Hospital Global Budgets – A Primer

DRCHSD Hospital/Clinic Learning Collaborative

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NATIONAL RURAL HEALTH RESOURCE CENTER

Rural Health Value
UNDERSTANDING AND FACILITATING RURAL HEALTH TRANSFORMATION.

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THE UNIVERSITY OF IOWA

Triple Aim

Better patient care

Improved community health

Smarter spending

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

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Financing Systems

Global Budget

Shared Savings

Capitation

Fee-for-Service

Cost-Based Reimbursement

Bundled Payment

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

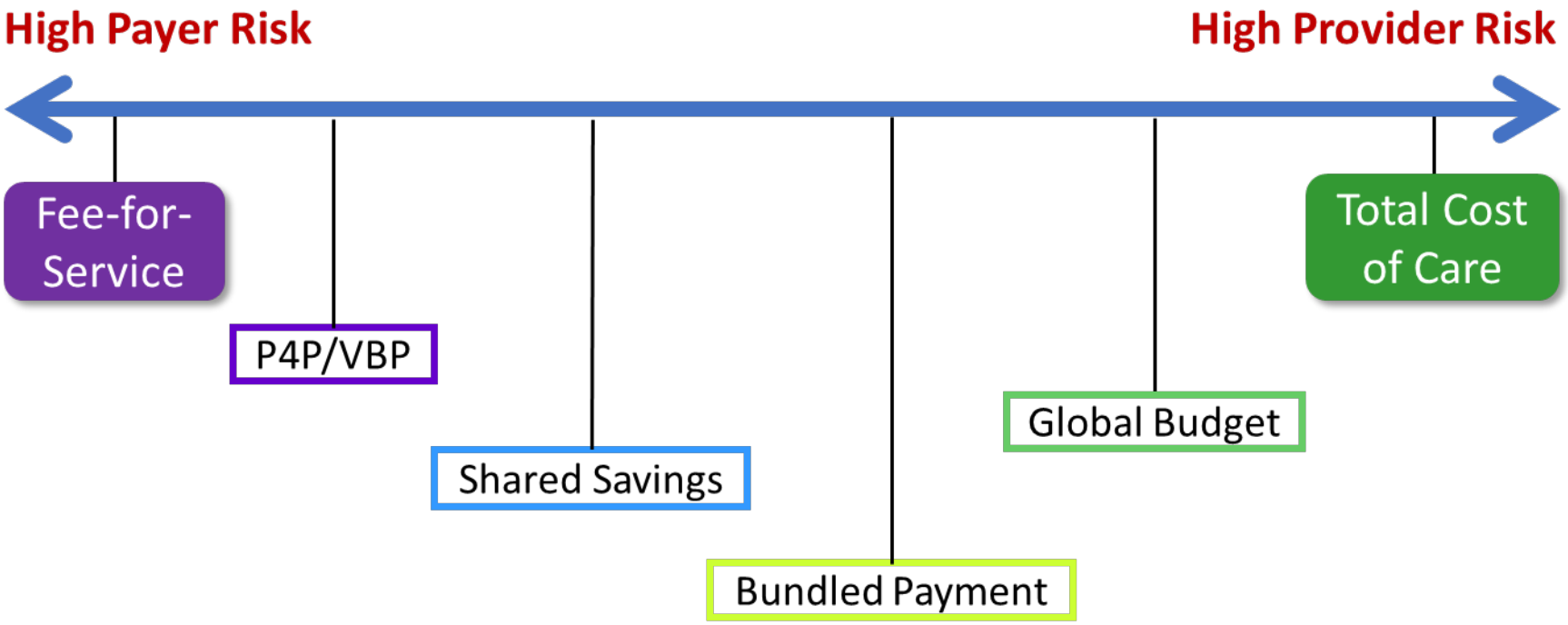
Global Budget Definition

- 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 <u>both</u> payment and delivery
- Fundamentally, payment reform involves **transfer of financial risk** from payers to providers

Financial Risk Continuum



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

Fixed and Variable Taxi Costs

TAXI FINANCES		
INCOME		
Fares	$	40,000
Tips	$	10,000
	$	50,000
EXPENSES		
Lease	$	4,000
Fuel	$	6,000
	$	10,000
PROFIT	$	40,000

