A Roadmap for Modernizing the Health Care Revenue Cycle
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Conflict of Interest

Douglas Hires is employed by Optum360, an organization that provides Dignity Health with revenue cycle externalization services.
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Timothy Panks is employed by Dignity Health, an organization that has partnered with Optum360 for revenue cycle externalization.
Agenda

• Industry Challenges & Continued Change
  – Administrative Cost/Reduction
  – Value Based Purchasing
  – Driving Out Inefficiencies
  – Effects of Change on the Revenue Cycle

• Dignity Health
  – System Overview
  – Dignity Health 2020 Horizon
  – RCM Demand, Analysis, Key Drivers for the Decision
  – Risks & Mitigation Strategies

• The Roadmap to Partnership
  – The Step by Step Process

• STEPS - Savings
Learning Objectives

• Demonstrate the correlation between the move to value-based care and the tightening of administrative & technology budgets
• Discuss a systematic method for identifying the best match for revenue cycle externalization
• Describe how revenue cycle externalization allows for greater investment in revenue cycle technology at a lower cost
An Introduction of How Benefits Were Realized for the Value of Health IT

Savings: Externalizing the revenue cycle can yield savings to healthcare systems, savings which can be used for fulfilling the mission of the health system.
Costs are rising, and payers, providers and patients are responding

• Cost-shifting from employers and payers to consumers, which has led to more charity care and bad debt
  – Total accounts receivable (A/R) from insured self-pay patients increased 13 percent in one year.
  – Total A/R over the same time period from uninsured self-pay patients decreased 22 percent, mostly as a result of high financial risk patients joining Medicaid in expansion states.

Source: Crowe Horwath Revenue Cycle Analytics Benchmarking Analysis, 2015
Costs are rising, and payers, providers and patients are responding

• Federal health reform is changing the landscape of health care
  – More than 16 million uninsured Americans became covered
  – Many of the newly covered chose high-deductible health plans
  – Less than half of households above the poverty level can cover out-of-pocket maximums of $3,000-6,000

Source: Charlotte Observer, High-Deductible Health Plans Can Ruin Finances, April 2015
To control costs, value-based care transfers risk to the provider

- Providers must manage clinical and financial risk in varying degrees

<table>
<thead>
<tr>
<th>Model</th>
<th>Upside Risk</th>
<th>Risk-based models</th>
<th>Capitation</th>
<th>Upside/Downside Risk</th>
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</thead>
</table>
| Fee-for-service plus incentives | Gainshare for higher quality and lower cost  
Risk: Low to Medium | Gainshare for quality care  
Risk: Minimal | Responsible for the full financial impacts of caring for a population  
Risk: High | Gainshare for higher quality/lower cost; penalties when thresholds aren’t met  
Risk: Medium |
Administrative Cost Reduction –

RCM an Opportunity

- U.S. hospital administrative costs rose from 23.5 percent of total hospital costs ($97.8 billion) in 2000 to 25.3 percent ($215.4 billion) in 2011. During that period, the hospital administration share of national gross domestic product (GDP) rose from 0.98 percent to 1.43 percent.
- Reducing U.S. spending on a per capita basis to Canada’s level would have saved $158 billion in 2011.
- There was no apparent link between higher administrative costs and better-quality care.

U.S. HOSPITALS HAVE THE HIGHEST ADMINISTRATIVE COSTS

According to a study of 8 countries:

- 25% of all U.S. hospital spending consists of administrative costs, including salaries for staff who handle coding and billing.

This compares with hospital administrative spending of:

- 20% in the Netherlands
- 16% in England
- 12% in Canada


Source: The Commonwealth Fund Sept 2014
Driving out inefficiencies

Industry changes make it necessary for hospitals and health systems to focus on driving clinical and financial inefficiencies out of their processes.
Asking hard questions about RCM

• As fee-for-value takes hold, hospitals will need to devote revenue cycle resources differently to ensure proper revenue, resource allocation and compliance.
• Running a best-in-class revenue cycle takes investment in people, processes and technologies that may draw attention away from an organization’s central mission

“Does my revenue cycle management organization have what it takes to thrive in the next era of health care?”
The momentum toward value-based purchasing is increasing

By fiscal year 2018, the Centers for Medicare and Medicaid Services intends that only half of its payments will be traditional fee-for-service.

The Health Care Transformation Task Force, a consortium of 20 large provider, payer, purchaser and patient advocate organizations, pledged that 75 percent of their businesses will “operating under value-based payment arrangements by 2020.”

