Productivity

Planning for the Future by Improving Efficiency and Reducing Costs
Who We Are

- AHS is a Pittsburgh, PA based Healthcare Consulting Firm established in 2004
- Clients throughout the United States
- Primarily focused on Financial and Operational Improvement
  - Hospital Turnarounds
  - Labor Management
  - Productivity Benchmarking, Action Planning, Management Education and Reporting
  - Organizational Assessments and Strategy Initiatives
  - Interim Executive Placement
  - Physician Productivity
Overview

1. Health Reform Update
3. Benchmarking Strategies
4. Steps to Take Now

“We are what we repeatedly do. Excellence, therefore, is not an act but a habit.”

Aristotle
Current Climate on Capital Hill

- Medicare Reductions, Medicaid Reductions and Healthcare Reform still taking center stage
- Sequester Cuts Started
- Debt Ceiling and Government Funding
  - Member of both parties expected to insist on additional spending cuts
Hospitals Adjusting to the Known Elements and Bracing for the Worst

- January Tax Deal included $10.9 B of Medicare payment cuts over 10 years
  - Primarily documentation and coding adjustments
  - Also includes hospital outpatient radiology services payment decreases
- March Sequester
  - $37.9 B in Medicare payment cuts to hospitals over 10 years if Sequester continues to take effect
- Potential Entitlement Reform/Deficit Reduction cuts
  - $400 - $700B in purported healthcare spending cuts still to come
What drives our debt
(Government spending as share of economy)
Why is productivity important?

- Labor costs account for between 40 – 60% of the typical hospitals operating expense
- Softening Inpatient Volumes
  - Hospitals Reporting Decrease in Admissions
- Growing Outpatient Services and Home Health
- Medicare Tidal Wave
  - Increasing Patient Demand
- Evaporating Margins
  - Increasing Costs and Decreasing Reimbursement Shaving Margins
  - Healthcare Reform and Deficit Reduction Accelerating Change
- Limited Capital
  - Funding Difficulties
  - Hospitals Reporting Reduction in Capital Expenditures
HealthCare Reform Impact in Kentucky

- Medicaid Expansion will Strain Providers
  - Medicaid pays for about 80% of the cost of care in Kentucky
  - A significant portion of the state’s population already receive Medicaid, and the numbers of individuals and families covered will grow drastically by 2014
  - The health insurance mandate will place the state at a large disadvantage due to the demographics of the population

- Additional Covered Lives will Stress Provider System
  - Lack of specialists to meet needs of growing patient population
  - Severe physician shortages in specific locations

- Insurers funding well care and healthy practices
  - Improved rewards for health and wellness programs
  - Long term cultural change has been difficult in Kentucky in the past

- Resource
  - http://insurance.ky.gov
What is the State of Labor Management?

- Vacancy Rates are down
- Majority of hospitals making efforts to increase number of employed physicians
- Nine in ten hospitals have made cut backs in the last three years
  - Nearly half have reduced staff
  - 8 in 10 have cut administrative expenses
- Global productivity measures continue to decrease
- Over 40 percent of hospitals are reporting negative operating margins and over 55% are barely breaking even
Productivity in an Era of Reform

- Improving efficiency listed as a top priority for survival during healthcare reform
- Improvement must be made without impacting quality
- David Cutler, Harvard economist and adviser to President Obama during the 2008 campaign, placed a price on healthcare’s poor productivity of $850B
- CMS designed incentives to force providers to reduce waste, improve care coordination (ACOs) and develop quality process standardization
- In order to be successful, hospitals must operate at the lowest possible cost per adjusted discharge or cost per visit while providing the highest possible quality care
Balancing the Broader Productivity Perspective

Input

Labor

Service
Volume
Quality

Output
Role of Productivity and Labor Management in Today’s Hospitals

- Provides a system to achieve sustained cost improvement
- Instills an accountability model that reduces the need for large-scale layoffs
  - Structured hiring process controls FTE creep
  - Action plans and process improvement expectations improve ability to achieve staffing targets
- Aligns the organization’s financial goals with staffing levels
Benchmarking Strategies

- Benchmark the organization and/or system on global metrics
- Benchmark department performance
- Analyze skill mix and job code mix within departments
- Review the span of control and scope of management
- Benchmark service line and physician practice performance
- Utilize standard benchmarking resources
- Engage a consulting firm to assist in the process
Purpose of a Comparative Group

- Establish comparative performance against peers
- Identify opportunities for improvement compared to other facilities
- Create a framework for discussion and action planning
- Quantify best practice performance
Global Productivity Targets

- Used in Conjunction with Department Target
- Unite Organization’s Effort Around Common Goals
- Link Productivity Targets to Overall Budget
- Select 2-4 Indicators to Drive Improvements in Productivity and Efficiency
  - Personnel Expense as a % of Net Patient Revenue
  - Salary per Adjusted Discharge
  - FTE per Adjusted Occupied Bed
  - Total Operating Revenue per FTE
  - FTE per 100 Adjusted Discharges
- Should include patient days, discharges, cost and revenue
Personnel Expense as a % of Net Patient Revenue (Total Operating Revenue)