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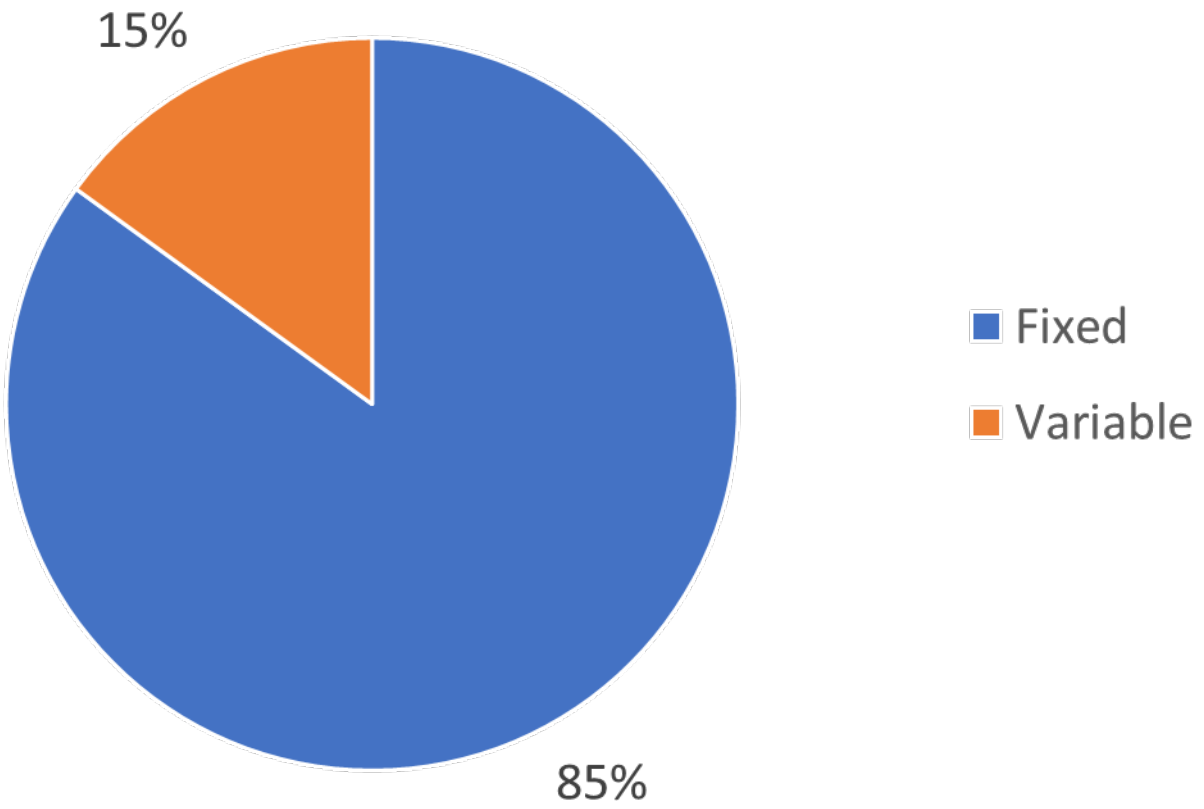
Rural Hospital Fixed/Variable Cost Ratio



