

Margin Improvement - Building a Foundation for Success in 2025
Greater Heartland HFMA

October 18, 2024 – Pete Stille and Ben Schmitz, Forvis Mazars



Session Description

- This session will provide insight into the health care industry's biggest challenges in 2024 and how providers need to address these issues to build a foundation for success going into 2025. There are a number of questions that providers are dealing with: workforce pay hikes, post pandemic contract labor rates, recruiting struggles, supply chain challenges, and inflation. How a health care organization responds to these challenges will determine their success in 2025 and beyond, with the goal of building a solid foundation that will last for years to come.

Learning Objectives

- Objective 1 – Understand the current challenges healthcare providers are facing
- Objective 2 – Learn about multiple strategies to help improve the operating margin of your organization
- Objective 3 – Identify a key margin improvement approach that will benefit your organization

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**What are we
going to do
today?**



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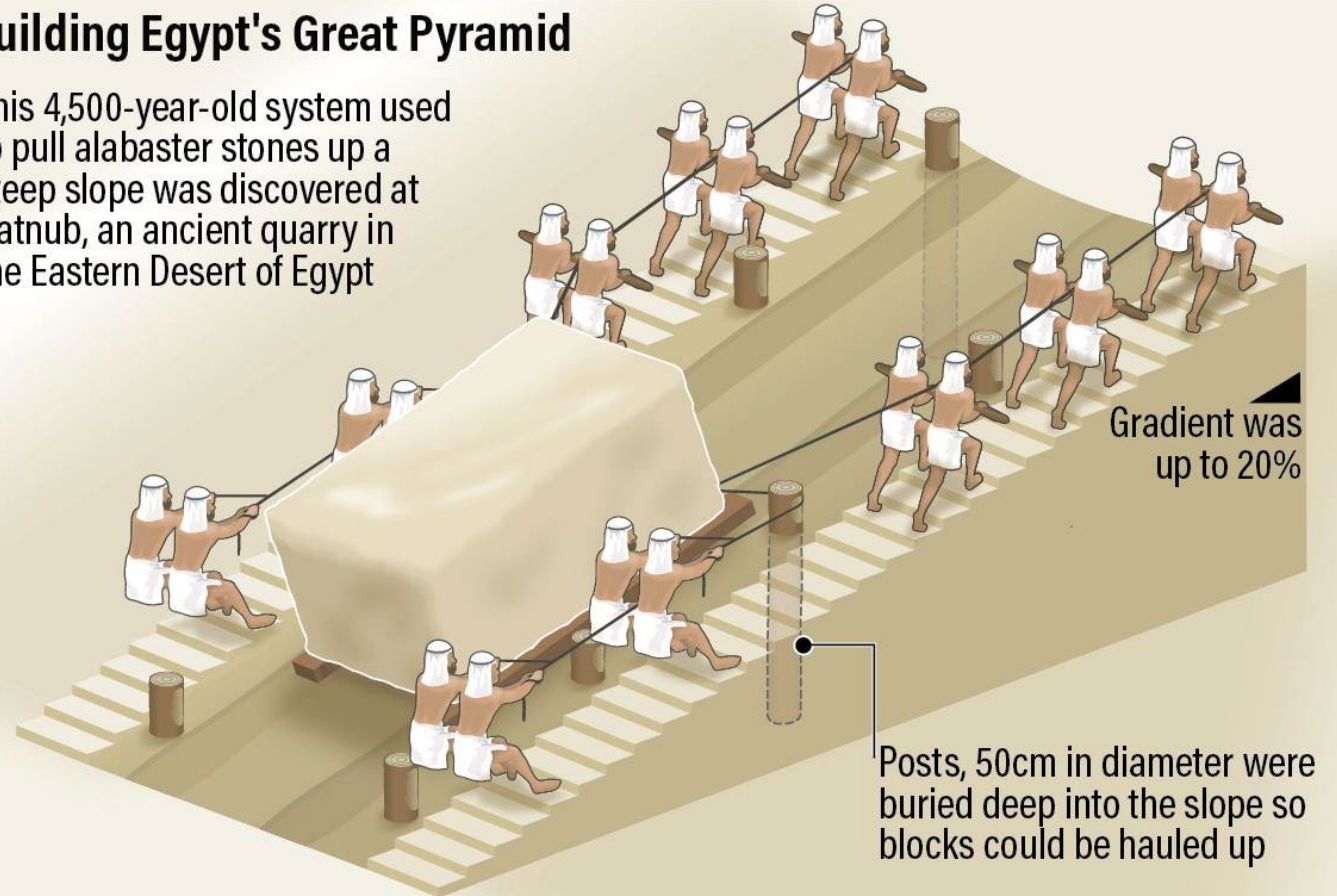
- Built over 4,500 years ago
- Took 20 years to build
- An estimated 30,000 skilled laborers are believed to have worked on this project
- Great Pyramid of Giza consists of 2,300,000 limestone blocks
 - Each block weighs about 2.5 tons
 - Groups of 20 hauled the blocks
- Great Pyramid of Giza was the tallest structure/building in the world until 1311 (Lincoln Cathedral, England)



How were they built?

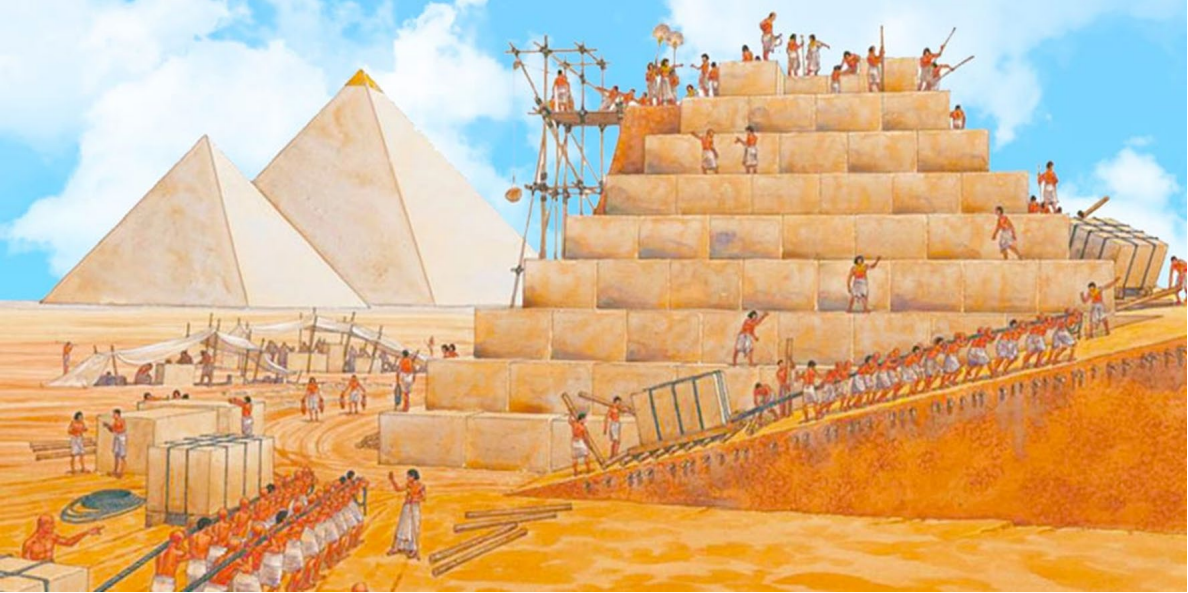
Building Egypt's Great Pyramid

This 4,500-year-old system used to pull alabaster stones up a steep slope was discovered at Hatnub, an ancient quarry in the Eastern Desert of Egypt