**Definition:** \( \frac{(Salary \ Cost + Benefit \ Cost + Agency \ Cost)}{Net \ Patient \ Revenue} \)

<table>
<thead>
<tr>
<th></th>
<th>Poor (25%)</th>
<th>Median (50%)</th>
<th>Better (75%)</th>
<th>Best (90%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>58.10%</td>
<td>49.99%</td>
<td>42.01%</td>
<td>34.65%</td>
</tr>
<tr>
<td>Regional</td>
<td>54.68%</td>
<td>48.33%</td>
<td>41.91%</td>
<td>34.73%</td>
</tr>
<tr>
<td>State</td>
<td>53.85%</td>
<td>45.86%</td>
<td>39.78%</td>
<td>34.66%</td>
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The median performance for profitable hospitals is 47%. This value is expected to decrease by 3-5% under health reform.

If your hospital is operating above 50%, improvements will be necessary.
FTE/AOB

**Definition:** Full Time Equivalents Divided by Adjusted Occupied Beds

To calculate full-time equivalents, utilize a value of 2,080 hours per employee. The adjustment factor is defined as Total Revenue/Inpatient Revenue. Exclude nursery days, if applicable.

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<tr>
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<th>Poor (25%)</th>
<th>Median (50%)</th>
<th>Better (75%)</th>
<th>Best (90%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>6.04</td>
<td>4.85</td>
<td>3.99</td>
<td>3.35</td>
</tr>
<tr>
<td>Regional</td>
<td>5.50</td>
<td>4.66</td>
<td>3.90</td>
<td>3.29</td>
</tr>
<tr>
<td>State</td>
<td>4.77</td>
<td>3.97</td>
<td>3.48</td>
<td>3.08</td>
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</table>

The median performance for profitable hospitals is 4.8. This value is expected to decrease by 5-10% under health reform.

If your hospital is operating above 4.5, improvements will be necessary.
Linking Targets to Strategic Initiatives

- Executive management must define the performance levels that translate into profitability and quality outcomes
  - Seek outside assistance if necessary
- Select the productivity/efficiency targets reviewed by the Board and Senior Management Team on a regular basis
- Determine the frequency of reporting (monthly, quarterly, annually)
Balanced Scorecard Approach

- Financial Perspective includes Productivity targets as a focus area
- The Balanced Scorecard tracks performance against the Strategic Initiatives
- The Balanced Scorecard Relates to Mission, Vision and Values
## Balanced Scorecard Productivity Example

**Productivity – client unaudited detail**

<table>
<thead>
<tr>
<th>CMH adj/Paid hrs/ adj/dis</th>
<th>Total paid hours ~ Divided by adjusted discharges ~ Divided by CMH</th>
<th>JULY</th>
<th>AUG</th>
<th>SEPT</th>
<th>YTD</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Case Mix Index</td>
<td></td>
<td>1.34</td>
<td>1.35</td>
<td>1.35</td>
<td>1.36</td>
<td></td>
</tr>
<tr>
<td>b. Paid hrs</td>
<td></td>
<td>408,915</td>
<td>412,873</td>
<td>404,989</td>
<td>3,819,912</td>
<td></td>
</tr>
<tr>
<td>c. Adjusted discharges</td>
<td></td>
<td>3,141</td>
<td>3,220</td>
<td>2,872</td>
<td>26,177</td>
<td></td>
</tr>
<tr>
<td>d. Indicator</td>
<td></td>
<td>96.00</td>
<td>96.00</td>
<td>113.00</td>
<td>96.37</td>
<td>2011 38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CMH adj/Paid hrs/ adj/dis</th>
<th>Total salaries plus benefits plus temporary labor expense ~ Divided by total net patient revenue</th>
<th>JULY</th>
<th>AUG</th>
<th>SEPT</th>
<th>YTD</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Benefits</td>
<td></td>
<td>3,024,060</td>
<td>3,056,223</td>
<td>2,818,586</td>
<td>27,603,783</td>
<td></td>
</tr>
<tr>
<td>c. Temporary Labor</td>
<td></td>
<td>215,113</td>
<td>179,437</td>
<td>185,777</td>
<td>1,822,002</td>
<td></td>
</tr>
<tr>
<td>d. Net Patient Revenue</td>
<td></td>
<td>26,504,530</td>
<td>27,007,448</td>
<td>26,468,610</td>
<td>250,905,415</td>
<td>Net Revenue: Gross revenue minus contractual adj. &amp; charity</td>
</tr>
<tr>
<td>e. Indicator</td>
<td></td>
<td>47.5%</td>
<td>47.1%</td>
<td>47.7%</td>
<td>46.1%</td>
<td>2011 47.70%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CMH adj/Paid hrs/ adj/dis</th>
<th>Total net revenue ~ Divided by total FTEs</th>
<th>JULY</th>
<th>AUG</th>
<th>SEPT</th>
<th>YTD</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Net Patient Revenue</td>
<td></td>
<td>28,604,636</td>
<td>27,007,448</td>
<td>26,496,610</td>
<td>250,905,415</td>
<td>Net Revenue: Gross revenue minus contractual adj. &amp; charity</td>
</tr>
<tr>
<td>b. FTE</td>
<td></td>
<td>2,380</td>
<td>2,380</td>
<td>2,380</td>
<td>2,315</td>
<td>Represents an average</td>
</tr>
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Developing Department Standards