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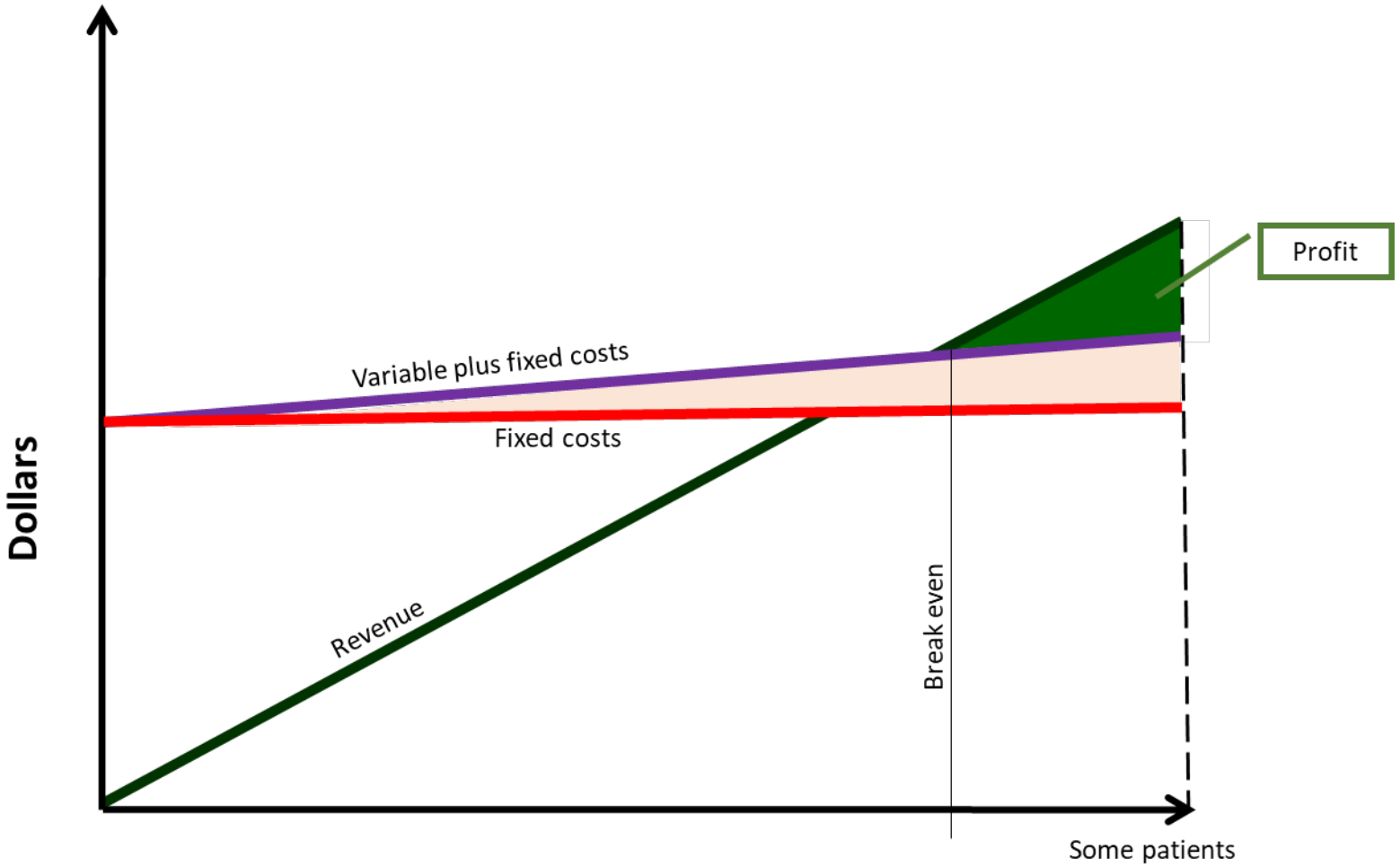
Baseline Fee-for-Service



