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Controlling Today's Costs, Planning for the Future at the CFO Exchange

At The Sanctuary in Kiawah Island, S.C., this fall, HealthLeaders Media's second annual CFO Exchange gathered 30 financial leaders from hospitals and health systems across the nation—ranging from several very large systems to a small community hospital, and including not-for-profit, faith-based, and for-profit organizations and academic medical centers—for intensive discussions of their foremost concerns.

In small sessions moderated by HealthLeaders editors, the financial officers shared experiences and perspectives with one another, offering solutions in many cases and on other topics expressing uncertainty and frustration. The roundtable discussions were chosen through surveys and pre-event conference calls between HealthLeaders editors and our CFOs. Some of the topics carried over from the 2011 CFO Exchange, such as cost control. Other sessions in this year's Exchange focused similarly on the blocking and tackling of organizational control, including revenue cycle and financial analytics. Still other sessions tackled the changing future of healthcare: the shift from fee-for-service to population health, and the ongoing consolidation of the healthcare industry. Here are highlights of the discussions.

Preparing for the financial shift

Of all the strategic shifts that are facing health systems in the coming years, none involve so many underlying fundamentals of the business as the shift away from a fee-for-service model of reimbursement to one more based on risk-bearing contracts and population health models. In multiple roundtable discussions, CFO Exchange members described the shift as a great leap forward with both great potential and a big downside.

"It's definitely an opportunity, but it's the most unpredictable opportunity I've ever seen in my career," says Chris McLean, executive vice president and CFO at Methodist Le Bonheur Healthcare in Memphis.

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McLean says the shift poses questions such as, "Are we really prepared for a different model and different way of taking care of patients? Are we big enough to be able to really pull that off with the infrastructure that's going to be needed? How do you know you're taking the right steps to prepare?" Several of the more integrated health systems already have some of the components for risk-based contracts in place and are involved in pilot programs.

"We've been an early adopter, opting into the Pioneer [ACO] program in a significant way with 50,000 Medicare members," says Dennis Dahlen, senior vice president of finance and CFO for Banner Health, based in Phoenix. "And we have learned some very good insights from the program in just the nine months it's been up and running, results that suggest there is a way to save the Medicare program by just being smarter about how we treat Medicare patients."

Dahlen says that about 18% of Banner's revenue is risk-based today, but in five years the organization projects that figure will be upwards of 45% across its 23 hospitals. "So we're moving pretty fast. The pace may not be as important as the direction, but we're pretty certain of that direction and that faster is better than slower at this point."

True cost control

The need to reduce costs—not just once, but permanently and sustainably—is top of mind for healthcare CFOs, and many feel the weight of a deck seemingly stacked against them. Financial leaders are grappling with declining Medicare reimbursements, value-based purchasing penalties, and a shift in inpatient volumes, while continuing to fund huge technology initiatives and expansion through physician acquisition or employment.

Healthcare reform is influencing everything from the hospital cost accounting systems to decision support and how physicians are compensated. CFOs are mindful that, while uncovering their true costs may be the only path to the deep budgetary cuts needed for their organizations' long-term survival, it is a complex and elusive undertaking. Though consumer-directed healthcare is driving patients to become more participatory and decisive healthcare consumers, healthcare organizations are not much closer to knowing their actual cost of care. Healthcare boards of directors and executive leaders need a more accurate picture of how much everything costs, and they're calling on financial leaders to explain how costs are assigned for everything from pens to procedures. Despite expert backgrounds and years of wrangling with costs, our CFO panelists felt they hadn't completely mastered this

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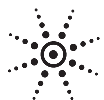

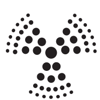

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renewed pursuit of cost assignment and reduction.

"Honestly, you can't get to any [true cost]—there is no end zone," says Robert Shapiro, senior vice president and CFO for North Shore–LIJ Health System in Great Neck, NY. "You just keep sorting the data and going through your biggest problems. And the interesting part is, as you're fixing one, there's a problem going on that you may not realize yet."

Rick Hinds, executive vice president and CFO for UC Health in Cincinnati, spoke for many of his peers: "We continue to squeeze everything you can out of today's cost structure, but then we've got to really step back and redesign the way we deliver healthcare to take out large amounts of costs."