Source: CMS.gov January 2015
Pay-for-quality flips revenue cycle on its head

- Profitability driven by quality of care, not by volume of services
- In the future, it’s not how much you bill, it’s how much you save
- For most providers, revenue cycle management is not an organizational core competency
- Revenue cycle management may actually draw attention away from central mission
- Healthcare finance is a highly complex, expensive and ever-changing environment
- It takes continuing investment to reduce costs and improve performance
- To maintain focus on care quality, hospitals and health systems are using outside partners to manage their revenue cycle
One of the largest health systems in the nation

Provide integrated, patient-centered care to more than five million people annually

Diversified service offerings and partnerships support population health

Hospitals in Arizona, California, and Nevada

Growing national footprint

As of June 30, 2015
Dignity Health Horizon 2020: Framework for the future

**Quality**
- Top decile quality
- Evidence-based medicine
- Chronic disease management
- National patient safety goals
- Transformational care
- Patient experience

**Cost**
- Medicare performance
- Revenue services/CBO
- Salary and benefit costs
- Clinical resource consumption
- Supply and purchased services

**Growth**
- Return on assets
- Newly insured
- New service areas
- Commercial volume
- Diversify non-acute holdings

**Integration**
- Physicians
- Health plan partnerships
- Reimbursement models
- Health plan capabilities
- Clinical integration
- Clinical coding

**Connectivity**
- EHR Alliance
- Physician connectivity
- Patient connectivity
- Physician EMR
- Enterprise data

**Leadership**
- Workforce competencies
- Community benefit
- Philanthropy
- Innovation and collaboration
- Nursing leadership
- Employer of Choice
- Public policy and advocacy
Demand for end-to-end RCM services

- Regulatory changes and evaluations of the realized benefits related to EHR implementations should increase the demand for services over the next 3 to 5 years.

Forecasted E2E demand and inflection points

**ICD-10 (Oct 1, 2015)**
- Transition is expected to cause disruption in revenue cycle activities
- Anticipated coding productivity decreases of 30% combined with aging/retiring workforce

**EHR Optimization (>2015)**
- Providers must adopt EHR by 2015 to avoid penalties
- Providers will fail to see the financial benefits of expensive clinical systems and will be looking to improve RCM performance

Though the industry is poised for growth, no end-to-end services provider has been able to consistently establish a track record of performance
Emergence of end-to-end revenue cycle management

A combination of market trends and evolving customer behaviors are driving the emergence of the end-to-end (E2E) Revenue Cycle Management (RCM) industry.

### Trends and behaviors

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<tr>
<th>Increased patient responsibility</th>
<th>Health Reform and other regulations</th>
<th>Increased price pressure and sensitivity</th>
<th>IT resource constraints</th>
<th>Simplified vendor management</th>
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### End-to-end RCM differentiator

| • Scale and process segmentation enables outsourcing vendors to better prioritize and collect patient liability pre and post service |
| • Standard processes and technology enable flexible work distribution |
| • Allows CFOs to prioritize investments on clinically focused activities |
| • End-to-end contracts offer a predictable expense and, in some cases, allow for absolute spend to be reduced over time |
| • Web-based, turnkey solutions offer speed to integration |
| • Demand for client IT support is limited |
| • Eliminate or manage multiple vendors on behalf of the client, often with standard processes and preferred pricing |
RCM option analysis

- **Build:** invest in optimizing RCM capabilities internally
- **Partner:** align with existing vendors or private equity firms
- **Buy:** transfer RCM to an established RCM BPO

Leverage assets through a business combination bringing superior technology and services
Why Dignity Health externalized

“We chose to focus more on patient experience and providing quality of care. We found that transformational revenue cycle technologies, especially those that focused on improving clinical documentation, could align with our quality improvement initiatives. And, we saw that there was a tremendous amount of efficiency to be gained from scaling our revenue cycle operations into a much larger organization, where revenue cycle is the core capability.”

— Michael Blaszyk, CFO, Dignity Health
Key drivers for transformation at Dignity Health

**Major drivers for change**

- **Limitations** on revenue cycle capital necessary for strategic change
  - FY12: requested $11.5M, received $3.5M
  - FY13: requested $28M–$30M
- **Collective bargaining agreements** increase the cost of operations and prolong changes to improve operations
- **Financial conditions** require cost reductions to maintain operations
  - **Incremental approaches** to change may be insufficient to support organizational needs
- **Current** in health care forecasts lower reimbursement and require providers to explore additional sources of revenue
- **Difficulty of single organization’s** ability to acquire and coordinate core competencies within the revenue cycle

**Key elements of the proposed approach**

- **Centralize services** that can be easily managed remotely (e.g., scheduling or coding) resulting in reduced costs and improved efficiencies
- **Design best-in-class organizational structure** enabling the acceleration of existing transformational initiatives and developing a differentiated administrative platform
- Improvement in net patient revenue and provide additional revenue stream to combat regulation in healthcare reimbursement
- **Commercialization experience** with access to skilled resources and technology
Transformation is aligned with Horizon 2020

Dignity Health strategic imperatives

Quality
“Raise clinical quality, patient safety, and service measures to top decile performance”

Cost
“Lower Dignity Health’s costs below Medicare reimbursement levels”

Growth
“Expand access and market share”

RCM Partner capabilities

Automation of processes and tools for Clinical documentation improvement

Standardize, centralize, automate and leverage economies of scale (including offshore capabilities)

Scalable infrastructure for internal stakeholders and new external clients

Helps achieve successful outcomes

- Improved access to and utilization of data
- Enhanced physician satisfaction
- Reduced overall costs (including salary and benefits)
- Reduced capital requirements for necessary IT initiatives
- Reduced cost of onboarding new facilities
- Generate top-line revenue

