Colorado Behavioral Healthcare Council
2018 Annual Training Conference
Understanding & Reducing Unit Costs

October 12, 2018
Presented By: David Wawrzynek, Senior Associate
### Presenter

**David Wawrzynek**  
**Senior Associate**  
**OPEN MINDS**

#### Expertise
- Financial modeling and costing
- Revenue cycle management and financial operations best practices
- Statistical analysis and data visualization
- Risk management and network security policies and procedures

#### Career Highlights
- Senior Vice President of Finance & Chief Financial Officer, Spectrum Human Services
- Vice President of Finance & Chief Fiscal Officer, Health Management Group
- Director of Financial Operations, Spectrum Human Services
- Supervising Counselor, Outpatient Psychiatry, Buffalo General Hospital Community Mental Health Center

### Agenda

#### I. Session One

<table>
<thead>
<tr>
<th>Time</th>
<th>Activities</th>
</tr>
</thead>
</table>
| 1:30 PM – 3:00 PM | A. The Shifting Reimbursement Market  
B. Tools For Managing Unit Costs  
   i. Activity-Based Costing  
   ii. Target Costing  
   iii. Value-Engineering |

#### II. Session Two

<table>
<thead>
<tr>
<th>Time</th>
<th>Activities</th>
</tr>
</thead>
</table>
| 3:30 PM – 5:00 PM | A. Case Study: Financial Modeling & Performance Monitoring  
B. Questions & Discussion |
I. Session One

A. The Shifting Reimbursement Market

B. Tools For Managing Unit Costs
   - Activity-Based Costing
   - Target Costing
   - Value-Engineering
A. The Shifting Reimbursement Market
Decreasing Rates: A Continuing Challenge

- **Blue Cross Payment Cuts Prompt Protest By Minnesota Mental Health Providers**
  - *Star Tribune* – September 6, 2017

- **Mental Health Programs In Danger of Disappearing Under DHHS Proposed Reimbursement Rates**

- **Health Insurers Are Still Skimping On Mental Health Coverage**
  - NPR – November 30, 2017

- **Proposed Medicaid Cuts Would Be Devastating; Service Providers Tell Montana Health Officials**
  - Independent Record – July 27, 2017
The Shifting Reimbursement Market

A Change In Focus
Reducing costs while delivering and demonstrating value

A Change In Methods
Understanding costs and focusing on outcomes
In addition to expanding coverage, the ACA changed the financial framework for health care coverage:

- Elimination of pre-existing condition limitations in coverage
- Elimination of annual and lifetime limits
- Parity for treatment of mental health and addictive disorders
- Medical loss ratio requirements for health insuring organizations
The “payer” perspective – spend as little as possible for acceptable quality and performance – *The Value Equation*
### Impact Of Medicaid & Medicare Growing – With More Managed Care

<table>
<thead>
<tr>
<th>Payer Type</th>
<th>2011, % Of U.S. Population Covered</th>
<th>2016, % Of U.S. Population Covered</th>
<th>2011, % Of Population Enrolled In Managed Care</th>
<th>2016, % Of Population Enrolled In Managed Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare, non dual eligible</td>
<td>14%</td>
<td>15%</td>
<td>23%</td>
<td>32%</td>
</tr>
<tr>
<td>Medicare, dual eligible</td>
<td>3%</td>
<td>3%</td>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>18%</td>
<td>23%</td>
<td>50%</td>
<td>68%</td>
</tr>
<tr>
<td>Commercial</td>
<td>52%</td>
<td>54%</td>
<td>93%</td>
<td>98%</td>
</tr>
<tr>
<td>Military</td>
<td>3%</td>
<td>3%</td>
<td>57%</td>
<td>49%</td>
</tr>
<tr>
<td>Uninsured</td>
<td>15%</td>
<td>9%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Shifting Payer Focus Of Superutilizer Impact On Health Resource Use

- **5% of U.S. population account for half (49%) of health care spending**
  - $43,212 average expenditure per person per year

- **50% of U.S. population account for only 3% of health care spending**
  - $253 average expenditure per person per year

**Superutilizer**
- Individuals with complex physical health, behavioral health, and social issues who have high rates of utilization for ER and hospital services
- More than 80% of Medicaid superutilizers have a comorbid behavioral health disorder
- An estimated 44% of superutilizers have a serious mental illness
Emerging Framework For Integrated Care Coordination

