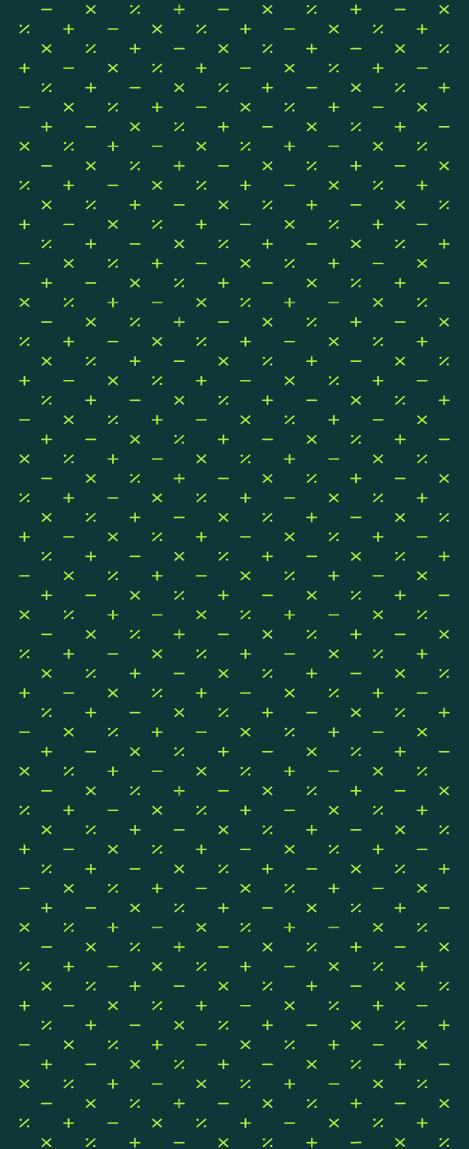




MOSSADAMS

# Surviving to Thriving: Cost Reduction, Revenue Enhancement & Service Line Optimization

February 17, 2023





# Moss Adams Health Care Consulting

Innovative Solutions for the Complex Business of Health Care

## FIRM

- 109 Year History
- 380 Partners
- 3800 Professionals
- \$1B Revenue

## HEALTH CARE SPECIFIC

- 3,700 Health Care Clients
- 1,200+ Hospital Clients
- 285 Health Care Professionals
- 30 Health Care Partners



# Top Reasons Keeping Hospitals CEOs up at Night

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- 1. *Workforce challenges including personnel shortages and staff burnout***
- 2. *Financial challenges***
3. Behavioral health and addiction issues
4. Patient safety and quality
5. Government mandates
6. Access to care
7. Patient satisfaction
8. Physician hospital relations
9. Technology
10. Population health management
11. Reorganization – M&A, partnerships and restructuring

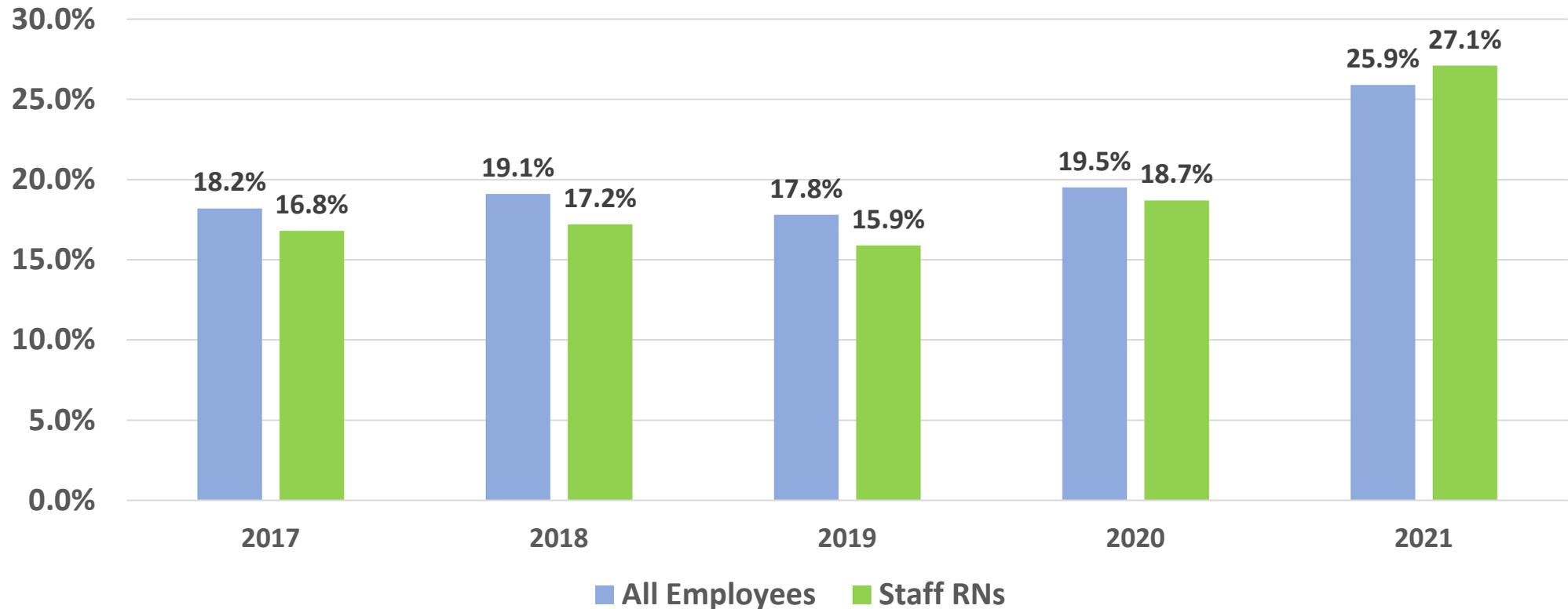
Source: American College of Healthcare Executives