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Your Opportunity to Build a Legacy

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Levers We Used During COVID-19



Image: © Kansas City Business Journal

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**This led to a
foundation being
laid that's not
meant to stand the
test of time!**



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What We Need to Focus on is... Healthy Margins

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Why Margin Improvement?

- Headwinds for healthcare executives:
 - COVID funding done
 - Supply costs at all time high
 - Revenue cycle metrics off track
 - Labor shortages, contractors, and employee benefit rates unprecedented
 - Inflation driving increases in non-supply areas (e.g., Utilities)
 - Remote workforce
 - “The right” volumes sluggish to return

Presenter



Ben is a professional on the Forvis Mazars' Kansas City accounting and auditing team. He performs various types of audit engagements for the firm, including financial statement audits, single audits, and employee benefit plan audits.

He started his auditing career in the Kansas City office, joining the assurance staff after a stint in London, England, doing corporate tax work. He has ten years of experience in assurance and works in the Healthcare Practice.

Ben is a member of the American Institute of CPAs, Missouri Society of CPAs, and the Wisconsin Chapter of Healthcare Financial Management Association. He is a Certified Healthcare Finance Professional.

He is a 2013 graduate of Marquette University, Milwaukee, Wisconsin, with a B.S. degree in business administration with an accounting focus.

Ben Schmitz, CPA, CHFP

Director // Audit

Kansas City, MO

Presenter



Peter is a Managing Director in our Healthcare Performance Improvement practice and leads the national Nonlabor cost reduction service line.

Peter brings over 30 years of consulting experience assisting his healthcare clients to put millions back onto their bottom lines. Over his career, Peter has led the formation of the industry's original Nonlabor practice, created new strategies in physician preference negotiations and innovated gain sharing models in supplier contracting. He has deep expertise in the areas of strategic sourcing, negotiations, nonlabor cost reduction and clinical variance reduction.

Prior to merging his company with our firm, Peter was founder/CEO of Strategic Sourcing Results, Inc., a nationally recognized nonlabor cost reduction consultancy. Over twenty years, his team had an uninterrupted track record of success, helping their clients realize market leading returns on fees with low cultural impact.

Peter is a graduate of University of Colorado Boulder, with a B.S. degree in business administration and accounting/finance. He earned his MBA from the Kellogg Graduate School of Management at Northwestern. Peter is also a Certified Purchasing Manager and Certified Public Accountant. Peter has held board positions at both the Healthcare Financial Management Association and the Association for Healthcare Resource & Materials Management. He is a frequent speaker, instructor and author on the topics of cost reduction, contracting, and negotiations.

Peter Stille

Managing Director // Healthcare Performance Improvement – Nonlabor

Chicago, IL



Forvis Mazars

Overview

With a legacy spanning more than 100 years, Forvis Mazars is committed to providing a different perspective and an unmatched client experience that feels right, personal and natural. We respect and reflect the range of perspectives, knowledge and local understanding of our people and clients. We take the time to listen to deliver consistent audit and assurance, tax, advisory and consulting services worldwide.

We nurture a deep understanding of our clients' industries, delivering greater insight, deeper specialization and tailored solutions through people who listen to understand, are responsive and consult with purpose to deliver value.

Global Industry & Services

Forvis Mazars' deep understanding of industry-specific environments, issues and trends helps us anticipate and address evolving needs to prepare you for strategic opportunities ahead.

Every industry is different, and we put a strong focus on specific industry experience and knowledge of your complex and evolving environment. We provide a range of audit and assurance, tax, advisory and consulting services to help your business by bringing together experienced professionals from all over the globe who understand local contexts and cultures.

We serve global industries including:

- Financial Services
- Manufacturing & Distribution
- Technology, Media & Telecommunications
- Life Sciences
- Private Equity

\$58
Combined Revenue
(2023)

1,800+
Combined Partners

100+
Combined Countries,
Territories & Markets

40,000+
Combined Team Members

400+
Combined Offices
& Locations

1st

Largest practice based on number of Single Audits performed for all health organizations nationwide*

9th

Ninth largest healthcare advisory practice†

2nd

Second largest tax preparer for all health organizations nationwide‡



Assurance

We work with thousands of healthcare organizations, and our auditors are experienced and passionate in serving providers across the continuum of care. Our audit teams are committed to providing an industry-specific, risk-based audit approach that leverages innovative tools to help deliver an efficient audit and value-added insights.

You can trust our in-depth experience with your industry's unique clinical, financial, and operational risk environment (including reimbursement, regulatory compliance, information security, evolving technologies, emerging risks, and others). We're committed to quality accounting and financial reporting. Forvis Mazars can help with your:

- Financial Statement Audit
- Single Audit
- Program-Specific Audit
- CARES ACT Compliance Audit
- Employee Benefit Plan Audit
- Implementation Standards Assistance
- Accounting Outsourcing
- Assurance & Compliance Needs



Consulting

We've designed our healthcare consulting services portfolio for the unique, complex challenges and opportunities healthcare organizations face. We combine informative analytics with extensive technical resources and competencies to help you make informed decisions that drive value, quality, and results. Whether you're looking to improve your reimbursement strategies, financial performance, risk mitigation, and/or organizational strategy—Forvis Mazars can help. Our consulting services portfolio includes:

- Performance Improvement
- SOC & HITRUST
- Analytics
- Regulatory Compliance & Reimbursement
- IT Risk & Compliance
- Internal Audit
- Strategy
- Tax Specialty
- ESG & Climate Risk
- Finance
- Pharmacy
- Payor Services



Tax

Our healthcare tax team understands our clients' businesses and can help identify industry-specific tax opportunities and address operational impacts for nonprofit and for-profit providers.

