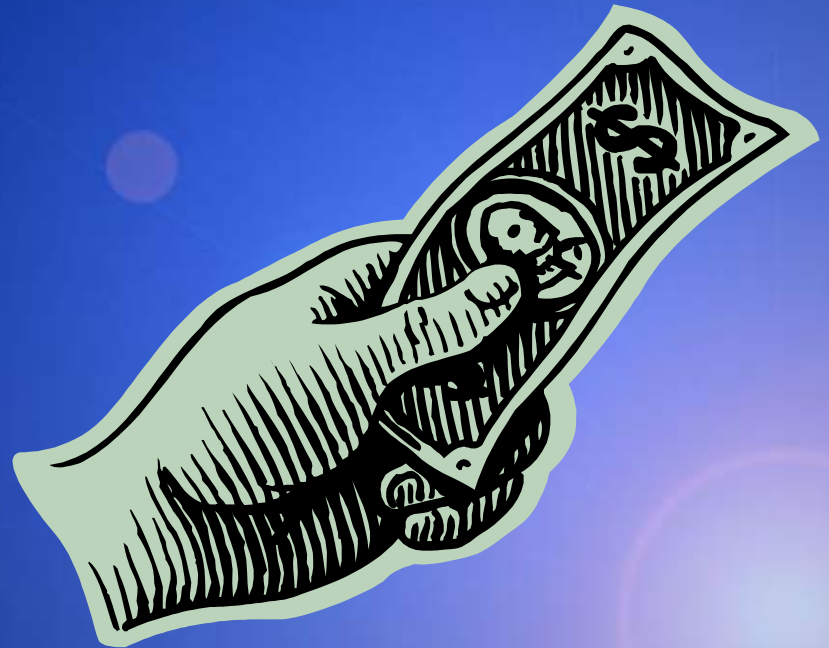


Money, Money, Money

Return on Investment Service/Quality

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Presentation Objectives

- Learn the concept of Return on Investment (ROI) including calculating, tracking and reporting
- Understand the financial ramifications of improving performance in healthcare facility operations

What is a Return on Investment?

Measurement of a company's ability to use its assets to generate additional value for shareholders or financial stakeholders. Commonly referred to as ROI.

Calculated as follows:

Net Profit / Net Worth
Expressed as a %

What is a Return on Investment?

In other words, doing the right thing, in the right way, at the right time, with the right resources, for the right reasons:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

What Does This Mean in Healthcare:

LESS IS MORE CONCEPT

The Less:

- Reduced turnover
- Reduced Length of Stay
- Reduced complications such as falls, infections
- Reduction in LWOBs in the ED
- Reduction in Unplanned Returns to the OR
- Reduced “no-show” rate
- Reduced malpractice suits
- Reduced rework

Reduced Expenses

What Does This Mean in Healthcare:

The More

- Increased utilization of Evidence-Based Medicine (EBM) Practices
- Improved outcomes
- Increased employee satisfaction
- Increased physician satisfaction
- Increased patient satisfaction
- Increased throughput and capacity
- Increased volume and loyal customers

Increased Returns

Is There a “Business Case” For Improving Healthcare Quality?

- Obstacles
 - Consumers’ inability to fully differentiate quality
 - Displacement of the quality improvement benefits

Is There a “Business Case” For Improving Healthcare Quality?

- The slowly changing items
 - Failure of current health system to pay for quality, while paying for defective care (some exceptions example “Never Events”)
 - Administrative pricing system that does not allow purchasers to pay more for higher-quality care
 - Science of quality measurement is emerging
 - Adoption of guidelines/best practices is not commonplace
 - “Known complications” still used as an excuse

“Never Event” Cost

“...Citing its wish to evaluate the impact of the program to date, the CMS proposed on May 4 that, rather than substantially increase its list, it would add only two additional types of bone fractures to its falls and trauma category. Perhaps partially to address objections from hospitals about physicians’ lack of accountability, the CMS announced in January 2009 that it would cease all payments, including physician payments, in the case of three egregious surgical never events: surgery on the wrong patient, wrong (i.e., unintended) surgical procedure, and surgery on the wrong side of the body or the wrong body part....”

