Reimbursement, Payment, and Accounting Strategies in the Changing Healthcare Environment

Steven Shill, CPA – BDO USA, LLP
Ron Rybar, FHFMA – The Rybar Group
The pace of transformation in the healthcare industry is certain to quicken in 2013 due to the converging effects of the Affordable Care Act (ACA), technology, consumerism and budgetary pressures on a sector that represents almost 20 percent of the U.S. economy. The transformation comes at one of the most difficult times in U.S. history. In order to make an effective transformation, we need to meet these challenges head-on by developing and implementing operational and strategic initiatives. Understanding the accounting and financial implications of these initiatives at the outset will be key to our overall success and sustainability.
Learning Objectives

• Describe potential payer changes and related accounting issues

• Assess the current reimbursement and payer environment

• Develop a strategic plan to optimize financial outcomes

• Make informed decisions regarding short-term and long-term reimbursement and accounting strategies
Table of Contents

• Current challenges

• Responding to the challenges – Key components of a strategic plan
  – Regulatory environment
  – Reimbursement
  – Cost containment
  – Innovation and growth
  – Assessing sustainability
  – Investment considerations

(Operational and Strategic)
Table of Contents (cont’d.)

• Medicare Sponsored Coordinated Care Programs (including ACOs)

• Relevant Accounting Standards

• Q&A
Current Challenges Providers Are Facing

- The economy
- Lower margins
  - Reimbursement and payment reductions
  - Increasing operating costs
- Cost containment
- Shortages of physicians and other healthcare workers
- Legislative and regulatory developments
- Compliance
Responding to the Challenges

• Operational improvements
  – Regulatory challenges
  – Reimbursement strategies
  – Cost containment

• Assessing sustainability
  – Access to capital
  – Consolidation
  – Strategic alliances
Responding to the Challenges (cont’d.)

• Innovation and growth
  – New business relationship with non-traditional partners
  – New business lines/modalities/services
  – “Cradle to Grave” care (ACOs)

• Investment
  – Clinical systems
  – IT solutions
  – Human resources
Regulatory Challenges

• Key Strategies
  – Assessing payment environment
  – Federal reimbursement
  – Payment reform (key reimbursement innovations)
  – Quality incentives/disincentives
  – Readmission penalties
Regulatory Challenges (cont’d.)

• Key Accounting Considerations
  – Contingencies
  – Update of estimation methodologies
  – Systems and infrastructure
    ▪ Information technology
    ▪ Resources
    ▪ Controls
  – Systems to track and validate non-financial data
  – Training
Reimbursement

• Key Strategies
  – Fee-for-service model (traditional)
  – Bundled payment model
    ▪ Gain-sharing
  – Capitation model
    ▪ Full risk/Partial risk
      • Providers
      • Payers
  – Shared-savings model
Reimbursement (cont’d.)

• State and Governmental programs DSH/IGT
  – Long tails/period mismatches
  – Upper payment limit
  – Lack of standardized methodology (state differences)

• Payer mix-driven consolidation
  – Payment model calculations
  – Cost-reimbursed entities
    ▪ Home office
Reimbursement (cont’d.)

- Key Accounting Considerations
  - Balance Sheet Model
  - Revenue Flow Models
  - Revenue recognition issues
  - Net vs. Gross Accounting (Blue Cross/PPO model)
  - Accounting for risk pool surpluses/deficits
  - Interim payment – PIP/settlement and liability issues
Reimbursement (cont’d.)

Balance Sheet Model

Fee-for-Service

Bundled payments

Capitation

Balance Sheet

Assets
- Valuation
- Receivable estimates
- Compliance

Assets/liabilities
- Valuation
- Completeness
- Contingencies
- Estimates

Liabilities
- Completeness
- Actuarial estimates
- Compliance
Capitation – Revenue Flow Model

Net impact of capitation less claims and other expenses = surplus or deficit (contractual sharing arrangements)

Out-of-network Claims/ IBNR estimates

In network Claims/ IBNR estimates

Other expenses/recoveries

Risk share Physicians

• Complex accounting
  • No AR
  • High Risk
  • Loss
  • Contracts
  • Disputes
  • Litigation

Capitation revenue

$
Bundled Payment Model

- Multiple models
- Untested/new
- Post-period reconciliations
- Potential for disputes
- Complex accounting
- Higher AR

Reimbursement (cont’d.)
Reimbursement (cont’d.)

• Bad debt (accounting geography, for-profit/nonprofit)
  – F/S lack comparability (transition)
  – Covenants/coverage ratios impact
  – Shift from government/state-sponsored interim payment programs to top-line revenue
  – Status shifts – 501c(3)/community benefit reporting

• Volatility in financial performance
  – Transition from fee-for-service to fee-for-value
Reimbursement (cont’d.)

- Volatility in financial performance process

![Graph showing projected outcome over time with fee-for-value, readmission penalties, and pay-for-performance.

- Fee-for-value
- Readmission penalties
- Pay-for-performance

HFMA National Institute 2013
Cost Containment

• Key Strategies
  – Embedding financial discipline
  – Collaborating with clinicians in margin management
  – Supply cost management
  – Continuous improvement
  – Board/management buy-in/leadership
Cost Containment (cont’d.)

• Key Accounting Considerations
  – Zero-based budgeting
  – Predictive volume systems
  – Concurrent reporting not extrapolation of history
  – High performance compared with peers
  – Cost accounting systems
  – Financial data redesign
  – Strong internal control environment
Innovation and Growth

• Key Strategies
  • Technology-driven medical advances
    - Move to outpatient/telehealth
    - Bring your own device (BYOD)
  • Top-down vs. bottom-up assessment
    - Balance managing care with financial resources
    - Market demand studies
  • ACOs
    - Medicare and commercial models
Innovation and Growth (cont’d.)