The healthcare team at Forvis Mazars can help with:

- **Tax Strategy** Identifying strategic tax opportunities and aligning tax strategies with organizational goals
- **Tax Compliance** Performing tax-exempt risk assessments, as well as preparing and evaluating for-profit and nonprofit tax returns
- **Tax Vision** Implementing important tax reform provisions
- **Tax Consulting** Completing cost segregation studies and obtaining WOTC, ERC, R&D Tax Credits, New Markets Tax Credits, and more

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*According to OMB data via the Federal Audit Clearinghouse based on HHS CFDA's
†According to Modern Healthcare's Largest Management Consulting Firms ranking
‡According to Cause IQ based on Form 990s

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Levers

- **Revenue impacts**
- Physician-related
- Non-Labor
- Strategy

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Revenue Impact Considerations

- Market share and tracking referral patterns (revenue loss/leakage)
- Grant funding and financing opportunities and partnerships
- Evaluation of services and revenue streams
- Revenue cycle metrics
- **Contract management and negotiation**
- **Denials management**



A Few Facts About Contracting

- **Variation in rates between Hospitals can vary by >40%. Hospitals that are effective at negotiating their managed care contracts are the most profitable.**
- **Hospitals typically break-even on Medicare reimbursement and lose money on Medicaid. The best opportunity to run a positive margin is largely driven by higher managed care rates.**
- **Now is the best time to renegotiate contracts because insurers have record profits while hospitals are being hit with double digit increases in costs related to labor and supply expenses.**

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Insurance Denials Impact on Providers

Financial Impact	Cost of Re-Work	Patient Experience
<ul style="list-style-type: none">▪ 3.3% hospitals' net revenue lost due to claim denials*▪ \$4.9M average hospital annual net revenue lost due to denials**▪ 12% of total hospital claim charges submitted received an initial denial***	<ul style="list-style-type: none">▪ \$118 average to formally appeal a denied claim*▪ Re-work Costs including staff & vendor labor (10 to 25% of payments in some cases)▪ Reduced speed to payment & AR resolution	<ul style="list-style-type: none">▪ Unexpected patient liabilities▪ Delay in patient care or statements received▪ Required patient involvement in complex appeals process

Insurance Denials Have a Large Impact on Organizations' Financials & Patient Experience

- *Healthcare Business Insight (HBI) Hospital Financial Benchmarks Q1 2022 National Average**
- *Change Healthcare Study 2022***
- *Change Healthcare Study 2016****

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Insurance Denials Are Not Slowing Down

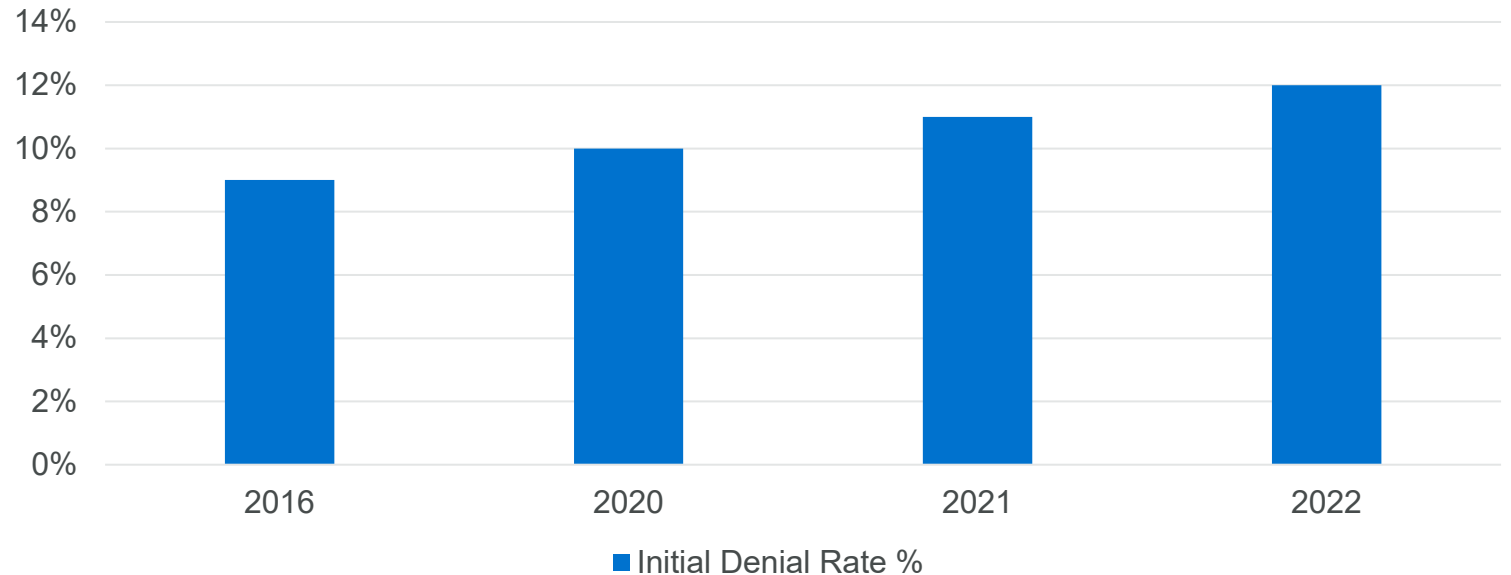
33% Increase in National Average Insurance Denial Rate from 2016 to 2022¹

100,000 Estimated number of payor policy changes between 2020-2022²

12% of all provider claims submitted are partially or completely denied¹

¹2022 revenue cycle denials index Change Healthcare
²Experian Healthcare Survey June 2022

National Average Claim Denial Rate Trends
2016-2022¹



Year over Year Insurance Denials & U.S. Healthcare Complexity Continue to Rise

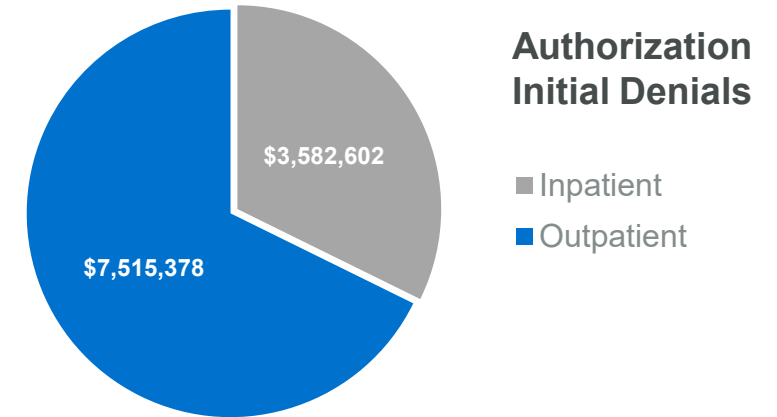
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Perform Denial Data Mining

Perform a deep-dive analysis across denial reasons, patient type, procedure code, location type, reason category, & procedure category to target specific initiatives