Behavioral health system optimization is central to success – and value-based reimbursement key to that optimization.
Business Model Transition
For Service Provider Organizations

**Payer Policy = Pay-For-Volume**

- What is paid for is good for the consumer - and doing more is the business model
- Focus on maximizing price and managing volume

**Payer Policy = Pay-For-Value**

- Giving the consumer (and their payer) what they want and need is the business model
- Good outcome at low cost – conveniently
Strategic Financial Implications Of Shifting Reimbursement Market

- Develop Competencies And Internal Culture To Compete In A Performance-Based Market
- Develop Infrastructure And Information Technology And Re-align Processes
- Improve Understanding Of Cost Drivers – Manage And Reduce Costs
B. Tools For Managing Unit Costs
Steps To Reengineer Costs

Activity-Based Costing

- Understand Activities That Drive Costs
  - Step #1: Map activities and costs
  - Step #2: Determine the cost of each activity and process
  - Step #3: Select metrics to track each activity and related cost

Target Costing

- Identify The Market Rate & How To Achieve It
  - Step #4: Define the service the payer wants
  - Step #5: Build the components of the service
  - Step #6: Calculate unit rate

Value Reengineering

- Reengineer Processes
  - Step #7: Create performance standards
  - Step #8: Use scenario analysis to identify the least cost for the defined service
Step #1: Map Activities & Costs

- Identify Service Lines
  - Think “strategic business unit”
  - Service line cost accounting measures and tracks metrics by service line - such as volume, cost, and profitability
  - Effective service line planning enables leadership and staff to track and impact key revenue and cost drivers

Responsibility Center
Service line or division with oversight for the results of a unit – creates a line of accountability and focus for reporting of results

Revenue Center
Operating unit with responsibility for both creating revenues and managing expenses

Cost Center
Operating unit with responsibility only to control expenses
Step #1: Map Activities & Costs

**Service Lines**

- **Adult Mental Health**
  - Inpatient
  - Assertive Community Treatment
  - Outpatient
  - Targeted Case Management
  - Supported Employment

- **Children’s Mental Health**
  - Inpatient
  - School-Based
  - Assertive Community Treatment
  - Outpatient

- **Substance Use**
  - Detox
  - Intensive Outpatient
  - Outpatient
  - Sober Living

- **Developmental Disabilities**
  - Residential
  - Day Treatment
  - Supported Employment
Step #2: Determine Cost of Each Activity & Process

Break the service line down into activities

- What are each of the key activities – first interaction through receipt of payment?
- Can each activity be broken down into multiple steps?
- Who performs each activity?
- How much time does it take to perform each activity?
- Which costs can be assigned to each activity? (salaries, supplies, and technology charges)
# Traditional Accounting Vs. Activity-Based Costing

From managing dollars to managing activities

<table>
<thead>
<tr>
<th>Traditional Costing</th>
<th>Activity-Based Costing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor</strong></td>
<td><strong>Receive &amp; Process Claims</strong></td>
</tr>
<tr>
<td><strong>$600,000</strong></td>
<td><strong>$500,000</strong></td>
</tr>
<tr>
<td><strong>Fringe Benefits</strong></td>
<td><strong>Research &amp; Solve Problem Claims</strong></td>
</tr>
<tr>
<td><strong>$150,000</strong></td>
<td><strong>$250,000</strong></td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td><strong>Produce &amp; Mail Claims Checks</strong></td>
</tr>
<tr>
<td><strong>$50,000</strong></td>
<td><strong>$75,000</strong></td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td><strong>Produce Reports</strong></td>
</tr>
<tr>
<td><strong>$25,000</strong></td>
<td><strong>$25,000</strong></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>$25,000</strong></td>
<td><strong>$850,000</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>$850,000</strong></td>
<td><strong>$850,000</strong></td>
</tr>
</tbody>
</table>
Activity-Based Costing

Link Costs To Activities

• Think in terms of resources needed to complete each activity
• What are the drivers for each cost?