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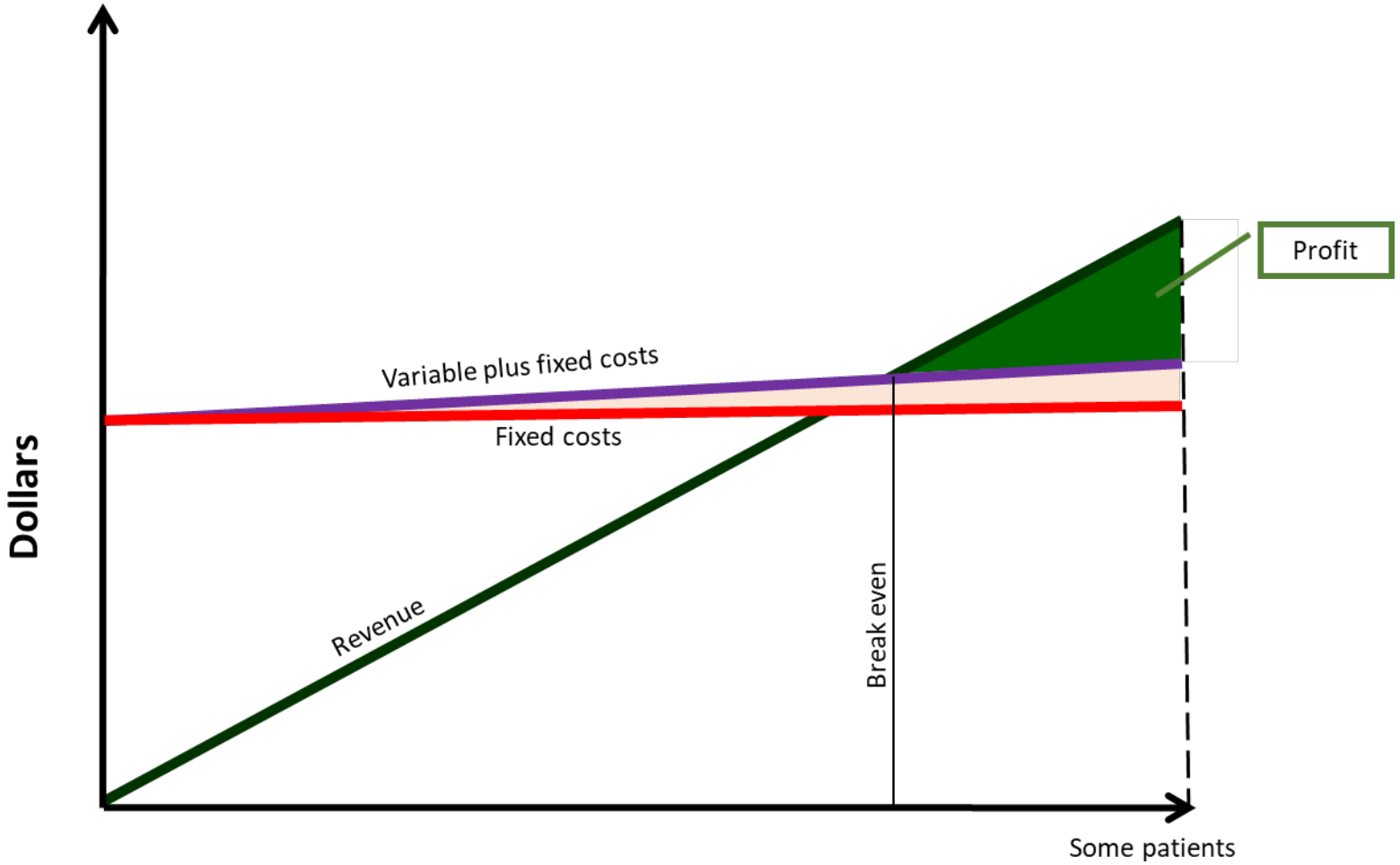
Reduce Variable Costs