Denial/Non-Payment Reason Category	Denied Amount (\$)	Denied Amount (#)
Additional Documentation Needed	\$32,364,291	39,644
Authorization	\$11,097,981	10,504
Eligibility/Registration	\$8,922,371	14,132
Coordination of Benefits	\$7,633,978	13,444
Miscellaneous	\$4,917,687	8,420
All Others	\$19,387,811	36,860
Total	\$84,324,119	123,004



Outpatient Authorizations

Denial Reason Category	Denied Amount (\$)	Denied Amount (#)
Medication/Infusion	\$3,015,951	1,164
Surgical & Other Procedures	\$1,334,998	840
Radiology	\$798,202	812
Other	\$741,199	2,152
Radiation Oncology	\$484,131	60
All Others	\$1,140,898	2,024
Total	\$7,515,378	7,052

Top 3 Medication/Infusion CPT Codes	Denied Amount (\$)
HC-J9201 – Gemcitabine hcl injection	\$540,216
HC-J2505 – Injection, pegfilgrastim 6mg	436,174
HC-C9069 – Belantamab mafodotin-blmf	313,202
Total	\$1,289,592

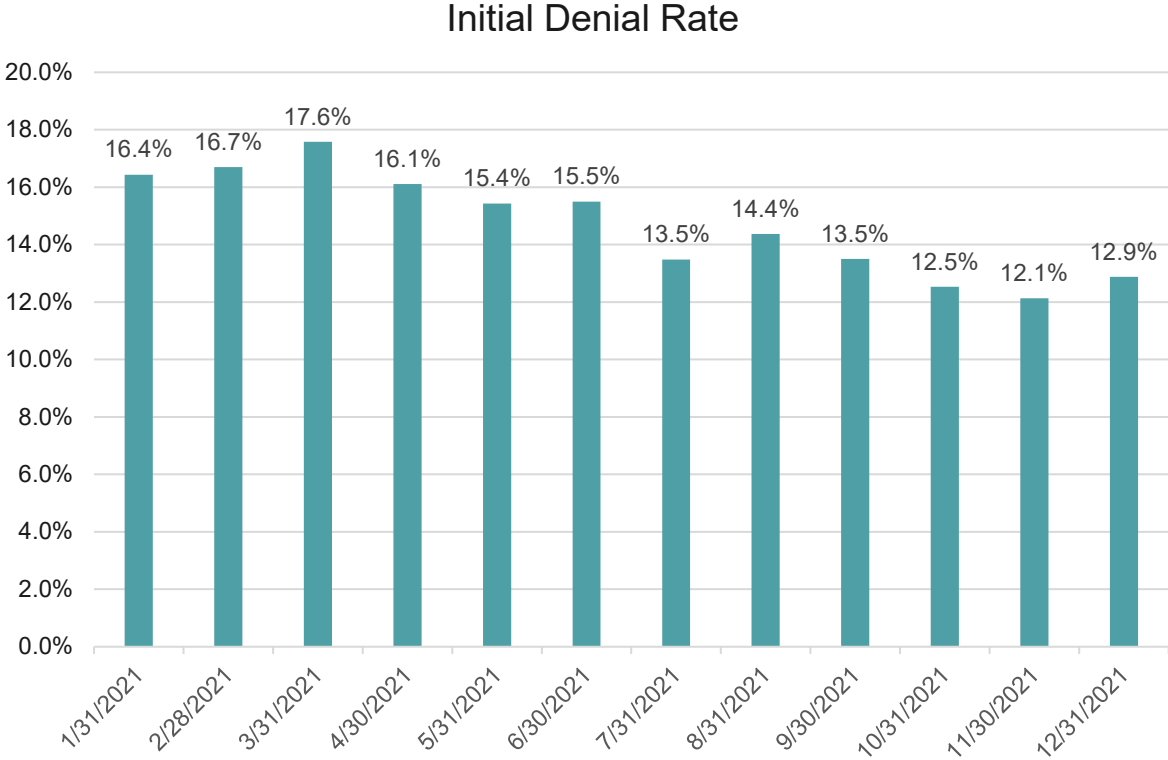
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Assess Historical Claim Denials for Trends

Perform an analysis of recent historical claim denial data to identify larger trends & themes across the organization & potentially “fatal” denial reasons & issues

Claim Denial Reason Category	Gross Denied (\$)	Gross Denied (%)
Authorization	\$61,400,262	24.7%
Medical Necessity	\$61,311,080	24.7%
Past Timely Filing	\$44,548,687	17.9%
Coordination of Benefits	\$19,029,681	7.7%
Eligibility/Registration	\$16,684,327	6.7%
Credentialing	\$15,159,975	6.1%
Coding	\$14,453,152	5.8%
Additional Documentation Needed	\$10,098,045	4.1%
Other	\$2,755,734	1.1%
Max Benefit Reached	\$1,666,693	0.7%
Billing Error	\$765,897	0.3%
Bundled	\$459,406	0.2%
Total Gross Claim Denials	\$248,332,938	100.0%



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Assess Opportunity to Reduce Re-Work Costs
in Addition to Revenue Loss

Denial Re-Work Cost Reduction Opportunity	Total
Estimated Annual Accounts Requiring Staff Resolution Effort (Accounts Worked) ¹	162,847
Current Average Minutes to Work an Account ²	11.0
Estimated Average Hourly Staff Rate ³	\$28
Opportunity Estimation	
30% Reduction in Denied Account Resolution Time (11 minutes to 7.7 minutes)	\$250,000
40% Reduction in Denied Account Resolution Time (11 minutes to 7.2 minutes)	\$365,000

Organizations have significant re-work costs in addition to net revenue loss due to insurance denials that are difficult to quantify

¹ Example Hospital Insurance Accounts Multiplied by Claim Denial Rate & 2x additional re-work factor
² Example Avg. Minutes to work (HBI low range of accounts worked per hour)
³ Example Estimated blended Avg Hourly Labor Rate (AR team, Specialized Clinic Staff)

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Levers

- Revenue impacts
- **Physician-related**
- Non-Labor
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Physicians/Providers

- Physician contracting strategies
- Payment models
- Risk-based contracting preparedness

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General Compensation Philosophy

- Physician compensation has the potential to engage and align physicians in the broader success of the health system and support a culture of clinical quality, service, value, community citizenship and mutual accountability for performance and outcomes
- The system should provide a coherent, attractive and competitive compensation package to recruit and retain motivated and engaged providers
- The compensation plan should be simple to understand and easy to administer



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General Compensation Philosophy

- The complex pay structure of providers is a result of:
 - A complex regulatory environment
 - A need to compensate provider work effort for both clinic and system level patient needs
 - A need to calibrate pay reasonably and equitably among providers of different specialties and clinical efficiency levels
- The responsiveness to market trends in pay design
- The compensation philosophy aims to be fair and transparent in compensation design, while allowing for variation in incentives between providers and specialties



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Overall Compensation Plan Goals

- Align with strategy, mission, and values of the health system
- Achieve balance between productivity, quality, service, and access
- Support a culture of clinical excellence & compassionate care
- Provide flexibility to management to support strategic program development with alternative compensation plan structures
- Reward top performers
- Comply with federal, state and local laws and regulatory guidelines

4 out of 5 physicians say they are burned out.