<table>
<thead>
<tr>
<th>Cost</th>
<th>Cost Driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>Staff time</td>
</tr>
<tr>
<td>Supplies</td>
<td>Measure of supplies used</td>
</tr>
<tr>
<td>Technology</td>
<td>Cost per employee or activity</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Estimated life of asset</td>
</tr>
</tbody>
</table>
## Mental Health Activities & Measures

<table>
<thead>
<tr>
<th>Activity</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set up appointment</td>
<td>Number of billable hours</td>
</tr>
<tr>
<td>Client intake</td>
<td>Number of billable hours</td>
</tr>
<tr>
<td>Providing therapy</td>
<td>Number of billable hours or session</td>
</tr>
<tr>
<td>Supervision</td>
<td>Number of hours/Number of staff supervised</td>
</tr>
<tr>
<td>Billing</td>
<td>Number of steps/Number of hours</td>
</tr>
<tr>
<td>Activity</td>
<td>Measure</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Set Appointment</td>
<td>15 minutes</td>
</tr>
<tr>
<td>Client Intake</td>
<td>2 hours</td>
</tr>
<tr>
<td>Therapy Session(s)</td>
<td>10 hours</td>
</tr>
<tr>
<td>Supervision</td>
<td>2 hours</td>
</tr>
<tr>
<td>Billing</td>
<td>1 hour</td>
</tr>
<tr>
<td>Total</td>
<td>15.25 hours</td>
</tr>
</tbody>
</table>
Step #3: Select Metrics To Track Activities & Costs

Collect data on the cost drivers to understand process resources
- EHR
- Time Studies

Create systems to create more operationally accurate cost information

Create budget of expected drivers and costs

Educate staff on relationship between cost drivers and costs

Provide operational managers ability to manage activities and their costs
### Challenges & Misconceptions

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Misconceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Staff may feel measured or judged</td>
<td>• Will take excessive time and focus on detail and accuracy</td>
</tr>
<tr>
<td>• Can be seen as an administrative task without clinical value</td>
<td>• Will require a large amount of data</td>
</tr>
<tr>
<td>• Takes additional time during measurement period</td>
<td>• Will create an entirely new tracking system</td>
</tr>
</tbody>
</table>

Activity-based costing will enable the organization to understand the activities, resources, and data needed to define the costs of specific services.
Target Costing

A pricing method used to reengineer the costs associated with a service, to achieve a specified target market rate

- Determines the maximum cost for a service that can be incurred to earn the required profit margin at market rate
- Different approach from the traditional Cost-Plus Pricing Method
  - Calculates the cost of producing a service, then adds a desired margin to determine the selling price

Why Is Target Costing Important?

As the market shifts towards a more customer-driven market, the customers – payers and consumers – do not focus on our costs associated with delivering a service. Their focus is on the rate they are charged, and how that rate (and other attributes of the services, known as the value equation), compares to the competition.
Target Costing & Metrics-Based Management – “Manage The Market”

Target Costing Requires:

✓ Understanding of value from customer perspective
✓ Competitor prices and services
✓ Metrics-based performance management

Target costing – adjusting program costs to meet market rate – to deliver a specific level of functionality and quality – while ensuring desired margin.
Target Costing

Target costing focuses cost reduction efforts around reengineering the product or service design, rather than squeezing costs out of the current design. It is important to understand the activities that create the service delivery.

<table>
<thead>
<tr>
<th>Intake</th>
<th>Service Delivery</th>
<th>Bill For Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Collect information</td>
<td>• Create treatment plan</td>
<td>• Prepare claims</td>
</tr>
<tr>
<td>• Confirm insurance</td>
<td>• Deliver services</td>
<td>• Submit claims</td>
</tr>
<tr>
<td>• Perform assessment</td>
<td>• Document services</td>
<td>• Post payments</td>
</tr>
<tr>
<td>• Obtain authorization</td>
<td>• Perform utilization review</td>
<td>• Follow up on adjustments and</td>
</tr>
<tr>
<td>• Assign service and clinician</td>
<td>• Obtain ongoing authorizations</td>
<td>nonpaid claims</td>
</tr>
</tbody>
</table>

Need to understand activities that create the service delivery.
Target Costing Construct

Customer Needs (Services, Features, Pricing)

Competitor Analysis (Services, Features, Pricing)

Target Market Position & Market Price

Target Cost
Step #4: Define The Service The Payer Wants

Important To Understand The Service The Payer Is Building The Cost Of

- Service definition
- Staffing ratio requirements
- Credentialing requirements
- Authorizations & billing method
- Reporting
- Drive technology
  - Collaboration and integration expectation
- Marketing
## Considering Impact On Unit Costs