- Select appropriate volume indicator/work load unit
  - Be cautious of over analyzing work elements that only occur 5% of the time or account for a minor portion of an employee’s work
- Capture historical performance over several fiscal years, months and/or payroll periods
- Obtain comparative industry data
- Analyze productive hours and paid hours, including agency and overtime hours
Rules for Success

- Establish targets/standards for **ALL** departments
- Update performance metrics annually
- Include manager input
- Relate the targets to budget and department strategic plan and/or scope of service
- Develop through industry standards, historical performance and peer group comparisons
Steps to Take Now

- Review or develop global and departmental targets
  - Gauge your performance against national and customized peer groups
  - Establish recommended worked (productive) and paid targets on a department and organizational level
  - Select realistic goals that are based on your local environment and patient care model

- Establish a transparent accountability model
  - Require all levels of management to respond to staffing overages in a timely manner
  - Develop a “Back on Plan” report that requires managers to achieving targets to submit action plans and performance improvement steps
  - Link annual performance reviews to productivity performance
Steps to Take Now

- Build a Flexible Work Force
  - Attract hire quality part-time workers through competitive offerings
  - Target staff specifically for part-time positions
  - Revise proportion of part-time to full-time staff to provide better flexibility during slow and high census periods

- Right Size Administrative Team
  - Complete a span of control and scope of management review
  - Assess the entire size of the management structure
  - 18:1 or 20:1 Best Practice levels
  - Drill down into the organization by functional levels
Steps to Take Now

- Evaluate and reduce overtime
  - Review all pre-scheduled overtime to ensure shifts are justified
  - Study incremental overtime and take measures to reduce abuse
  - Develop schedules with overlapping shifts on the nursing units and other areas where the exchange of patients occurs
  - Drive your organization below an overtime level of 2% for the organization and 4% for patient care areas

- Reduce agency utilization and expensive outsourcing contracts
  - Work to reduce or eliminate the use of agency or travelers within the patient care areas
  - Evaluate all contract labor and eliminate areas where internal staff can be hired and managed at a much lower cost
Steps to Take Now

- Reduce Non-Productive Time
  - Evaluate your orientation and education hours to ensure you are meeting minimum requirements and eliminate unnecessary requirements
  - Review all paid time off policies and review practices for opportunities
  - Eliminate the vacation buy-out packages for continuing employees
  - Reduce the amount of vacation/sick days that carry over year to year
  - Strive to reduce your non-productive time to 10% or less of your total paid hours
Steps to Take Now

- Reduce nursing/patient care hours by staffing to core staffing models and closely match staff to patient demands
  - Switch to a core staffing model for patient care areas, instead of staffing to the average daily census
  - Provide more flexibility
  - Typically reduces costs by 2-3% per unit
  - Identify seasonal trends in units based on monthly volumes from the last three years
  - Adjust staffing patterns based on seasonal fluctuations
  - Identify days of week with the greatest volume variations
Steps to Take Now

- Implement a vacancy control committee
  - All positions, replacement or new, are reviewed and approved by the vacancy control committee
  - Vice Presidents and managers must provide justification for all requested positions in departments not meeting their current productivity target and/or volume adjusted budget
  - Provide a space on the job requisition form for the managers to share their latest productivity performance and variance reports
Steps to Take Now

- Complete a physician productivity study
  - Include visits and revenue, in addition to RVUs
  - Study the downstream impact of the physician’s referrals
  - Identify opportunities on a service line basis
  - Secure regional information, in addition to national

- Improve Revenue Cycle Productivity
  - Work to reduce denials and rejected claims
  - Train staff on denial management processes
  - Improve point of service collections
  - Decrease delays in patient billing
When to Secure Outside Support

- Difficult to obtain accurate internal volume information
- Need prioritization and action planning within areas of opportunity
- Obtain comparative global and department metrics
- Complete operational analysis and span of control assessment
- Internal staff does not possess time or resources to complete tasks on time
- Researching industry best practices
Lasting Thoughts

- Operating Margins will trend down
- Improving labor productivity while maintaining or improving clinical quality can drive financial performance improvement
- Operational Assessments and Benchmarking are powerful tools used to identify improvement opportunities and cost savings
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