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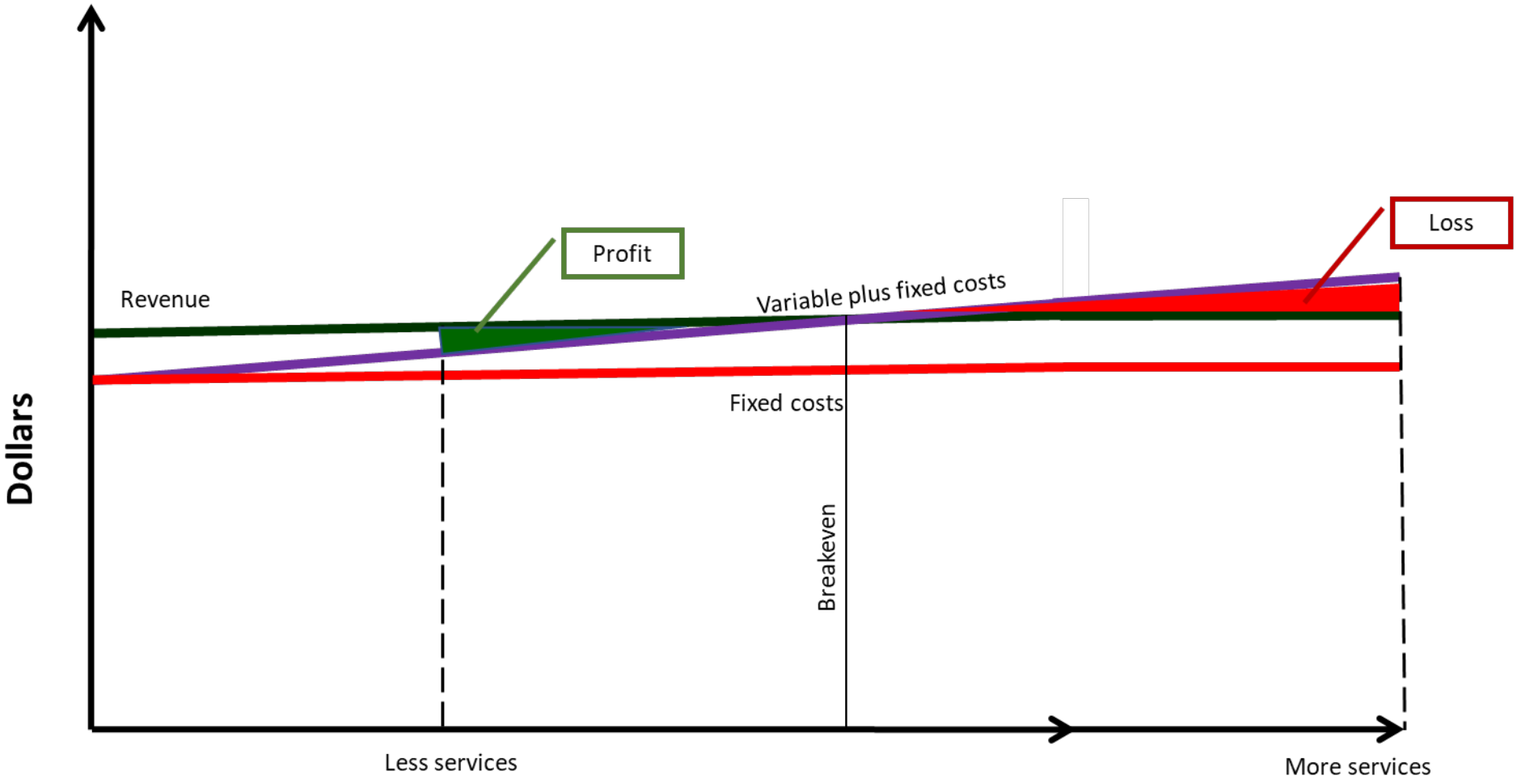
Global Budget