Hospitals and health systems are tasked with creating a healthier culture within their medical groups to reduce burnout, improve engagement and cultivate a partnership with their physicians.

**Source: "Physicians are Burned Out: How Healthcare Finance Leaders Can Help," HFMA.org, October 6, 2020*

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Mindsets 2024

The Importance of Cost Reduction

#1

Concern of executives over the next 3-5 years is financial stability despite encouraging outlooks

80%

Of the top financial challenges identified are related to cost management

65%

Of respondents missed more than 50% of their strategic plan goals

68%

Concerned with change fatigue





The Cost Reduction Opportunity

- **High Returns**

- 5-10% of Operating Expenses
- 3YR ROI > 24:1

- **Low Change**

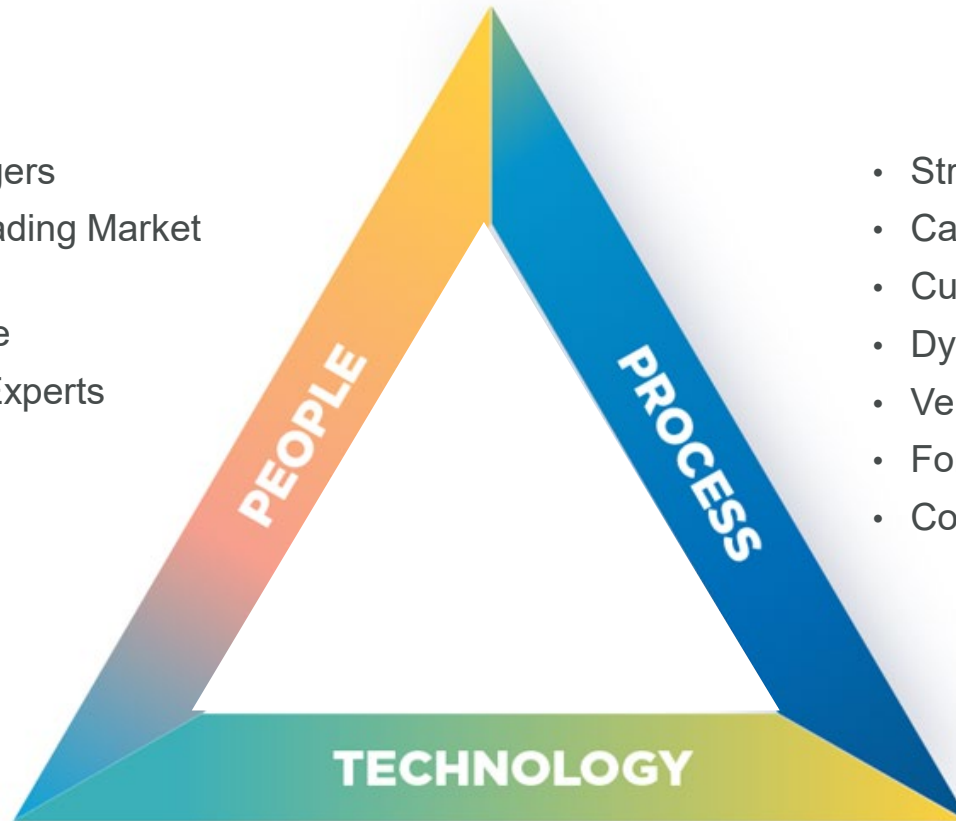
- Cultural Fit

- **Deep Support**



Nonlabor Cost Reduction Investment Trends

- Category Managers
- Training and Leading Market Intelligence
- Clinical expertise
- Subject Matter Experts
- Internal PI



- Strategic pillar
- Category managers
- Custom contracting
- Dyad negotiations
- Vendor management
- Formulary Management
- Controls and auditing

- Supply chain/ pharmacy software
- Line item price benchmarking
- Clinical analytics
- Value analysis software
- Purchased services analytics
- Service line analytics

Benefits

Pharmacy Benefits Management

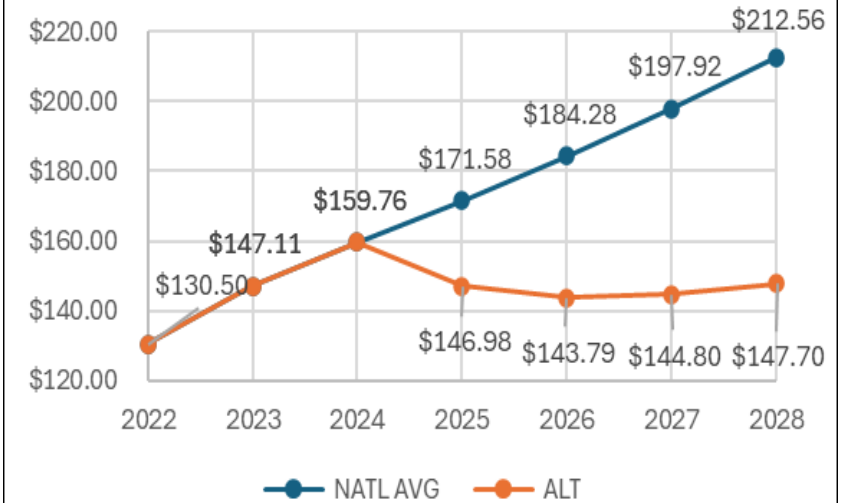
A Broken System

- New York Times, 6/21/24: “How PBMs are Driving Up Prescription Drug Costs”
- Wall Street Journal, 7/9/24 “Big PBMs Increase Drug Costs, FTC Says”
- U.S. Senate advances the PBM Transparency Act, March 2023

A Flood of New Solutions

- Transparency, independence and net cost solutions
- Web based technology solutions for self PBM management
- A focus on pharmacy prescription management

RX PMPM TREND



Solution

10% guarantee model with PCA focus

Savings

\$829 to \$1,681 per employee or 0.5% of Operating Expenses

Benefits Vendor Management

ANCILLARY

Solutions

- Market to new providers
- Invest in new models
- 10% guarantee model with real time PCAs

