
Consolidating/centralizing business functions	40%
Targeted budget reductions	38%
Efficient use of nonclinical labor	28%
Determining the true cost of care	26%
Across-the-board budget reductions	12%
Nonclinical workforce reductions	12%

SOURCE: HealthLeaders Media Intelligence Report, *Strategic Cost Control: True Cost, Process Redesign, and IT Integration,* June 2015; *hlm.tc/1Kq3BPK.*

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The MetroHealth System, a nonprofit, academic system based in Cleveland. "Our MetroHealth Care Plus program, a Centers for Medicare and Medicaid Services (CMS) waiver initiative in 2013, demonstrated lower costs can be achieved by providing better access, better care, and better health outcomes. Through the use of electronic health records and patient-centered medical homes, the total cost of care among the program patients (approximately 29,000) were 28.7% lower and more than $41 million less than what CMS had allowed."

Kettering has reviewed high utilization rates of its products and services and is investing in those areas. "Our healthcare innovations team spends time with our carriers to develop meaningful products for our market—our employee health plan being one of the products we market," says Anderson. "On the cost side, it's not just a discussion about unit cost, but also about utilization cost, which is critical for managing our upside risk arrangements. We also discuss the postacute sector with our skilled nursing facilities, home healthcare providers, and other ancillary service lines. This provides us with a more comprehensive view of the population and the services that our market utilizes."

Baylor Scott & White experienced financial gains from establishing a high-performance network with more than 3,000 providers and developing the Scott & White health plan. The powerful network, based on physician alignment and a clinic model involving

"I think cost efficiencies can be gained from continual performance improvement."

BETH WARD
CHIEF FINANCIAL OFFICER
UT SOUTHWESTERN UNIVERSITY HOSPITALS AND CLINICS
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Of the following *clinical activities*, which three provided the highest dollar value in cost containment contributions in this fiscal year?

Efficient use of clinical labor	55%
Care standardization	54%
Improved utilization of clinical resources	54%
Care redesign	41%
Shifting care to ambulatory/outpatient settings	27%
Consolidating/centralizing clinical functions	26%
Targeted budget reductions	21%
Across-the-board budget reductions	6%

SOURCE: HealthLeaders Media Intelligence Report, *Strategic Cost Control: True Cost, Process Redesign, and IT Integration,* June 2015; *hlm.tc/1Kq3BPK.*

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more than 100 joint ventures, gives the organization the ability to effectively serve each individual market.

"We're using a narrow network with a high-performance network with our own employees," says Savelsbergh. "Over the course of a two-year period, it was $13 million in savings the first year, with over 100 standardized protocols that are being used with focusing on the top 5% that drive about 65% of the care with chronic conditions. And then another $11 million in the second year. You take that and go to your community, and you can contract directly or do tiered networks as well."

Charles Ayscue, senior vice president of finance and chief financial officer of Mission Health, an Asheville, North Carolina–based nonprofit organization that includes a community hospital licensed for 800 beds and nearly 10,000 employees, says analytics helps determine gaps in the system and accountability. "We completed a test pilot and were able to document the loss of several thousand dollars on this one data analysis pilot.

"Along with that, we are in the process of value stream mapping to prepare for capitation. We have approximately 45 value stream mapping groups working to determine if we can eliminate waste through the reengineering process."

Creating a model for coordinated high-quality care

Building an accountable care organization is another strategy to enhance execution on controlling costs, boosting financial performance, and improving clinical outcomes.

"Our ACO has about 324 physicians who've been clinically integrated for five years," says John Grigson, senior vice president and chief financial officer at Covenant Health, a Lubbock, Texas–based health system with 977 licensed

"If you don't set the appropriate target, you can create a situation in which you perform well and not have savings."

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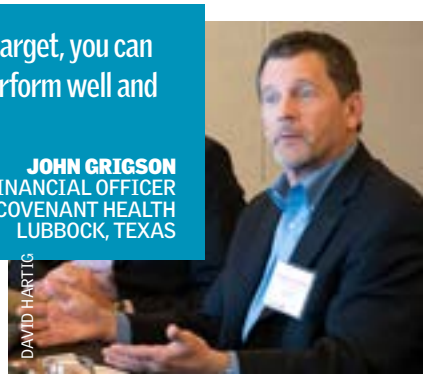
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Which of the following has the biggest positive economic impact on your organization's strategic cost control efforts?

Data sharing and clinical analytics	28%
Care management staffing	23%
Value-based care models	22%
Patient engagement efforts and tools	13%
Risk-based reimbursement models	12%
Other	2%

SOURCE: HealthLeaders Media Intelligence Report, *Strategic Cost Control: True Cost, Process Redesign, and IT Integration,* June 2015; *hlm.tc/1Kq3BPK.*

beds and more than 5,000 employees. "Last year, we were accepted into the Medicare Shared Savings Program and have entered into several risk-based contracts. So we've spent the last few years trying to create the IT infrastructure and programs to actually manage health. We will gain value out of our ACO as we improve health and focus on what's going on with the patient.

"One of the lessons we learned is that when you're negotiating gainsharing or full-risk contracts, negotiating the correct per-member, per-month target and anticipating all the factors that could go wrong is an important part of the process. If you don't set the appropriate target, you can create a situation in which you perform well and not have savings. This results in the doctors not getting rewarded for their good performance and it becomes a demotivating factor in their engagement," Grigson says. "The other big challenge is increasing the engagement of the physicians in the process, which eventually means they have to share in the risk."

Underlying such transformation is the need for competent data analytics, and measurements that address inefficiencies and recurring variation.

"Reducing care variation is a strategic imperative for improving quality and avoiding unnecessary cost," says Richmond. "We need to continue engaging our physicians in establishing care standards to drive the desired outcomes. Our physician and quality leaders are working on many quality improvement and standard of care initiatives. We are leveraging newly implemented technology to provide physicians and others with valuable performance data. This allows us to identify and quantify quality improvement opportunities that will transform how we're providing care. Utilizing data analytics to reduce unnecessary variation will raise overall performance on both quality and cost."

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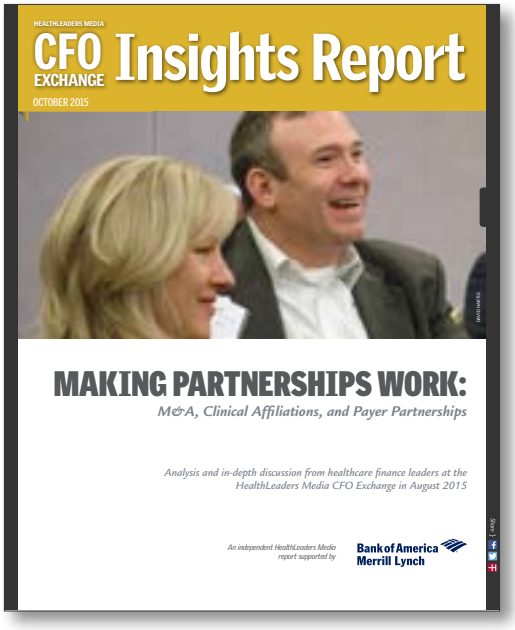

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