# Hospitals Staff Turnover Rate Trends

*The reason workforce issues have become the top concern for CEO's is due to the rapidly rising turnover rate in hospitals.*

## Hospital & Staff RN Turnover



Source: NSI Nursing Solutions – 2022 National Healthcare Retention & Staffing Report



# Cost of RN Turnover

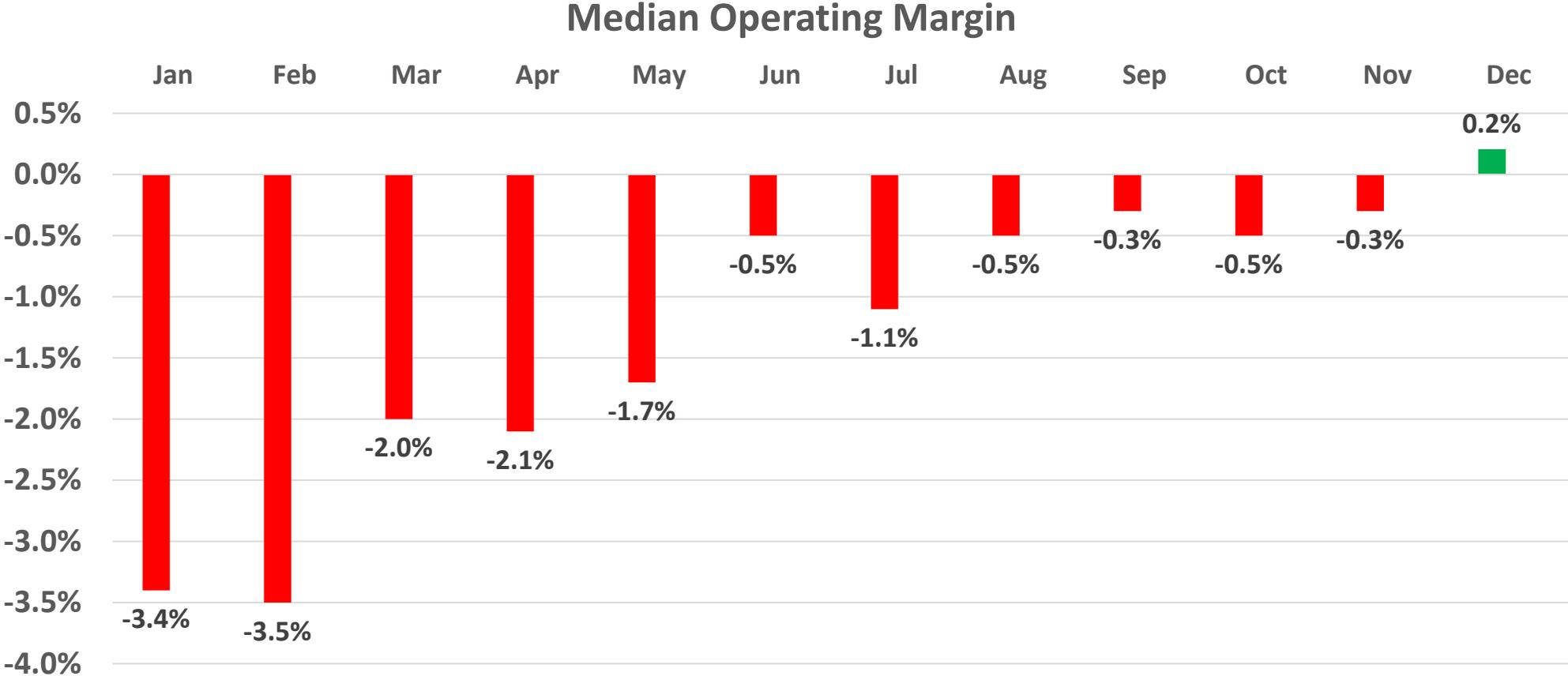
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***Staff turnover is very expensive and especially RN turnover has cost hospitals millions of dollars annually. This has become the top cost driver for hospitals over the past few years as agency/travel RN costs have skyrocketed.***

1. Average cost of turnover for a staff RN \$46,000
2. Each percentage change in RN turnover could save the average hospital \$262,000 annually
3. Reducing travel RNs with full time RN saves \$210,000 per FTE per year