Savings

- 25-42%



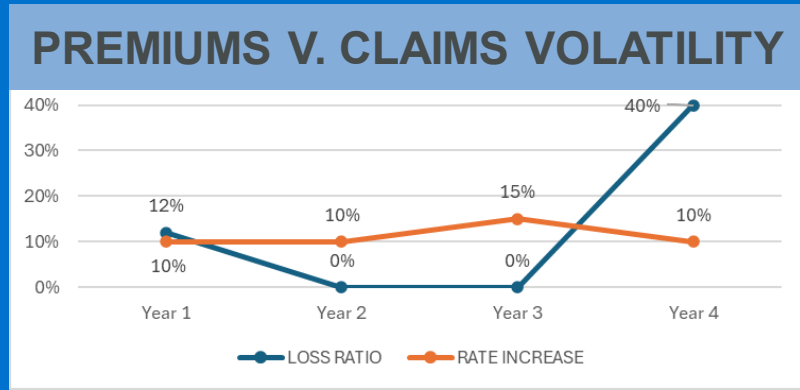
STOP LOSS

Solution

- MGU partnerships
- Actuarial analysis

Savings

- 10-15% Savings, with premium stability

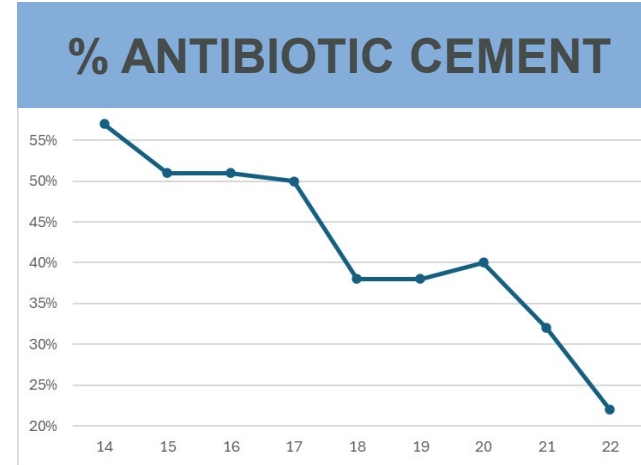
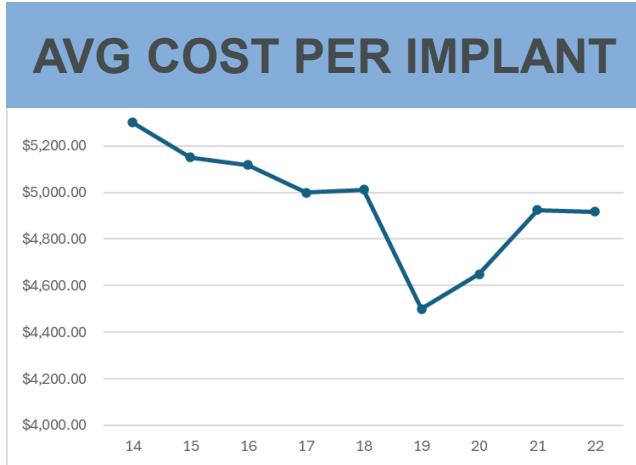


Ancillary rates assume typical coverage for all employees and loss ratio above 80%

Clinical Supplies

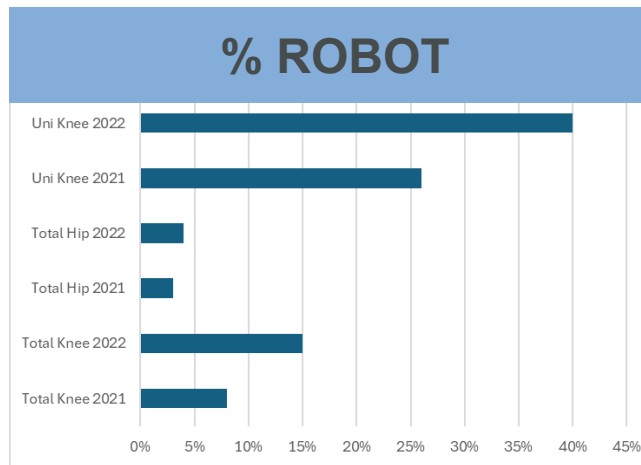
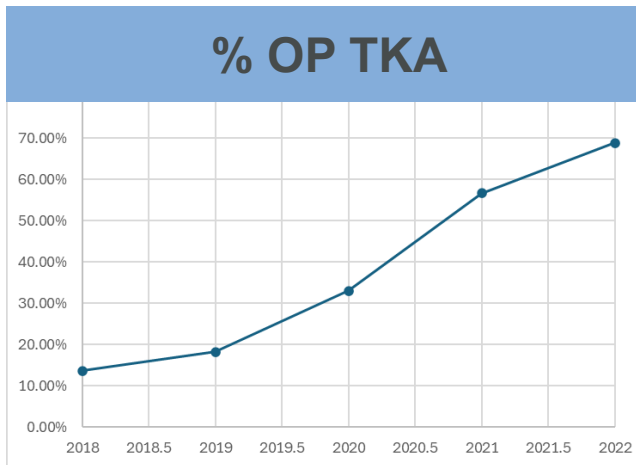
Physician Preference Items

Costs trend downward. Solutions include technology agnostic caps and revisions



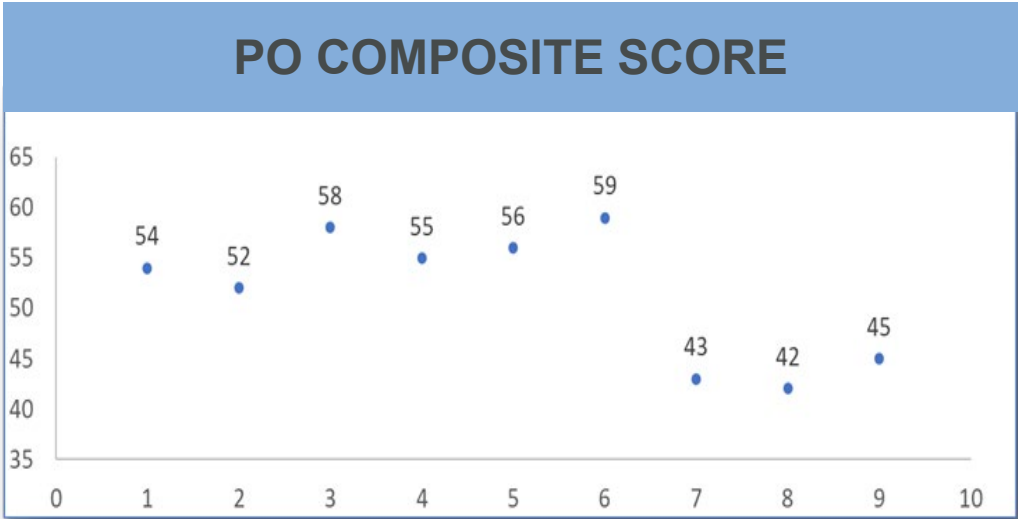
PBC \$57
AIBC \$257
Clinical study support available in the market