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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.

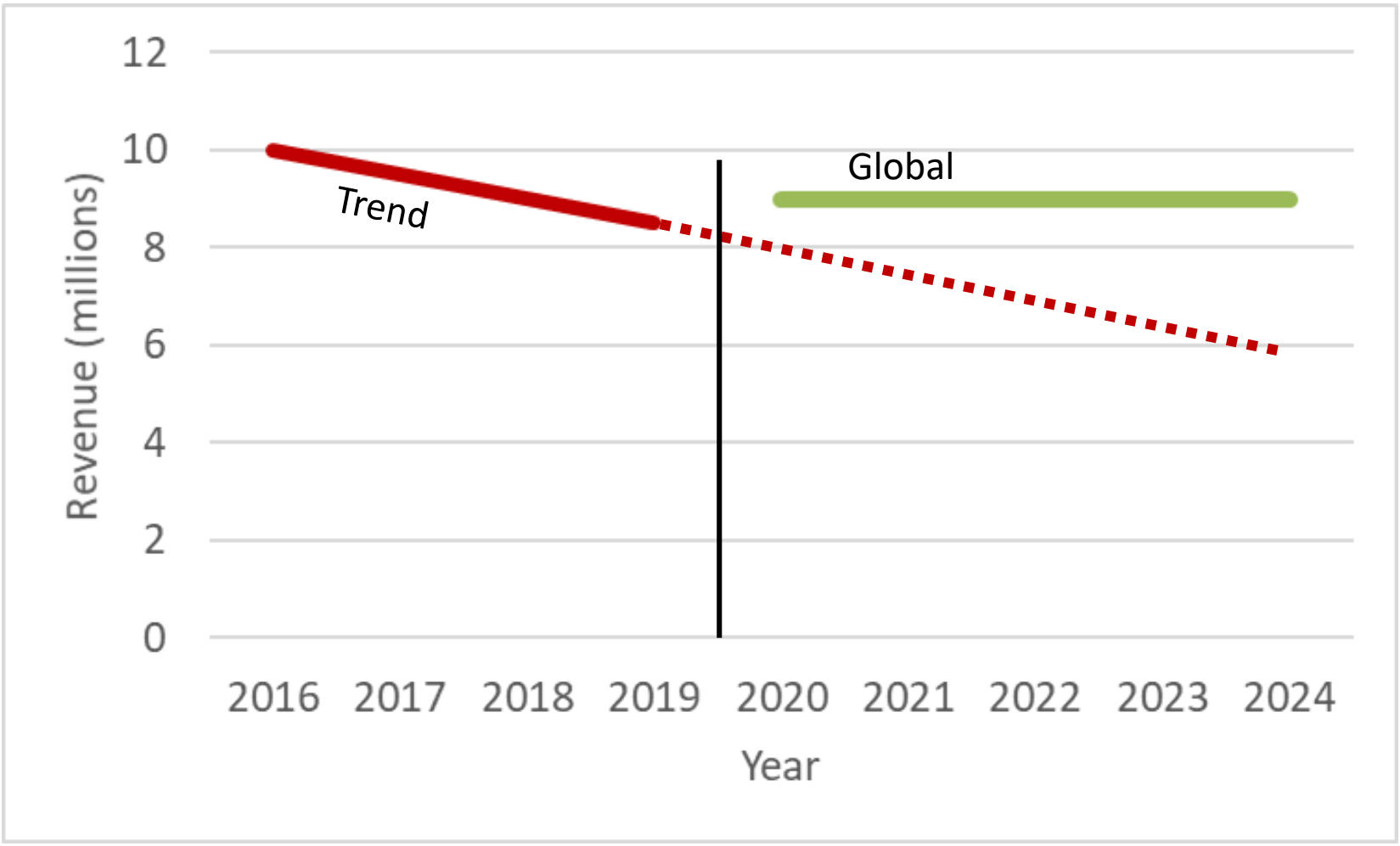
1. Fee-for-service, including
   - Cost-based reimbursement
   - Prospective payment system
2. Capitation
3. Global budget