Source: Dignity Health Horizon 2020
Proposed transformation is aligned with Horizon 2020

Dignity Health strategic imperatives

Integration
“Offer full spectrum of care and improve outcomes”

Connectivity
“Develop high levels of electronic connectivity within the entire ecosystem”

Leadership
“Strengthen the organization through investments in employee and physicians”

RCM Partner capabilities

Integration between all stakeholders (including physician managed services), enabling technologies and content

Industry differentiated platform connecting care providers, facilities, patients, payers and plan sponsors

Build subject matter expertise and offer increased career progression opportunities

Helps achieve successful outcomes

✓ Meet clinical coding and regulatory data mandate
✓ Increased integration and communication with physicians

✓ Increased patient connectivity
✓ Reduced administrative complexities across all transactions

✓ Developed workforce competencies
✓ Continued development of culture of innovation

Source: Dignity Health Horizon 2020
Though the opportunity presented by the RCM Partner is significant, it is not without risks. Steps are being taken to minimize risk and maximize opportunity.

<table>
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<tr>
<th>Risks</th>
<th>Mitigation</th>
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<tbody>
<tr>
<td>Potential disruption of cash flow during transition to RCM Partner</td>
<td>• Careful planning of transition roadmap, both technology and operations, to minimize disruption and impact of transition</td>
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<td>• Service level guarantees and penalties for non-performance built into RCM Partner MSA</td>
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<tr>
<td>Transfer of key personnel outside Dignity Heath</td>
<td>• Key employees expected to continue to service Dignity account</td>
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<tr>
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<td>• Ability to rehire employees if RCM partnership is discontinued or Dignity brings revenue cycle management back in-house specified in MSA</td>
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<tr>
<td>Increased turnover</td>
<td>• Dignity HR is developing a multi-pronged strategy to mitigate risks and challenges of transition and increase employee retention</td>
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<tr>
<td>Diminished focus on significant programs and initiatives</td>
<td>• Transitioned employees continue to be involved in major initiatives such as ICD-10, EHR implementation</td>
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<tr>
<td>Brand risk with loss of control and labor transition to for-profit</td>
<td>• A proactive and coordinated communications strategy is in place</td>
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<td>• Dignity Health will be a joint owner in the company</td>
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<td>• Careful consideration for various collective bargaining agreements has been taken throughout process</td>
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The Roadmap to Partnership

1. Conduct revenue cycle assessment
   - Gap analysis
   - People, process, technology

2. Identify goal
   - Short list of potential partners

3. Evaluate opportunity
   - Economic modeling
   - Initial discussions

4. Assess alternatives
   - Due diligence
   - Term sheet

5. Develop goal-based strategy
   - Implementation timelines
   - Transformation planning

6. Establish agreements
   - Contracting
     - MSA
     - SLA

7. Establish governance framework
   - Joint review committee
   - Project management office

8. Develop transition/change mgmt plan
   - Internal stakeholders
   - External stakeholders

9. Launch transition & transform
   - Official partnership start

10. Measure & monitor
    - Dashboards
    - Front, middle and back-end metrics

11. Improve results
    - Train based on measurement
    - Apply resources

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The Step by Step Process

1. Conduct a Revenue Cycle Assessment
   a) People, Process, Technology

2. Identify a Goal(s) or Desired Objectives
   a) How does this align with our strategic imperatives?
   b) Where do we see our system in the future market?
   c) How will this enable that transformation?

3. Evaluate and Quantify the Opportunity
   a) Economic Modeling
   b) Business Alignment with a Clinically Integrated Network (CIN)

4. Assess the Alternatives
   a) Detailed Evaluation & Due Diligence
   b) Creation of a Term Sheet
The Step by Step Process (continued)

5. Develop a Goal Based Strategy
   a) Implementation Timelines
   b) Transformation Planning (Process & Technology)

6. Establish an Agreement
   a) Develop a Master Services Agreement (MSA)
   b) Develop Service Level Agreements (SLA)
   c) Include Risk/Reward Performance Parameters tied to SLAs

7. Establish a Governance Framework
   a) Joint Review Committee
   b) Program Management Office

8. Develop a Change Management Plan
   a) Include Internal and External Stakeholders
The Step by Step Process (continued)

9. Launch Transition & Transform
   a) Official Partnership Begins

10. Measure & Monitor
    a) Dashboards, Metric Performance Reporting
    b) Front, Middle & Back

11. Improve Results
    a) Train Based Upon Measurement
    b) Evaluate Resources, Performance, Efficiency
Performance Improvement

- Automation of processes and tools for Clinical documentation improvement
- Integration between all stakeholders (including physician managed services), enabling technologies and content
- Improvement in net patient revenue and provide additional revenue stream to combat regulation in healthcare reimbursement

Cost Reduction/Savings

- Standardize, centralize, automate and leverage economies of scale (including offshore capabilities)
- Commercialization experience with access to skilled resources and technology
- End-to-end contracts offer a predictable expense and, in some cases, allow for absolute spend to be reduced over time

**STEPS: Savings** — Externalizing the revenue cycle can yield savings to healthcare systems, savings which can be used for fulfilling the mission of the health system
Questions

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