<table>
<thead>
<tr>
<th>Service Requirement</th>
<th>Impact On Unit Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing ratio</td>
<td>If not defined by the payer, can give flexibility to the provider in balancing quality and costs.</td>
</tr>
<tr>
<td>Credentialing</td>
<td>Can give direction to the types of staffing costs required, with a focus on licensed staff “working at the highest level of their license.”</td>
</tr>
<tr>
<td>Authorizations and billing methods</td>
<td>Payer requirements for authorizations can drive additional staffing costs; bundled case rates take fewer resources to implement than hourly rates.</td>
</tr>
<tr>
<td>Reporting</td>
<td>Payer defined reporting requirements may take additional technology resources.</td>
</tr>
<tr>
<td>Collaboration and integration expectations (drive technology)</td>
<td>Additional costs will be incurred for HIPAA and technology to implement collaboration and integration requirements.</td>
</tr>
<tr>
<td>Open Access</td>
<td>May put pressure on managing clinical staffing capacity</td>
</tr>
<tr>
<td>Marketing</td>
<td>Reaching the full market will require marketing efforts – call center, website, marketing initiatives.</td>
</tr>
</tbody>
</table>
Step #5: Build The Components Of The Service

• Salaries
  • Types of positions
  • Staffing ratios for each position
  • Market rates for each position – need to attract quality candidates
  • Fringe benefits and payroll taxes – identify as a percentage of salaries

<table>
<thead>
<tr>
<th>Position</th>
<th>Staff/Client Ratio</th>
<th>Market Salary</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCSW</td>
<td>50</td>
<td>$60,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Care Coordinator</td>
<td>25</td>
<td>$30,000</td>
<td>$7,500</td>
</tr>
</tbody>
</table>
Step #5: Build The Components Of The Service

• Expenses Tied To Staff
  • Mileage reimbursement
  • Cell phone reimbursement
  • Laptop
  • Access to EHR

<table>
<thead>
<tr>
<th>Expense</th>
<th>Driver</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mileage</td>
<td>100 miles per client per month</td>
<td>$.55</td>
</tr>
<tr>
<td>Cell Phone</td>
<td>Per month</td>
<td>$60</td>
</tr>
<tr>
<td>Laptop</td>
<td>Cost allocated over 36 months</td>
<td>$1,200</td>
</tr>
<tr>
<td>EHR</td>
<td>Fee per staff member per month</td>
<td>$25</td>
</tr>
</tbody>
</table>
Step #5: Build The Components Of The Service

- Other Expenses
  - Supplies
  - Office space
  - Program support – direct or as a percentage of direct costs
  - Management & general expenses
- When building a new program, be careful not to build in excessive infrastructure costs
  - Fully-loaded costs
  - Marginal costs
Step 5. Build The Components Of The Service

1. Identify the number of clients to be served each month
   - Separate by start-up/build-up period and fully-implemented timeframes

2. Tie staff FTEs needed to serve clients

3. Build costs based on staff FTEs needed
   - Fringe - % of staff
   - Working space – based on number of staff needed at maximum number of clients served
   - Other expenses – tied primarily to staffing

4. Identify types of expenses
   - Variable expenses
   - Fixed expenses
Fixed Versus Variable - Understanding Your Costs

▪ What Costs Are Fixed?
  ▪ Over what relevant time range are they fixed?
  ▪ Can adding a fixed cost create greater efficiency in the short-term or long-term?

▪ What Costs Are Variable?
  ▪ What variable costs when cut will cut your productive capacity?
  ▪ What is the relationship between your variable costs and your anticipated level of efficiency, effectiveness, and quality?

Moving from a single focus of maximizing productivity to understanding the needs of your populations and targeting the most effective intervention
Financial Model – Fee For Service

Note: Average utilization is assumed regardless of volume.