# Hospitals Operating Margin Trend – 2022



Source: Kaufman Hall



# Why Hospitals Can't Just Rely on Cost Cutting

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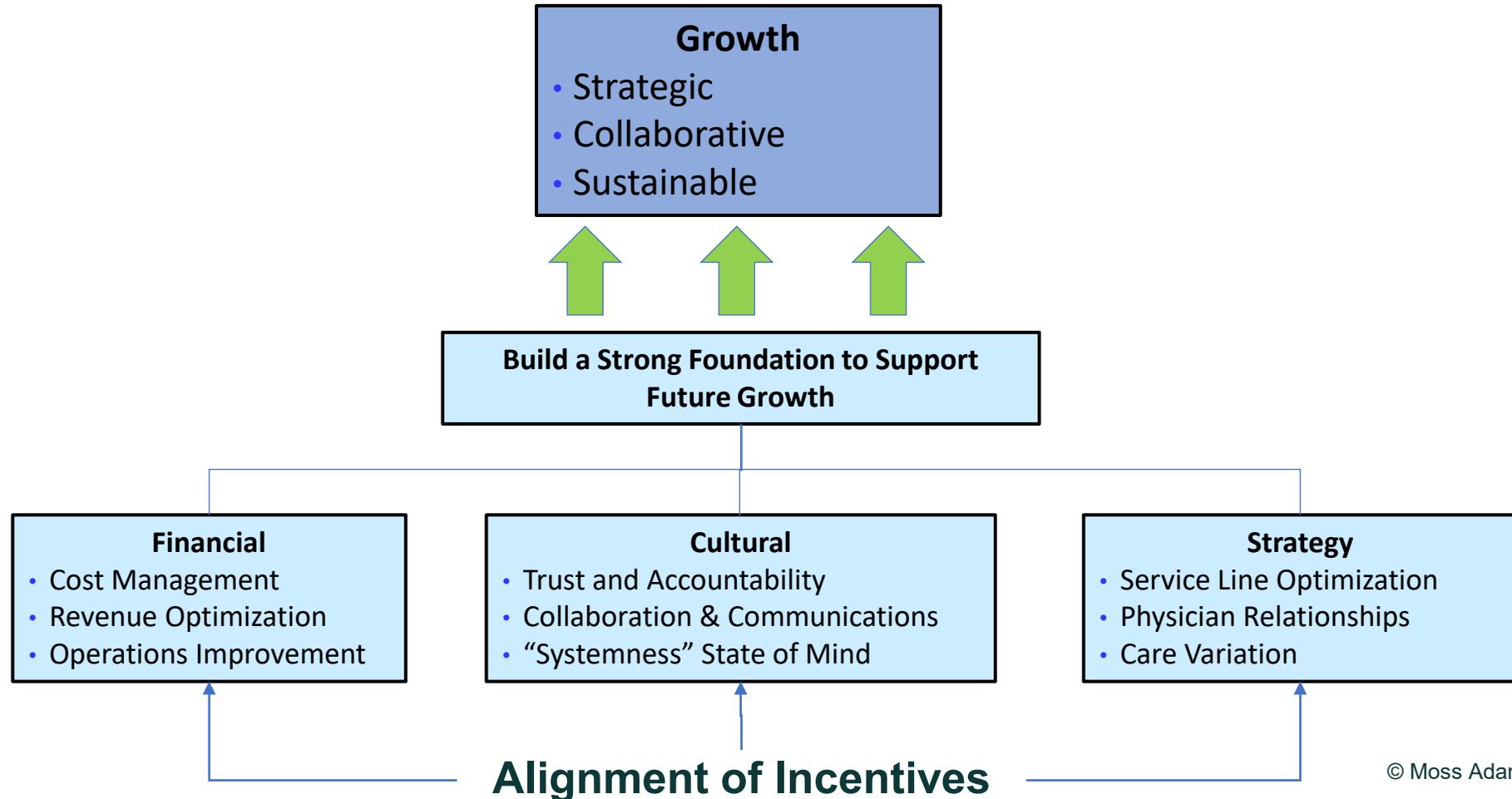
***As hospitals attempt to get back to financial stability, they should look beyond just cost cutting as the major driver for long-term financial health.***

- There's only so much cost that can be cut and
  - Non labor cost reduction opportunities should be prioritized for rapid implementation
  - Labor costs are still the largest cost category but finding areas to save costs are difficult and hospitals need to rigorously assess where true opportunities exist
- For long-term sustainability, hospitals need to embrace transformation of how they deliver care and how to optimize their service lines – this takes careful planning and time to implement



# High-level Framework for Long-term Sustainability For Systems

**ILLUSTRATIVE**



# Service Line Optimization Seeks to Solve Many Complex Problems

## Traditional Service Lines



**Traditional service models are not strategic or coordinated...  
...they are inadequate for sustained success**

## Best-in-Class Service Lines



# Near-term vs. Long-term Focus

***Identify and implement short-term improvement initiatives to build a strong foundation and support for long-term change.***



## Performance Improvement

- Build a strong foundation to support new operating model
- Identify and implement revenue enhancement and cost reduction initiatives to build a strong financial foundation to support organization's mission and strategic plan
- Develop key metrics and monitor to ensure financial, quality and service performance is trending in the right direction