Arnold Milstein, M.D., M.P.H. Posted by [NEJM](#) • June 4th, 2009; accessed 6/18/10 at <http://healthcarereform.nejm.org/?p=455#>

Is There a “Business Case” For Improving Healthcare Quality?

Supportive Elements

- Desirable for its positive impact on patients
- Desirable for its positive impact on employers
- Science to improve efficiency (EBM)
- Reduce need for additional healthcare workers

Identify and Quantify Improvements

Do you have an excess Length of Stay problem?

- Includes many factors
 - Hospital-acquired infections
 - Unnecessary delays in treatment
 - Lack of utilization of EBM practices
- Direct impact to bottom line
- Easy to quantify direct costs
 - Decision support tools
 - Retrospective and concurrent LOS tracking
 - Ease of data gathering

Decision Support LOS Data DRG Level Data by MD, Payor...

Tenet Reporting Portal - Microsoft Internet Explorer presented by Comcast

Address: https://reporting.etenet.com/WebWorkstation/Default.aspx

Plan ID Summary View

Excel Export CSV Export PDF Export Print Screen

DS110 Excess LOS Report by Plan ID									
Plan ID	Plan Name	Total Target LOS	Total LOS Variance	Average LOS	Average Target LOS	Patients With Negative Variances	Total Excess Days		
S3544	MEDICARE/MUTUAL OF OMAHA	48	1,025.0	(523.0)	6.2	4.1	145	652.5	
LO962	UNITED HEALTHCARE MCR COMPLETE*	75	94.3	(80.7)	7.6	4.1	15	91.5	
1BB33	BCBS ALABAMA	18	168.1	(49.9)	5.3	4.1	18	85.2	
VE304	MEDICARE PART B IP*	58	24.6	(33.4)	9.7	4.1	4	34.6	
66281	SELF PAY/UNINSURED*	37	12.3	(24.7)	12.3	4.1	3	24.7	
XE762	SENIORS FIRST*	40	32.8	(7.2)	5.0	4.1	4	11.6	
B583H	AMEDYSIS HOSPICE	26	24.6	(1.4)	4.3	4.1	3	8.7	
LO933	UNITED HEALTHCARE UNET	25	20.5	(4.5)	5.0	4.1	2	7.8	
LO932	UNITED HEALTHCARE COSMOS*	15	8.2	(6.8)	7.5	4.1	1	6.9	
XF062	VIVA MEDICARE*	12	12.3	0.3	4.0	4.1	1	5.9	
1BD33	BCBS NEW YORK*	10	4.1	(5.9)	10.0	4.1	1	5.9	
XE5C1	CHARITY*	10	4.1	(5.9)	10.0	4.1	1	5.9	
VE354	MEDICARE PART B/MEDICAID	9	4.1	(4.9)	9.0	4.1	1	4.9	
1BF33	BCBS ILLINOIS*	8	4.1	(3.9)	8.0	4.1	1	3.9	
S354P	MEDICARE PSYCH*	7	4.1	(2.9)	7.0	4.1	1	2.9	
1B333	BCBS PENNSYLVANIA*	7	4.1	(2.9)	7.0	4.1	1	2.9	
1BB62	BLUE ADVANTAGE*	15	12.3	(2.7)	5.0	4.1	2	2.8	
1MB54	MEDICAID ALABAMA*	12	16.4	4.4	3.0	4.1	1	1.9	

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Done Trusted sites

Items to Consider When Reviewing LOS Opportunity

- How is your facility paid?

Per Diem or Daily Rate

- Payor carries the risk for LOS
- Improvement in LOS could result in loss of net revenue that exceeds costs removed

DRG or Case Rate

- Facility carries the risk for LOS
- Improvement in LOS = Improved Margin

LOS Impact Calculation *TOTAL* DRG Reimbursement Methodology

- DRG 127 Heart Failure and Shock Statistical Analysis

Annual Cases	393
Total Patient Days	2,456
Average Length of Stay	6.25
Target LOS	4.10
Excess Days (excludes outliers)	961