Global Budget Financial Management Strategies

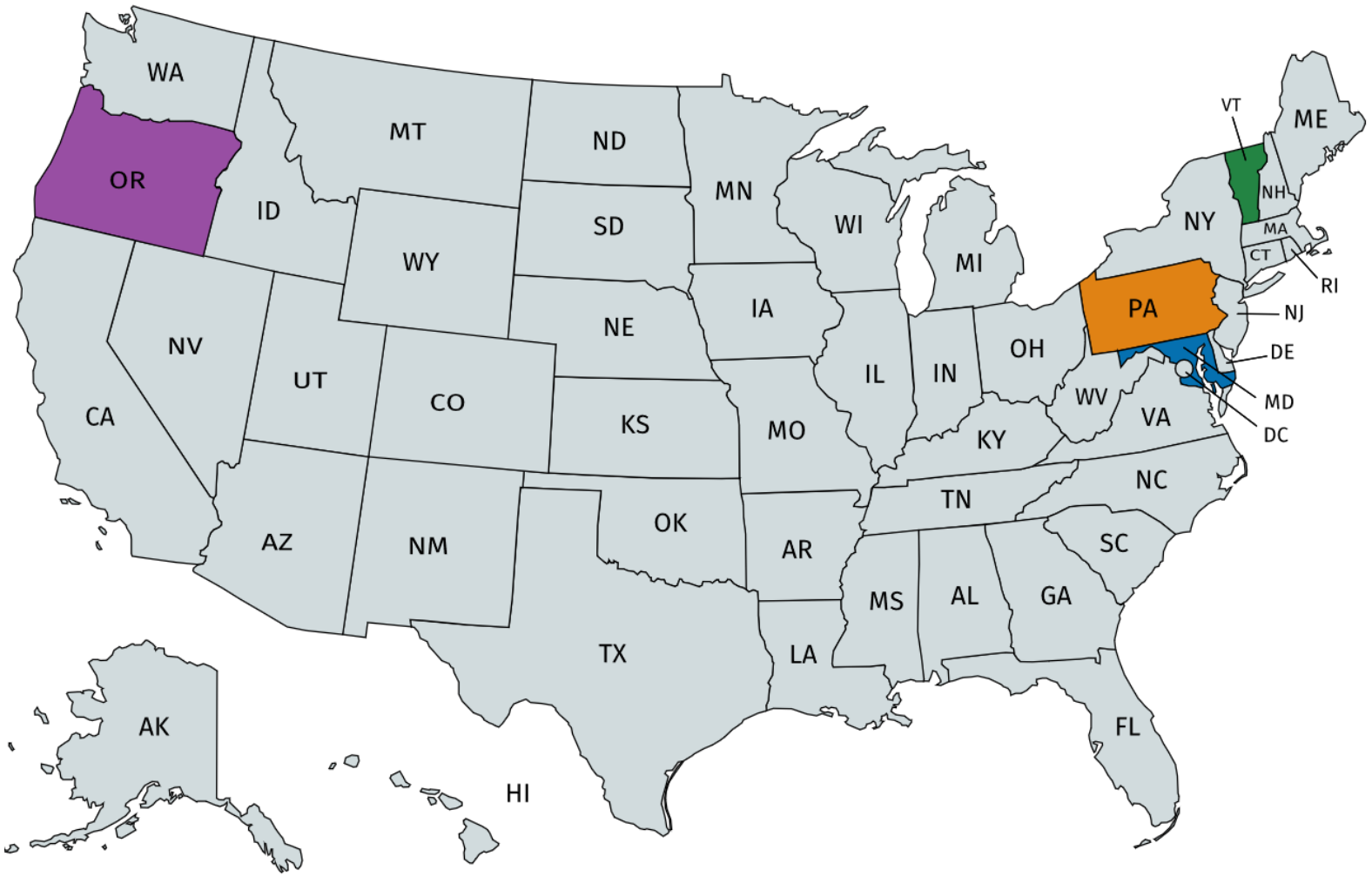
Three roads to **profitability** (profit = revenue – costs)