## Transformation

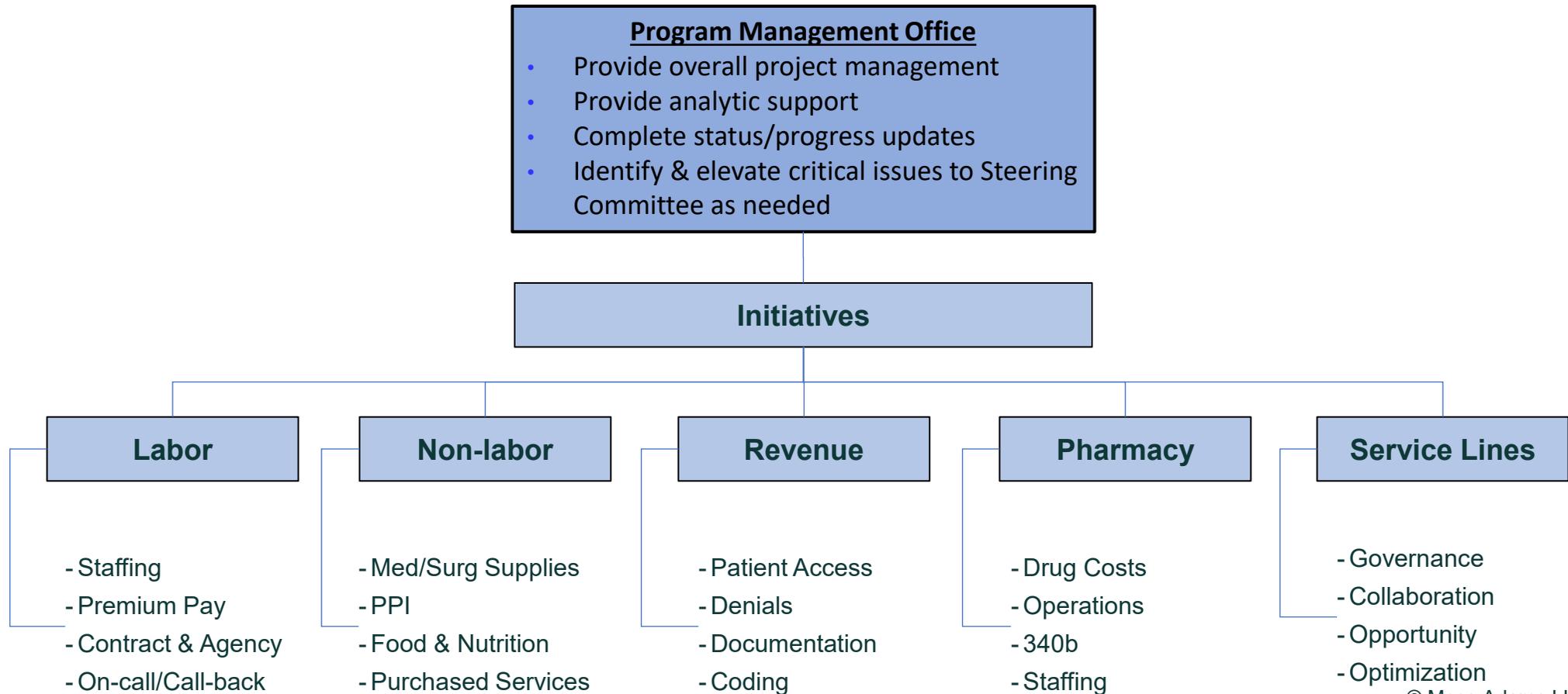
- Identify and implement longer-term transformational initiatives to create sustainable improvements impacting patient care, quality of care, financial strength and growth
  - Service line optimization
  - Care variation management
  - Length of stay reduction and patient throughput improvement
  - Physician alignment



# Governance & Management

**ILLUSTRATIVE**

*Each major initiative needs to be carefully managed by a Program Management Office to ensure timely progress and coordination of the various workstreams*