Currently reflects a loss of \$36,942

LOS Impact Calculation DRG Reimbursement Methodology

- Excess Days
Direct Cost Savings per day removed

961

Nursing Ratio	5 to 1	6 to 1	8 to 1
Salary			
Nurse Care Hours	4.8	4.0	3.0
Average Hourly Rate	<u>\$ 32</u>	<u>\$ 32</u>	<u>\$ 32</u>
Cost per Day	\$ 155	\$ 129	\$ 97
Dietary	\$ 20	\$ 20	\$ 20
Linen	\$ 8	\$ 8	\$ 8
Malpractice	\$ 43	\$ 43	\$ 43
Direct Cost per Day	\$ 226	\$ 200	\$ 168
FTE Impact	(2.22)	(1.85)	(1.39)

2006 Annual Survey by Labor Management Institute

reflects mid point Direct HPPD of 8.33; low of 5.1 for Medical Floor

LOS Impact Calculation *TOTAL* DRG Reimbursement Methodology

Annual Cases			393
Patient Days			1,485
ALOS after reduction			3.8
Staffing Ratio	5 to 1	6 to 1	8 to 1
Net Reimbursement	\$5,637	\$5,637	\$5,637
Original Cost	\$5,731	\$5,731	\$5,731
Cost Reductions	(\$553)	(\$489)	(\$410)
Revised Cost	\$5,178	\$5,242	\$5,321
Profit (Loss)	\$459	\$395	\$316
Annual Profit	\$180,387	\$155,235	\$124,188

From Cost
Savings
Analysis *
2.44 days

LOS Impact Calculation *TOTAL* DRG Reimbursement Methodology

Profit (Loss) before LOS Reduction	(\$36,942)
Profit (Loss) after LOS Reduction	<u>\$155,235</u>
Profit Improvement	\$192,177

Case Based Reimbursement

- Specific services are reimbursed on episode of care criteria
- Provision of services without improvement in health status are quality opportunities
- Must review utilization of detailed services against benchmarks to ensure proper services are provided, provided timely, and for the correct duration
- Would apply to Home Health, SNF, LTAC

Unplanned Returns to the Operating Room

- In addition to increase in LOS, the following costs are incurred just by entering the room!

- Surgical, Anesthesia, EVS

Staff Time (30 minutes)	\$ 35
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- Minor Supply/Drape Pack

	\$ 46
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- Gowns

	\$ 4
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- Gloves, Prep, Towels

	\$ 7
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- Room cleaning supplies

	\$ 2
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- Anesthesia supply set up

	<u>\$ 13</u>
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TOTAL	\$107
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Unplanned Returns to the Operating Room

- Cost of performing one surgical case without implants

Operating and Recovery Room:

- SWB	\$ 462
- Supplies and OCE	\$ 685

Anesthesia With Anesthesia Guarantee \$ 628

Pharmaceuticals \$ 97

Total \$1,872

Assume 50 Cases per Year

Cost before entering the room	\$ 107
Cost of one surgical procedure	<u>\$1,872</u>
Total Cost	\$1,979
Number of Procedures	50

Impact \$98,950

Throughput Impact

- Emergency Room Outpatient Visit
 - Addition of one (1) billable patient per day
 - For one (1) year
 - At average reimbursement per case of \$275
 - Equates to \$100,375 of Net Revenue with minimal incremental costs

RN Turnover Impact

- Estimated cost of the turnover of a RN is \$50,000
- This includes the cost of orienting the new RN, current staff time for orientation, duplication of staffing, recruitment time, etc.
- Assumption on 30 RN Turn Overs per Year