> We continue to squeeze everything you can out of today's cost structure, but then we've got to really step back and redesign the way we deliver healthcare to take out large amounts of costs.

RICK HINDS
EXECUTIVE VICE PRESIDENT, CFO
UC HEALTH IN CINCINNATI

Financial and business analytics

A data-driven approach to healthcare is increasingly necessary for financial stability and operational excellence as well as for clinical care. The changing dynamics of healthcare spending and reimbursements require data to navigate. Indeed, the challenge for healthcare organizations is to make sense of the morass of data generated each day. IT tools are becoming ever more powerful and hold the promise of true business intelligence and predictive capabilities.

All of the CFO Exchange members utilize financial analytics of some sort, but no one expressed full confidence in their data-driven ability to assess their present organizational state, much less predict the future. Data silos are common, particularly in health systems with multiple hospitals.

The M&A trend compounds the problem, as organizations affiliate with little ability to integrate data. In general, healthcare lags other industries in its IT sophistication.

But the desire for "a single version of the truth"—the longtime goal of data analytics in organizations—remains strong in healthcare. Executives and clinicians alike seek to measure so they can control and improve. CFOs demand dashboards to keep close track of their organizations' financial status. Financial leaders say they play a greater role with analytical systems than simply approving the expenditure. Their teams often have the most sophistication in data-driven management. IT analytics is the province of CFOs as much as CIOs.

Revenue cycle returns

"No margin, no mission," as the saying goes—and if hospitals and health systems don't get paid properly for their services, they can't continue to function. Yet effective revenue cycle management is difficult; today, multiple forms of leakage siphon away revenue due for services provided. Executives must get their arms around complex negotiations with large payers, self-pay and no-pay patients, coding and clinical documentation, supply chain and contracting, and other issues.

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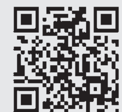

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The focus on revenue cycle management in recent years bore fruit, as the industry learned to find efficiencies and stop leaks in revenue. But new difficulties have appeared, the CFO Exchange members say. The way Americans pay for healthcare services is changing—and so are their interactions with providers. Healthcare organizations are taking on new or expanded roles as benefits educators and administrators, financial counselors, creditors, and collectors.

Yet financial leaders express discomfort in taking too hard a line with patients. Healthcare is often a necessary service, not a luxury retail item. CFOs also recall the scathing report issued last summer by the Minnesota Attorney General's office over the alleged high-pressure collection tactics taken by Accretive Health, which was subsequently banned from the state.

Holding onto revenue has also become harder. RACs and insurance denials have led to a new competency in financial departments: denial management. Documentation is the key, the Exchange members said.

Data management and coding issues present another challenge. Hospitals must code their procedures properly to get paid. Back office costs will rise as a result. Efficiency and sophistication in back-office operations have become a must.

M&A and other affiliations

Shifting reimbursements and looming capital needs are driving healthcare mergers and acquisitions at record levels across the country. To position themselves financially and operationally for the future, hospitals and health systems must control costs while still offering quality services, attract and retain physicians, find their niche among competitors near and far—and consider the right partner to work with.

All of the CFO Exchange members in this session admit to some form of M&A, partnership, or other affiliation in the works. Their options have expanded. Growth today isn't about just getting bigger. It's about developing all of the components needed for coordinated care and reduced costs.

Unusual affiliations, such as between nonprofit and for-profit entities, are showing up. Nontraditional competitors are entering the industry. Financial leaders expect consolidation to continue unabated for many years. But regional supersystems, touted by some industry observers as the ultimate outcome, are unlikely, say our CFOs. Instead, consolidation to a small number of leading players is already taking place within many large markets.

Access to capital has become a critical issue. Hospitals and healthcare systems face declining revenues and pressure on margins, while competition and the shift to pay-for-performance is driving executives to seek security for their organizations. Access to capital, or lack thereof, underlies these strategic concerns, and has the potential to create haves and have-nots in the industry. Yet the importance of finding the right match—not only from a competitive standpoint, but also for compatible organizational cultures—remains paramount, financial leaders say.

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