# Revenue Cycle – Focus on the Basics

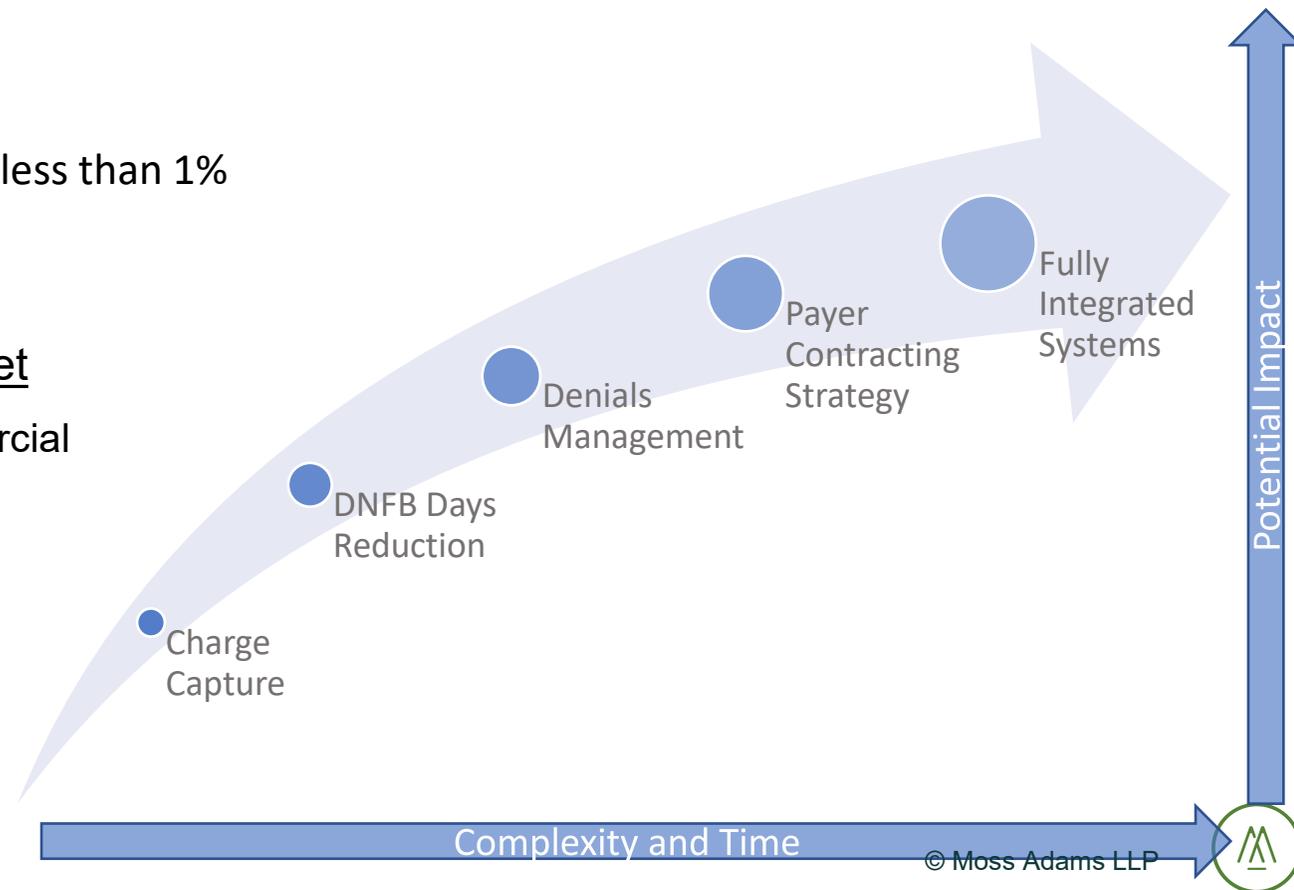
## Targets: The Basics

- DNFB - Less than 4 days in AR, top is less than 2 days
- ATB % Aging
  - Over 90 – 15% or less, 10% is top
  - Over 180 – 5% or less, 2.5% is top
  - Over 365 – 2%, top is 0.5%
- Denial % - less than 5%, after appeals should be less than 1%

## Case Study: 25% Near Term Improvement Target

- \$4M in DNFB over 5 days \$12M (48%) in Commercial HMO A/R > 90 days
- \$9M (38%) in Commercial PPO A/R > 90 days

Achieved Cash Over 3 Months (1 month to implement and 2 to see results) ~**\$6M**



# Care Variation

**Care variation can be worth up to 30% costing the average hospital between \$50M and \$150M Annually**

It's complicated, but getting care variation under control is a long-term, sustainable part of controlling costs in a way that also fosters high quality

## Cost

- Cost spread
- Supply costs
- Pharmaceutical costs
- Lab/imaging costs
- Medication substitution costs

## Clinical outcomes

- Readmission rate
- Complication rate
- Nurse sensitive indicators (e.g., pressure ulcer rate, fall rate, hospital acquired infection rate)
- Adverse event rates

## Clinical efficiency

- Length of stay (LOS)
- ED wait time
- Unnecessary or duplicative tests
- Lab turnaround time
- Blood, pharmacy, lab, imaging utilization
- Discarded or unused supplies

## Systemness

- Standardized supply usage
- Order set adherence rates
- Core measure adherence rates
- Variation across facilities
- Evidence-based care adherence



# Cost Reduction: Non Labor Cost Management Levers

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***For cost reduction opportunities, non labor and purchased services costs should be evaluated and prioritized for rapid implementation as appropriate.***

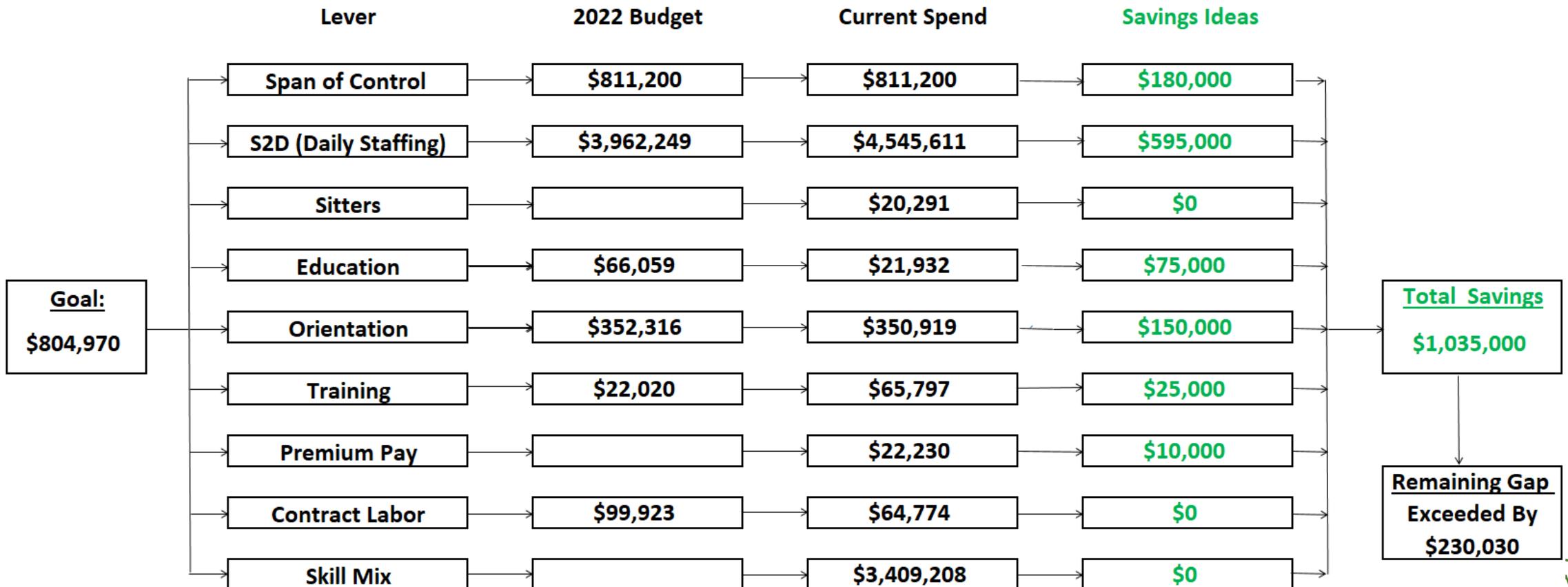
- Medical/Surgical Supplies
- Physician Preference Items
- Purchased Services
- Food & Nutrition
- Facilities and Energy