Variable costs create less risk under FFS
## Fixed Versus Variable Costs Case Example

### Number of Members Remains The Same - Variable Costs Increase

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Change</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>50,000</td>
<td>0</td>
<td>50,000</td>
</tr>
<tr>
<td>Revenue - PMPM</td>
<td>$25</td>
<td>$0</td>
<td>$25</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td>$400,000</td>
<td>$0</td>
<td>$400,000</td>
</tr>
<tr>
<td>Variable Costs - PMPM</td>
<td>$15.00</td>
<td>$16.00</td>
<td>$16.00</td>
</tr>
<tr>
<td>Revenue</td>
<td>$1,250,000</td>
<td>$0</td>
<td>$1,250,000</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td>$400,000</td>
<td>$0</td>
<td>$400,000</td>
</tr>
<tr>
<td>Variable Costs</td>
<td>$750,000</td>
<td>$50,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Excess</td>
<td>$100,000</td>
<td>($50,000)</td>
<td>$50,000</td>
</tr>
</tbody>
</table>
### Step #5: Build The Components Of The Service

<table>
<thead>
<tr>
<th>Driver</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients</td>
<td>50</td>
<td>75</td>
<td>100</td>
<td>125</td>
</tr>
<tr>
<td>LCSW</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Care Coordinator</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Mileage</td>
<td>5,000</td>
<td>7,500</td>
<td>10,000</td>
<td>12,500</td>
</tr>
<tr>
<td>Cell</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>
### Step #5: Build The Components Of The Service

<table>
<thead>
<tr>
<th>Driver</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients</td>
<td>50</td>
<td>75</td>
<td>100</td>
<td>125</td>
</tr>
<tr>
<td>LCSW</td>
<td>$60,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$180,000</td>
</tr>
<tr>
<td>Care Coordinator</td>
<td>$60,000</td>
<td>$90,000</td>
<td>$120,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Mileage</td>
<td>$2,500</td>
<td>$3,750</td>
<td>$5,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>Cell</td>
<td>$180</td>
<td>$300</td>
<td>$360</td>
<td>$480</td>
</tr>
</tbody>
</table>
Step #6: Calculate Unit Rate

- What is the basis of the unit rate?
  - Clients served per month – Per Member Per Month
  - Hours by CPT code
  - Bundled or Episodic rate based on time period (day, month)

<table>
<thead>
<tr>
<th>Description</th>
<th>Start-Up Period (Average Per Month)</th>
<th>Fully Implemented (Average Per Month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td>$50,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Clients</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Cost per member per month</td>
<td>$100</td>
<td>$75</td>
</tr>
</tbody>
</table>
Value Engineering

An approach to understanding the essential functions and outcomes of a service

- Identifies the relationship between functionality and costs
- Goal of achieving a specific cost for the required functionality – not just minimizing costs

Value engineering seeks to answer the following questions

- What is it? (Clearly define the service)
- What does it do? (Identify the intended outcomes)
- What does it cost? (Understand the cost drivers for the needed functionality)
- What else will do the job? (Creatively identify alternative solutions)
- What does that cost? (Determine if alternative solutions reduce costs)
Successful value engineering achieves the following goals:

**Consumer Focus**
Understand what outcome the consumer expects.

**Target Cost**
Understand what the payer is willing to pay.

**Service Definition**
Clearly define all primary and secondary outcomes.

**Model Development**
Build a cost model from the service definition.

**Seek Cross-Functional Input**
Service delivery staff, quality, IT, finance, and HR.

**Collaborations**
Identify opportunities to collaborate for more effectiveness and scale.
Step #7: Create Productivity Standards

Productivity Standards

- Benchmark to other organizations
- Benchmark to best practices
- Model productivity relationship to revenue
Key Productivity Indicators

- Focus the organization on strategic goals and operational performance
- “Drive” performance by establishing benchmarks for outcomes

Five major categories to measure the success of your organization

<table>
<thead>
<tr>
<th>Financial</th>
<th>Customer</th>
<th>Innovation</th>
<th>Internal</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial – reflect actual to target costs</td>
<td>Customer – reflect customer market goals and satisfaction</td>
<td>Innovation – measure ability to implement new knowledge and services</td>
<td>Internal – assess the effectiveness of operations</td>
<td>Strategic – measure progress toward strategic goals</td>
</tr>
</tbody>
</table>
Benchmarking challenges and drives continuous improvement in service quality and operations

- Creates a whole market focus and comparison with results of competitors

**Why Benchmark?**

- Compare with other firms in your industry
- Develop cross-industry comparisons
- Develop points of reference or standards of practice
- Make best-in-class determinations
- Develop best practices
Step #8: Scenario Analysis To Reduce Costs