RN Turnover Impact

Annual Impact \$1,500,000

Gallup Hospital Findings

Employee Satisfaction



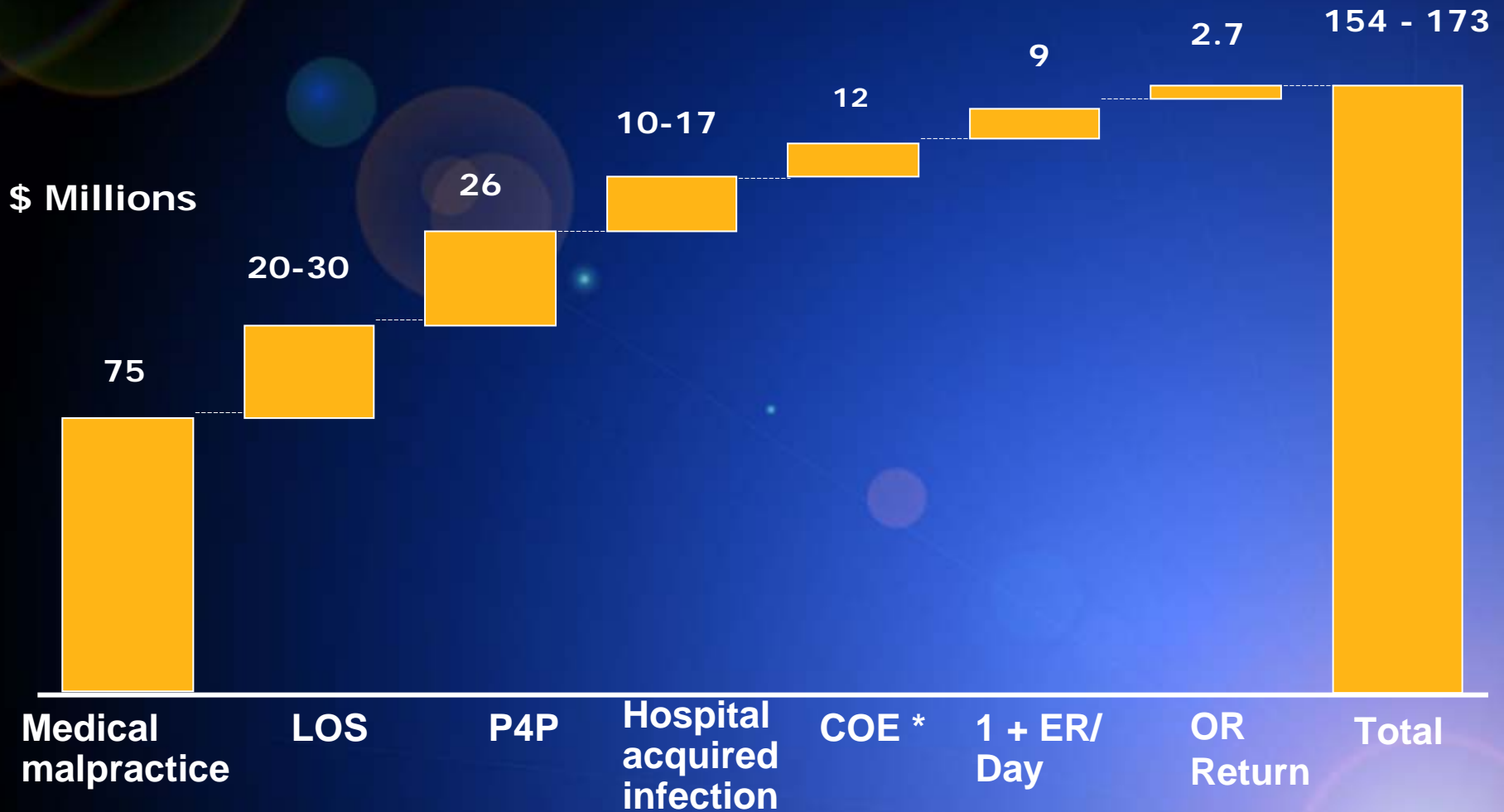
.2↑ employee satisfaction*

+\$276 EBITDA Per Admission

- ½ union filings
- 5% reduction in nurse turnover
- Increased physician satisfaction
- Increased patient assessments of employee performance
- Better perceived medical outcomes by patients

*.2 on a 5-point scale

Improving Quality has Real Financial Impact



*COE for United Healthcare in Cardiac

Source: McKinsey Analysis, BSC

How Do We Ensure a Financial Return on Quality?

- Know your hard costs
- Work with finance to link service metrics with ROI and determine where to focus efforts
- Increased utilization of protocols
- Payment methodologies are aligned with cost opportunities
- Do not be ahead of the curve depending upon reimbursement parameters for LOS reduction
- Hire the RIGHT people and then RETAIN them

Is There a Business Case For
Improving Service/Quality?

Yes

Is There a Financial Return For
Improving Service/Quality?

Yes

Questions