# Cost Reduction: Labor Cost Management Levers

**ILLUSTRATIVE**

*Labor is still over 50% of a hospital's total cost structure so it's critical to evaluate it for efficiency opportunities. It is easier if you identify the key cost levers and break down each component for potential cost savings.*



# Path for Long-term Sustainability: Integrated Multi-Initiative Approach

**Data Analysis & Modeling,  
Benchmarking & Best Practices**

**Internal  
Stakeholders  
Interviews**

**Alignment with Strategic  
Plan, Mission & Vision**

**Operating Model  
Framework**

**Operational Efficiencies**

- Labor productivity & cost structure
- Supply chain optimization
- Nonlabor & purchased services cost structures
- Technology assessment
- Service standards
- Core processes

- Clinical/patient care areas
- Support/overhead areas
- Physician practices

**Service Performance**

- Clinical operations
- Financial management
- Operating structures
- Service lines

- System leadership team
- Facility leadership teams
- Key physicians
- Other key stakeholders as identified

- Identify key operational, structural, cultural issues impacting system performance
- Identify potential barriers to change and develop mitigation strategies

- Ensure assessment findings and recommendations aligns with and supports:
  - Strategic plan
  - Mission
  - Vision

## **CLIENT EXAMPLE**

- High quality
- Sustainable
- Growth oriented
- Financial performance
- Continuous improvement

- Organizational structure
- Management tools
- Monitoring and reporting



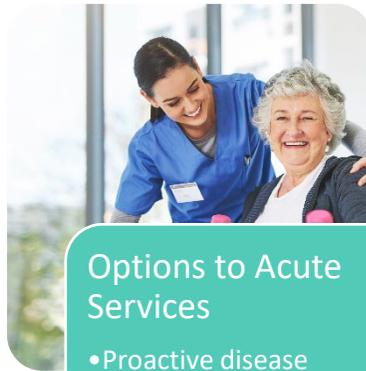
# Comprehensive Service Line Continuum

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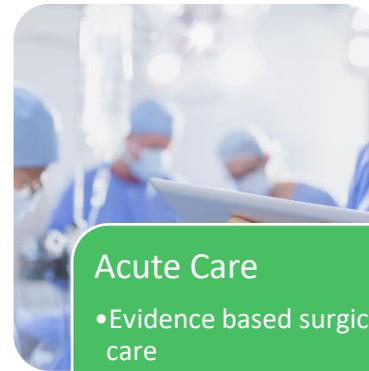
## Access

- Primary care driven care management
- Preventative care
- Evidence-based planning
- Access to specialists
- Emergency services



## Options to Acute Services

- Proactive disease Management
- Non-surgical interventions
- Therapy



## Acute Care

- Evidence based surgical care
- Service line led and driven acute service



## Post Acute

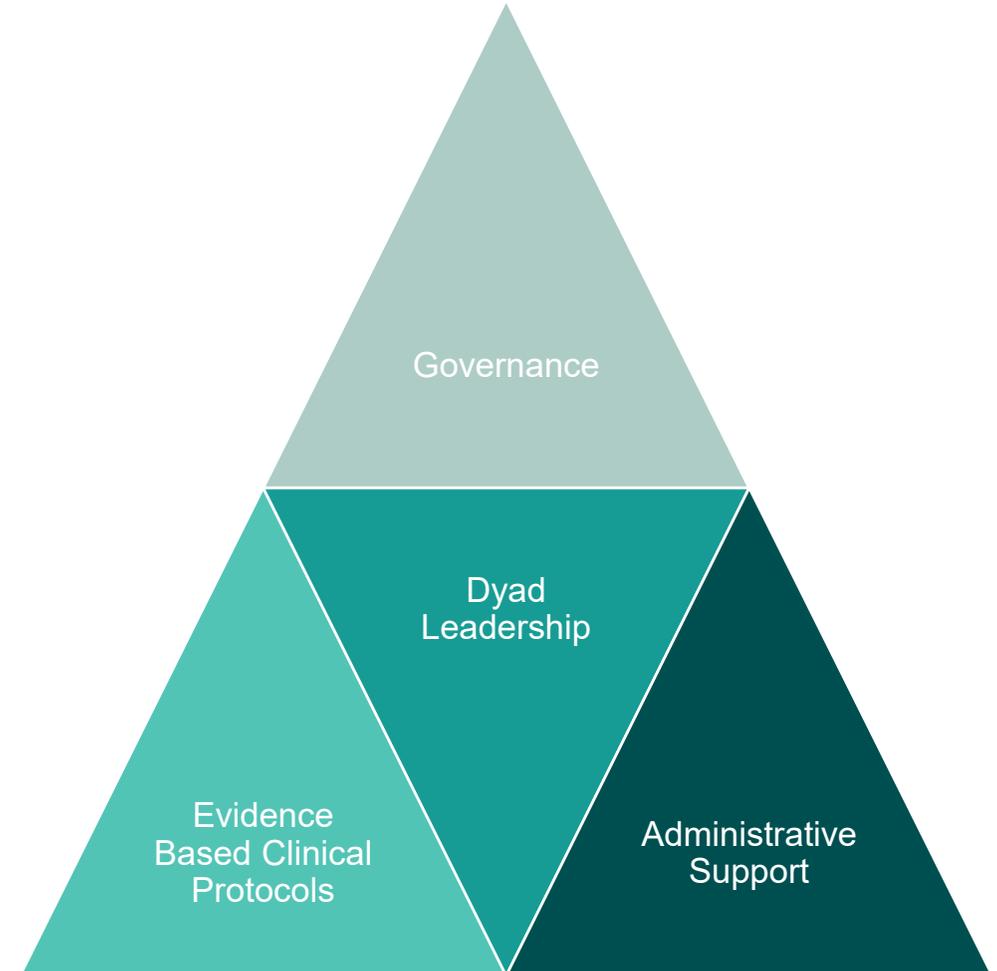
- Discharge planning and placement
- Follow up care coordinated with primary care
- Home health