• Key Accounting Considerations
  – Reimbursement of new advances and impact on revenue recognition
  – Responding to variability – planning considerations
  – ROI of innovation/modeling
  – Contractual negotiations to ensure future reimbursement
  – Feasibility studies
  – Accounting considerations for ACOs
Assessing Sustainability

• Key Strategies – Consolidation
  - Acute care providers/systems
    • Henry Ford/Beaumont
  - Service line-specific consolidations
  - Post-acute care providers
  - Other
    • Renal dialysis
Assessing Sustainability (cont’d.)

• Key Accounting Considerations – Consolidation
  – Corporate practice of medicine issues (CPM)
  – Valuation and appraisal
  – Purchase price allocations
  – Goodwill and intangibles
  – Pre- and post-acquisition contingencies
  – Employment agreements
  – Tax complexity
Assessing Sustainability (cont’d.)

- Key Strategies – Access to Capital
  - Private equity firms
    - Ascension Health/Oak Hill
  - Growth of for-profit healthcare
    - Access to traditional bond and equity markets
  - Real estate – Healthcare REIT relationships
  - Hedge funds and other alternative investors
  - Bankruptcy
Assessing Sustainability (cont’d.)

• Key Accounting Considerations – Access to Capital
  – Complex equity and debt structures, including derivatives
  – Multiple entities
  – Real estate complexity
  – Interim reporting requirements
    ▪ SEC/SOX
  – Bankruptcy and fresh start accounting
  – Frequency of transactions
Assessing Sustainability (cont’d.)

• Key Strategies – Strategic Alliances
  – Co-management companies
    ▪ Cardiology
    ▪ Orthopedics
  – Other physician organizations
    ▪ PHOs
    ▪ Shared-service organizations
    ▪ IPAs
  – Medical homes
Assessing Sustainability (cont’d.)

- Post-acute providers
- Chronic care providers
- Ancillary providers
- GPOs
- HMOs/Payers (examples: Highmark’s purchase of Jefferson Memorial and West Penn Allegheny Health System, UPMC, Geisinger, Kaiser Permanente)
- Establishment of nationally prominent affiliated centers of excellence (CHS/Cleveland Clinic)
Assessing Sustainability (cont’d.)

• Key Accounting Considerations – Strategic Alliances
  – Substance over form
    ▪ Variable interest entities
  – Corporate Practice of Medicine
  – Contingencies
  – Guarantees
Investment

• Key Strategies

  – Information Technology
    ▪ Outsourcing to overcome limited resources
    ▪ Data integration
    ▪ Homegrown systems vs. packaged
    ▪ ICD -10
    ▪ Electronic health records
Investment (cont’d.)

• Human Resources
  – Strategic alliances between higher-learning and healthcare institutions
  – Cross training
Investment (cont’d.)

- Key Accounting Considerations
  - Budgeting considerations
  - Impairment considerations
  - Accounting for EHR
  - Accounting for technology
    - Capitalization of costs
    - Accounting for ICD-10
  - Accounting for joint ventures
Investment (cont’d.)

- Key Accounting Considerations
  - SOC 1 or SOC 2 reporting
Medicare Sponsored Coordinated Care Programs

Various Types and Initiatives
Medicare Sponsored Coordinated Care Programs (cont’d.)

• Accountable Care Organizations (ACOs)
  – Medicare Shared-Savings Programs
  – Advanced Payment ACO Model
  – Pioneer ACO Models

• Innovation Center Initiatives
  – Comprehensive Primary Care Initiative
  – Bundled Payments for Care Improvement Initiative
  – Community-Based Care Transition Program
Medicare Sponsored Coordinated Care Programs (cont’d.)

• General Attributes
  – Varying degrees of risk
  – Promotes coordination of care at different levels in the treatment cycle
  – Exclusivity of beneficiary assignment
    ▪ Defining primary care providers
  – Hospital - or physician entity-based
Relevant Accounting Standards

• ASC No. 805 Business Combinations
  – Variable interest entities
  – Accounting for joint ventures
  – Purchase price allocations

• ASC No. 350 Goodwill and Other Intangibles
  – ASU No. 2011-08 Testing Goodwill for Impairment
  – ASU No. 2012-02 testing indefinite-lived intangible assets for impairment
Relevant Accounting Standards (cont’d.)

• ASU 2011-07: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities

• AICPA TPA 6400.47: Application of ASU 2011-07 in Consolidated Statements

• AICPA TPA 6400.48: Accounting for Costs Incurred During Implementation of ICD-10

• ASC No. 350-40 Internal-Use Software

• ASC No.720-45 Business and Technology Reengineering
Relevant Accounting Standards (cont’d.)

• Accounting for Electronic Health Record (EHR)
• ASC No. 605 Revenue Recognition
• ASC No. 605-45-45 Gross vs. net reporting
• ASC No. 250 Accounting Changes and Error Corrections
• ASC No. 450 Accounting for Contingencies
• ASU No. 2010-24, Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries
Relevant Accounting Standards (cont’d.)

• ASC No. 470-50 Debt Modifications and Extinguishments

• ASC No. 470-60 Troubled Debt Restructurings by Debtors

• ASC No.205-20 Discontinued Operations

• ASC No. 360 Property, Plant, and Equipment

• ASC No.852 Reorganizations

• ASC No.840 Leases
Questions & Answers
Thank You

On behalf of BDO USA, LLP and The Rybar Group, we would like to thank you for attending our session.

Steven Shill, CPA
BDO USA, LLP
714-668-7370
sshill@bdo.com

Ronald Rybar, FHFMA, CMPA
The Rybar Group, Inc.
810-750-6822
rkrybar@therybargroup.com