Hospital Global Budgets – A Primer

DRCHSD Hospital/Clinic Learning Collaborative
March 9, 2020

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Triple Aim

- Better patient care
- Improved community health
- Smarter spending
Financing Systems

- Global Budget
- Capitation
- Fee-for-Service
- Cost-Based Reimbursement
- Bundled Payment
- Shared Savings
- Prospective Payment System
Our Roots: *Fee-for-Service*

- Payment for each unit of service
- Cost-based reimbursement and prospective payment are fee-for-service systems
- Widget production example
- Rewards industriousness and efficiency
- Volume is king, not care
Global Budget Definition

• Single unchanging payment per fixed time period
• Per person (capitation)
• Health club example
• Rewards health maintenance and efficiency
Form Follows Finance

• How we deliver care depends on how we are paid for care

• Healthcare reform is changing both payment and delivery

• Fundamentally, payment reform involves transfer of financial risk from payers to providers
A Bit of Accounting
What are Costs?

• Whose costs?
  • Patient and/or family (insurance premium or out-of-pocket)
  • Taxpayer (government programs)
  • Private insurer (really the insuree)
  • Provider (e.g., doctors and hospitals)
  • Society (“total cost of care”)

• What kind of costs?
  • **Fixed costs** – constant regardless of volume
  • **Variable costs** – change proportionally with volume

• Taxi example
### TAXI FINANCES

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Fares</td>
<td>$40,000</td>
</tr>
<tr>
<td>Tips</td>
<td>$10,000</td>
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<tr>
<td><strong>Total</strong></td>
<td>$50,000</td>
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<tr>
<td><strong>EXPENSES</strong></td>
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<tr>
<td>Lease</td>
<td>$4,000</td>
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<tr>
<td>Fuel</td>
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<tr>
<td><strong>Total</strong></td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>PROFIT</strong></td>
<td>$40,000</td>
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Rural Hospital Fixed/Variable Cost Ratio

- Fixed: 85%
- Variable: 15%
Baseline Fee-for-Service

- Variable plus fixed costs
- Fixed costs
- Revenue
- Break even
- Profit

Some patients

Dollars

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Reduce Variable Costs

- Variable plus fixed costs
- Fixed costs
- Revenue
- Break even
- Profit
- Dollars
- Some patients

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Global Budget

- Revenue
- Profit
- Variable plus fixed costs
- Fixed costs
- Breakeven
- Less services
- More services
- Loss

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Financial Management Differences – Let’s Review

• **How do you make a profit?**
  - Nonprofit organizations still must be profitable.
  - Set aside for a moment the fundamental obligation (“duty”) to serve the organization mission.

1. Fee-for-service, including
   - Cost-based reimbursement
   - Prospective payment system

2. Capitation

3. Global budget
Three roads to **profitability**
(profit = revenue – costs)

1. Cost reduction through decreased utilization
   - Potentially avoidable utilization reduction
   - Fixed/variable cost ratio makes this challenging!

2. Operational efficiency; e.g., Lean processes

3. Revenue maintenance despite negative trends
Historic Trend versus Global Budget

![Graph showing the trend and global budget over years from 2016 to 2024. The graph illustrates a downward trend labeled 'Trend' against the revenue in millions, and a horizontal line labeled 'Global' at a certain revenue level.]

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## Overview

<table>
<thead>
<tr>
<th>Maryland</th>
<th>Oregon</th>
<th>Pennsylvania</th>
<th>Vermont</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maryland Total Cost of Care Model (CMMI demonstration)</strong></td>
<td>Coordinated care organizations (CCOs)</td>
<td>Pennsylvania Rural Health Model (CMMI demonstration)</td>
<td>Vermont All-Payer ACO Model (CMMI demonstration)</td>
</tr>
<tr>
<td>Builds upon Maryland’s all-payer model</td>
<td>Partnerships of providers, community members, and payers</td>
<td>Global budget for hospital in and outpatient services</td>
<td>Considered Next Generation ACO participants</td>
</tr>
<tr>
<td>Creates financial incentives for care coordination</td>
<td>Accepts upside and downside risk</td>
<td>Redesign care to meet the needs of local communities</td>
<td>Payers incentivize value and quality</td>
</tr>
</tbody>
</table>
Checks and Balances on a Global Budget Model

Unintended
• Referrals out
• Reduced access
• Care withholding
• Poor experience

Strategies
• Traditional quality, health, and experience metrics
• Bonuses/penalties
• Market share analysis
• Under development!
Why Agree to a Global Budget

• Financial “breathing room”

• Appropriate if:
  • Downward trending patient revenue
  • Few patients in the service area
  • Financially distressed hospital

• Likely not appropriate for hospitals with upward revenue trend
  • Requires candid pro forma regarding price trends and volume predictions
Hospital Risks under Global Budget

• Risk of *increased* volume/costs

• Global budget locks in historic revenue, but risks remain:
  • Reducing costs remains difficult
  • Future budget adjustments unknown
  • May not increase revenue enough for hospital survival

• Still requires coded claims for risk-adjustment, co-pays, and quality assessment

• Note: many rural hospitals are *already at financial risk*
Potential of Global Budget beyond Finances

- An exciting managerial challenge
- An innovation opportunity
- Getting paid for community and population health care

- **Allows Mission focus!**
  - A duty of nonprofit boards and leadership
  - Balanced with the duty to future financial viability
Health Is More Than Healthcare

Institute for Clinical Systems Improvement, Going Beyond Clinical Walls: Solving Complex Problems. 2014 Graphic designed by ProMedica.
Social Determinants of Health

SDOH

Economic Stability

Neighborhood and Built Environment

Health and Health Care

Social and Community Context

Education
Social Needs of Patients

• Community connections to address, for example:
  • Poor nutrition
  • Inactivity
  • Mental illness
  • Substance abuse
  • Unsafe housing
  • Isolation
  • Care fragmentation

• New payment models may allow attention to social needs that impact health
Going *Upstream* for Health

- Beyond medical care
- Hospital as the community locus for *health*
- Redefining the **H**
- But is this our job?
- It is if we are paid to improve health not just deliver medical care!
The Hospital’s Future Role

- Responsibility for health
- Not just health care
- ProMedica – “Our mission is to improve your health and well-being.”
- Mt. Sinai Hospital – “When our beds are filled, it means we have failed.”
Collaborations to Spread Innovation

- Rural Health Value Project
  https://ruralhealthvalue.org
- Rural Policy Research Institute
  https://www.rupri.org
- The National Rural Health Resource Center
  https://www.ruralcenter.org/
- The Rural Health Information Hub
  https://www.ruralhealthinfo.org/
- The National Rural Health Association
  https://www.ruralhealthweb.org/
- The American Hospital Association
  https://www.aha.org/front

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