# Service Line Structure

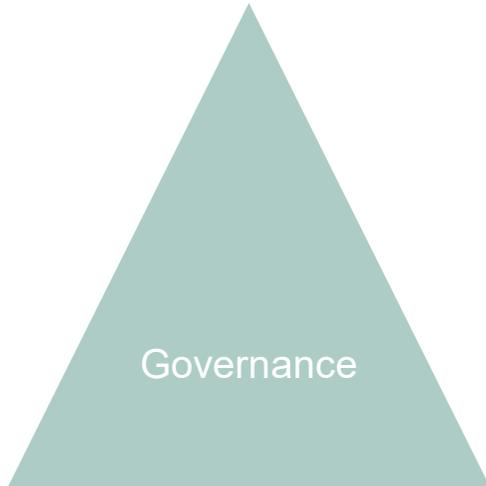
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- Driven by senior leadership
- Goals match with that of overall organization
- Quality and sustainability first, market facing second

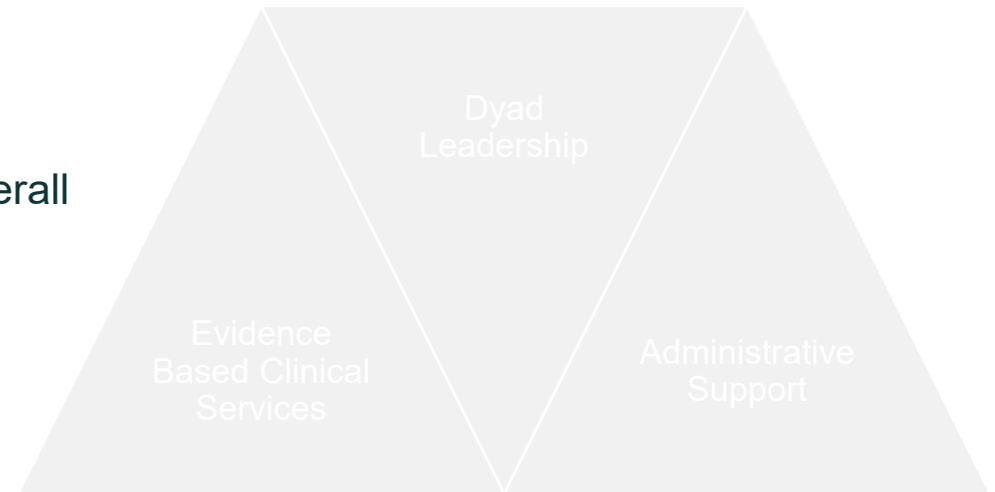


# Service Line Structure

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- Decision making authority
- Accountability for Performance
- Collaborates with other service lines
- Reports to clinical and operational leadership
- Goals match with that of overall organization
- Has credibility