- **Identify the least amount of activity for the expected level of quality**

- **Assess the impact of differing staffing levels and client-services ratios**

- **Identify efficiencies with other expenses**
  - Just in time staffing
  - Route planning technology for community visits

- **Identify excess productivity at specific client service/client ratio levels**
  - Especially during the start up phase of a new service
Organization & Work Structure

Organizational Restructuring

• Reducing organizational layers
• Realigning functions/workgroups around the consumers
• Driving accountability to the frontline

Work Re-Designing

• Conduct a “customer value-added” process analysis of job tasks
• Expand job scope and ownership
• Build cross-functional teams
Process Improvement Teams

Cross-functional teams bring together comprehensive data, skill sets, and insights

Analysis should focus on related outcomes of quality and costs

Teams should be empowered with parameters to implement pilot solutions

Access to timely data is key to measure process solutions and adapt improvement activities

Communication throughout the organization on goals, initiatives, and success will drive engagement and results
Example: Raigmore Hospital

Created a simple tool to pull together current data on a weekly basis
- Box score of clinical, financial and staff capacity outcomes
- Understandable by staff
- Staff given capacity to act on results

A communication process to help staff understand and analyze the data
- A visual board to define measures, link them to performance initiatives and capture problems related to the measures
- Educating staff in an easily accessible format

Strategy for implementing process improvements
- Meet weekly, analyze data, implement selected improvements
- Assess impact of improvements the next week and determine next steps
II. Session Two

A. Case Study: Financial Modeling & Performance Monitoring
B. Questions & Discussion
A. Case Study: Financial Modeling & Performance Monitoring
Unit Pricing & Revenue Model

1. Estimate volume
2. Estimate staffing needs and payroll expense for number of cases
3. Estimate non-payroll expenses
4. Estimate unit cost
5. Estimate Revenue
6. Compare proposed margin to target margin
Step #1: Estimate Volume – Adult Clinic

Estimated Volume = Estimated Number Of Case Admissions Per Month

1. Identify assumptions
2. Estimate number of referred cases/month
3. Calculate Annual Number of Cases
4. Estimate average visits per case (AVPC)
5. Calculate number of visits per month
6. Calculate annual number of cases
Step #1: Estimate Volume – **Assertive Community Treatment Team**

Estimated Volume = Estimated Number Active clients per month

1. Identify assumptions
2. Estimate number of client contacts per month
3. Estimate the number of billable contacts per month
4. Calculate the number of client contacts per year
5. Calculate number of billable client contacts per year
Step #2: Estimate Staffing Needs & Payroll Expense Based on Volume Projections

1. Identify clinical staff assumptions:
   - Weeks worked
   - Appointments per week
   - No show rate

2. Estimate support staff time

3. Estimate staff salaries

4. Estimate fringe benefits and payroll taxes

5. Calculate staffing costs
Step #3: Estimate Non-Payroll Expenses

1. Identify fixed and variable costs
   - Fixed cost estimated
   - Variable costs based on number of cases or cost drivers
     - Rent
     - Cell phone
     - Travel
     - Psychiatrist Fees

2. Calculate estimated monthly and annual fees
Step #4: Estimate Unit Cost

1. Assign annual program overhead

2. Determine profit margin goal
   • Profit margin is always a consideration in rate development and target costing

3. Calculate total costs

4. Calculate proposed unit cost
Step #5: Estimate Revenue

1. Determine payers and anticipated unit reimbursement rate
2. Determine payer mix and calculate average rate
3. Calculate total revenue
4. Compare costs to revenue to determine margin
5. If necessary revisit cost and revenue drivers and adjust the model
Step #6: Compare Proposed Margin To Target Margin

1. Which tasks and activities in the workflow are unnecessary and can be eliminated?
2. Which activities are not important to customers? (No value added)
3. Which activities can be assigned to less-expensive staff resources?
4. How can technology be used to automate or eliminate processes?
5. Which tasks can be centralized for more efficiency?
Manage to your Model

1. Identify key variables for analysis
2. Compare actual results to the model
   - Volume, payer mix, average rates, revenues and costs
3. Identify variances
4. Perform root cause analysis
5. Make adjustments and continue to monitor results
B. Questions & Discussion
Turning Market Intelligence Into Business Advantage

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