Knee complications are on the rise. Margins on OP knees 15% less



PPI Savings
Range 0.35% to .68% of Opex

Clinical Supplies Med/Surg



Savings
0.4% to 1.2% of Opex

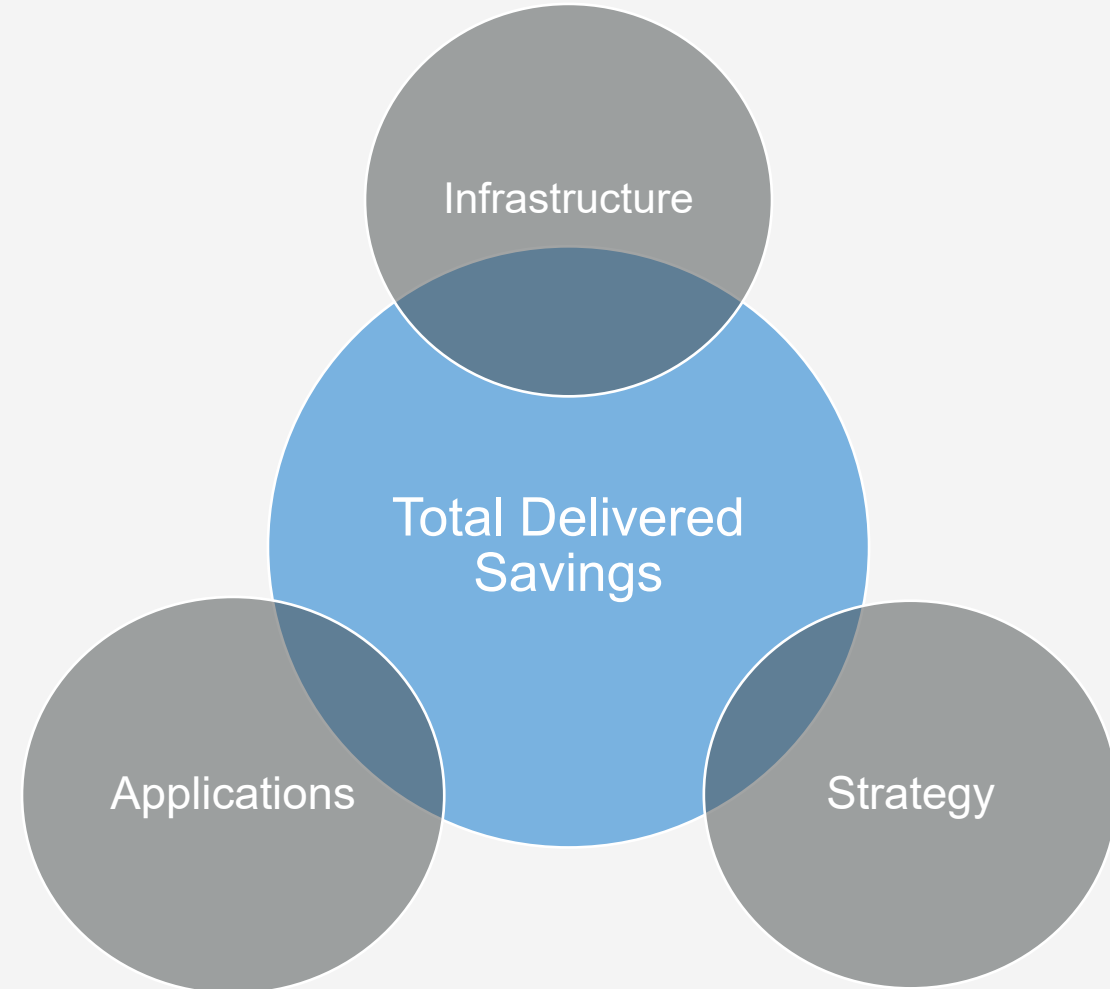
Technology

Cost Reduction Trends

Typical first-year savings 5-10%

- Hospital IT expenses comprise approximately **4%** of a healthcare provider's operating expenses.
- Despite \$1 out of every \$20 being expended on technology solutions, ***predictability*** and ***accountability*** remain challenging.