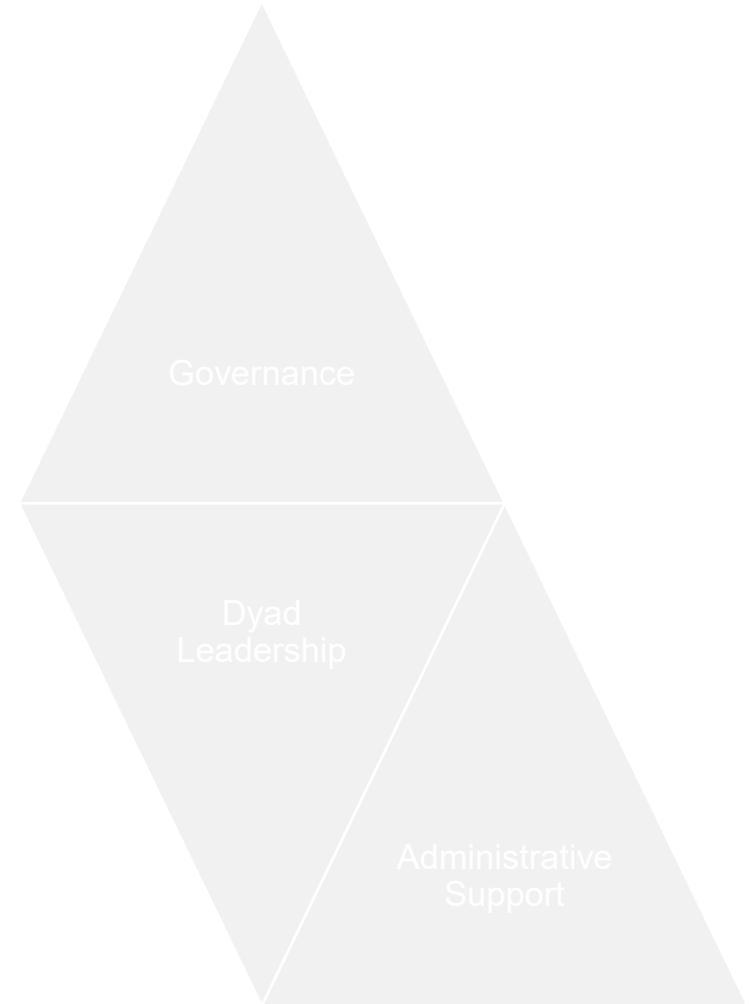


# Service Line Structure

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- Physician driven
- Respected clinical specialist leaders
- Collaboration across service lines and with other system clinical leadership
- Culture of high quality / excellence
- Close coordination with support services e.g. supply chain, decision support

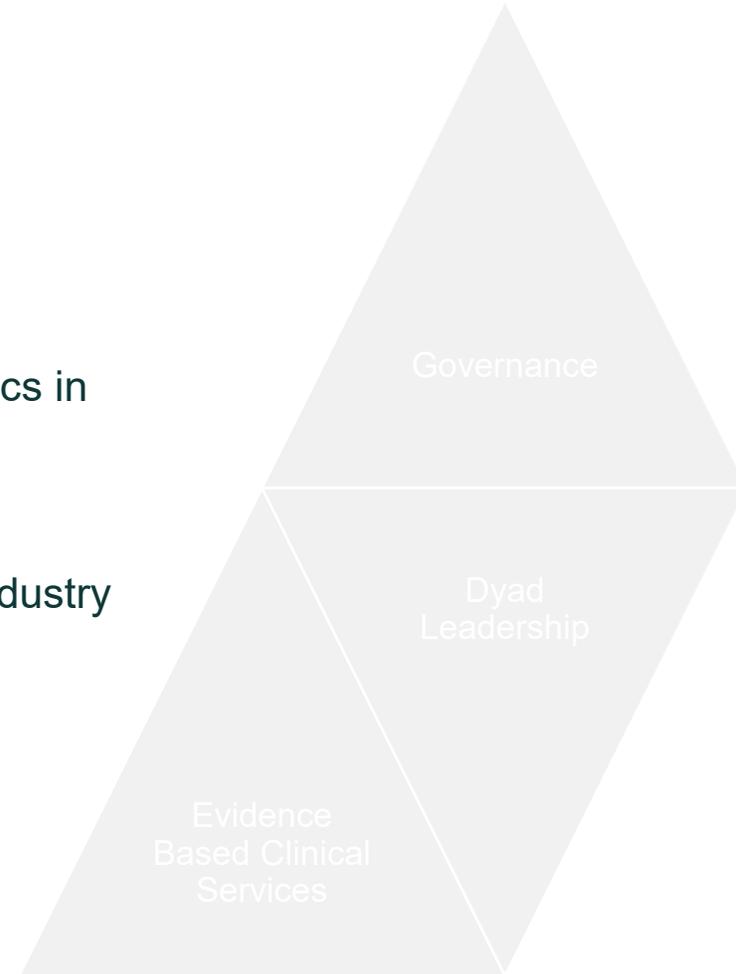


# Service Line Structure

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- Sophisticated analysis capabilities
- Approved/accepted metrics in dashboards
- Data that is credible
- Consistent adoption of industry accepted metrics
- Ability to innovate



# Service Line Structure

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- Physician leader with credibility in the specialty community and administrative leadership qualities
- Nursing leadership based on specialty care needs
- Administrative leader with knowledge and experience in the service line



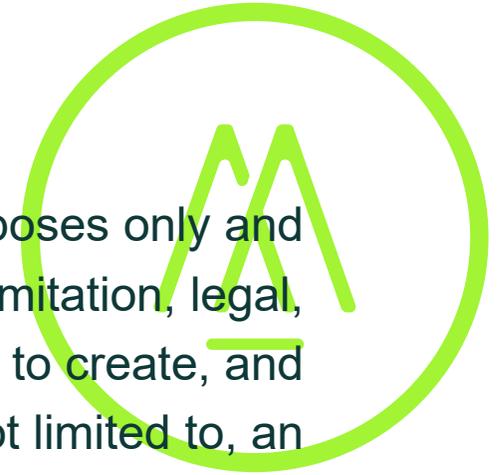
# Key Takeaways

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The situation for many hospitals and health systems is dire and solutions need to be achievable quickly, but also be sustainable in the long-term.

- Candid assessment of areas of opportunity and an open mind to tough change is necessary. If your labor cost per case is 300% of what it should be, assuming that cost is variable, it's likely that adding another case isn't a good thing.
- There is a LOT of opportunity if you know where to look and don't count out the basics.
- Long term change has to be a part of the solution and it's almost never too late to start.
- Most systems have very talented people but lack bandwidth and ability to step back and see the forest through the trees. Get help.





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