Achieving IT savings

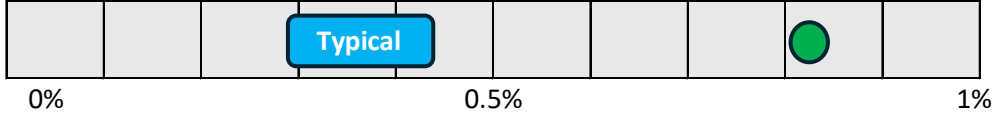


Finance Programs

Savings Range 0.5% to 1.1% of Operating Expenses

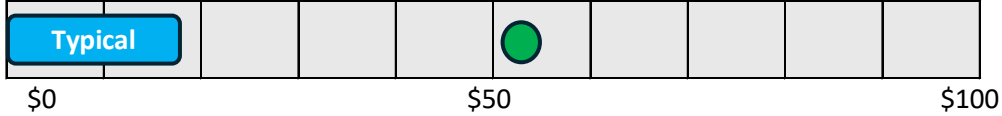
E-Payables

% of OpEx



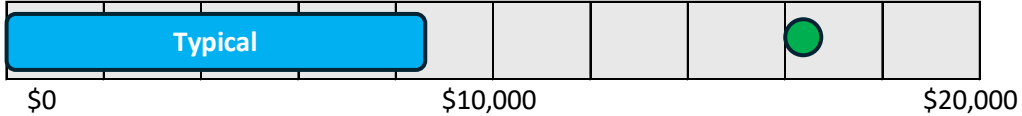
Pharmacy Inpatient Rebates

\$ per Pt Day



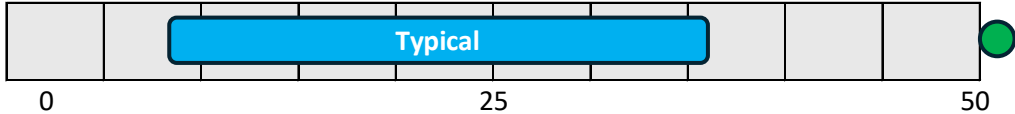
Pharmacy Patient Assistance Programs

\$ per \$1M Rx Spend



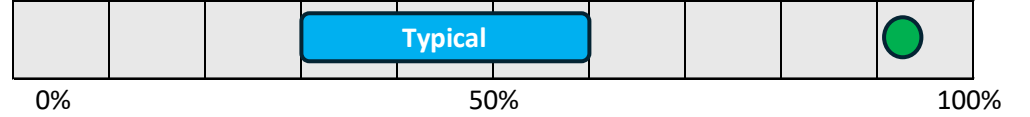
IV Charge Capture

Charge Volume per 100 ER Visits



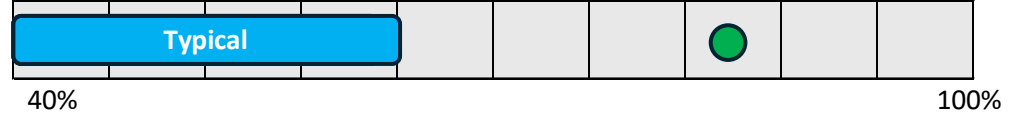
Trauma Activation

% of Traumas Reported to State



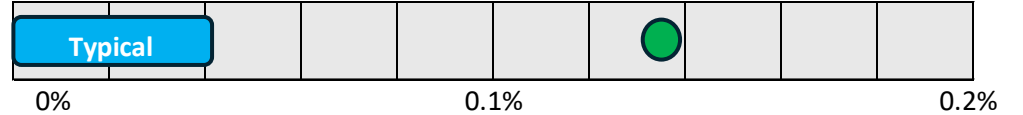
340B Script Capture

% of Scripts Captured



Contract Compliance

% of OpEx Saved in Past 24 Months



Purchased Services

The Road Less Traveled

Outsourced Services

- Beyond bonuses
- Increase revenues
- Procurement & Waste
- Savings 8-22%

Clinical Maintenance

- Target 1% of Operating Expenses
- Consolidation 80%+
- Audits and controls
- Savings 8-22%



Utilities

- Continuous commissioning 16%
- Water 18%
- Gas reverse auctions 6-8%
- Electricity opt outs

Reference Lab

- Test Formularies
- Test Proliferation
- Pathology
- Total savings 15-34%

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Margin Improvement

1 Commitment

- Invest: You get what you pay for
- Hardwire success into strategic plans and operations processes for long term, sustainable success
- Provide leadership and oversight to cost reduction efforts. Continually set goals
- Commit to a culture of cost management and accountability

2 Always Opportunity

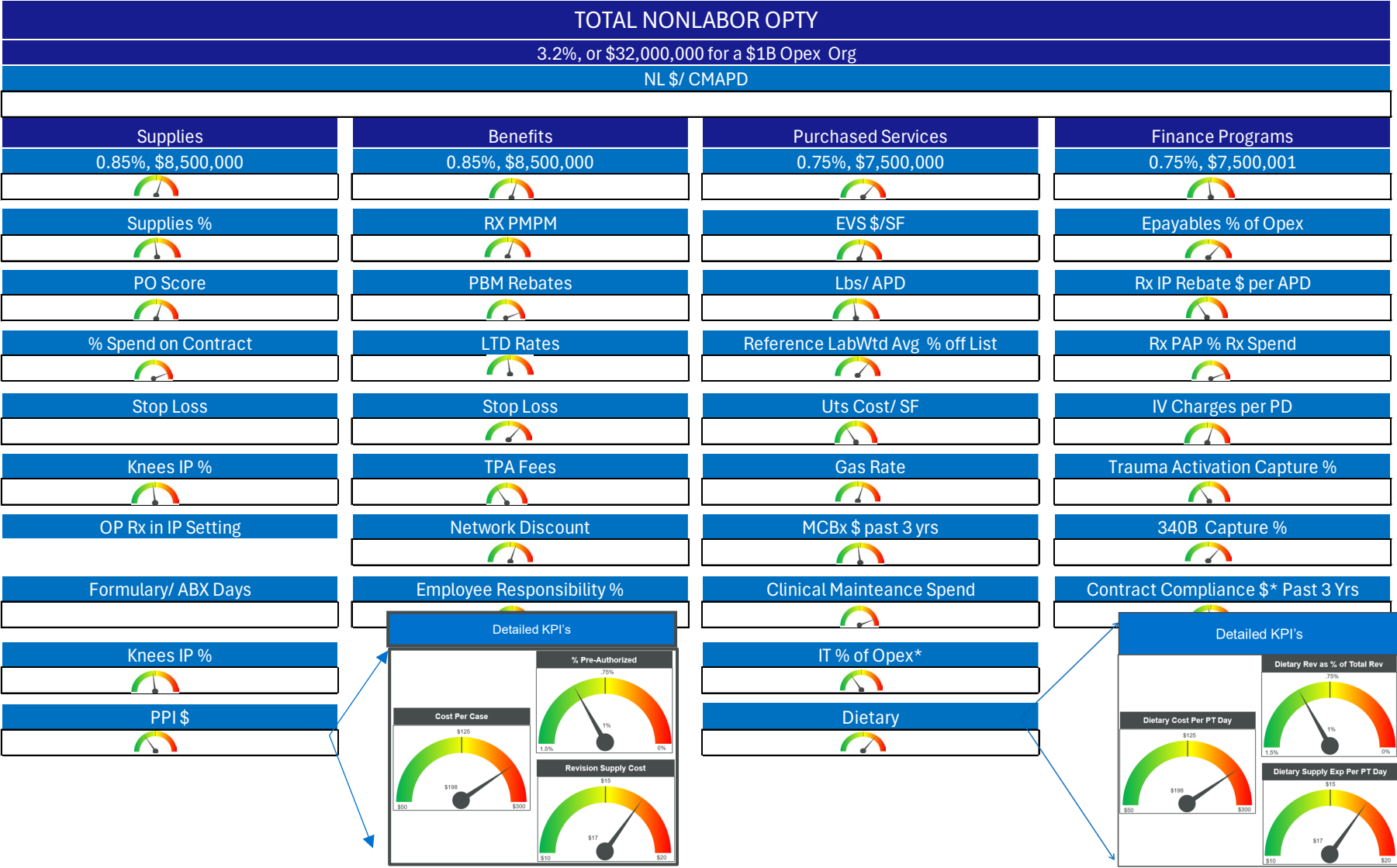
- Cost management is a process not an event
- External stakeholders maintain a significant resource advantage
- Provider margins make strategies to address industry pressures challenging
- The cost structure of healthcare is vast and complex, with insufficient access to tools to provide visibility into efficiencies available

3 Measure Success

- Invest in market intelligence to track progress to best practices by area
- Create customized dashboards to track progress by category and variance correction reports to leadership
- Celebrate and reward success

Takeaways

Nonlabor Example Dashboard



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Levers

- Revenue impacts
- Physician-related
- Non-Labor
- **Strategy**

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Strategic Planning for Your Organization

- What is our role in the community in 1, 3, & 10 years
- Evaluation of service lines
- Which are necessary vs expendable
- Evaluation of the future of healthcare and the costs associated with it
- Will we remain independent
- Affiliations upstream or downstream
- How do we measure our progress?



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Levers to Manage Margins

- Revenue
- Physician Related
- Non-Labor
- Strategy



Contact

Forvis Mazars

Questions?

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