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



State-Wide Health Care Payment Reform Examples



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Overview

Maryland	Oregon	Pennsylvania	Vermont
Maryland Total Cost of Care Model (CMMI demonstration) Builds upon Maryland's all-payer model Creates financial incentives for care coordination	**Coordinated care organizations** (CCOs) Partnerships of providers, community members, and payers Accepts upside and downside risk	**Pennsylvania Rural Health Model** (CMMI demonstration) Global budget for hospital in and outpatient services Redesign care to meet the needs of local communities	**Vermont All-Payer ACO Model** (CMMI demonstration) Considered Next Generation ACO participants Payers incentivize value and quality

Checks and Balances on a Global Budget Model

<u>Unintended</u>

- Referrals out
- Reduced access
- Care withholding
- Poor experience

<u>Strategies</u>

- 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

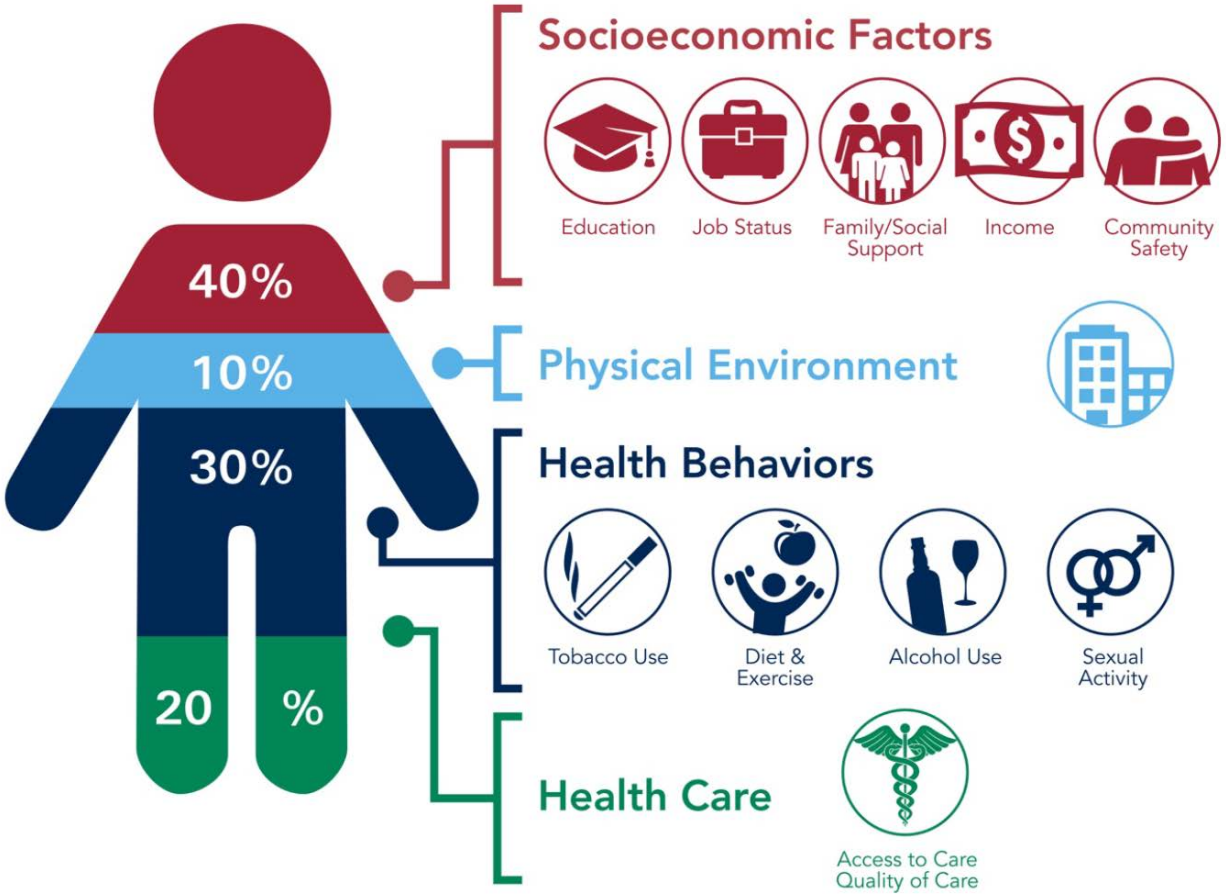
Hospital Risks under Global Budget

- 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.

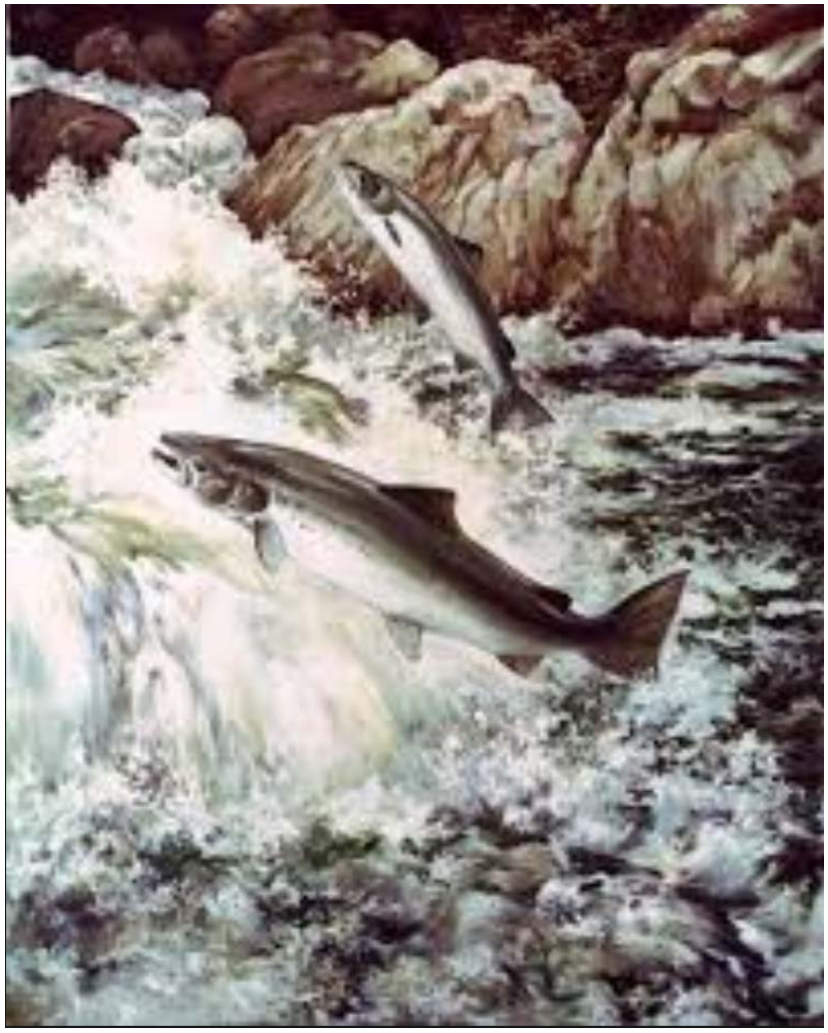
Social Determinants of Health

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

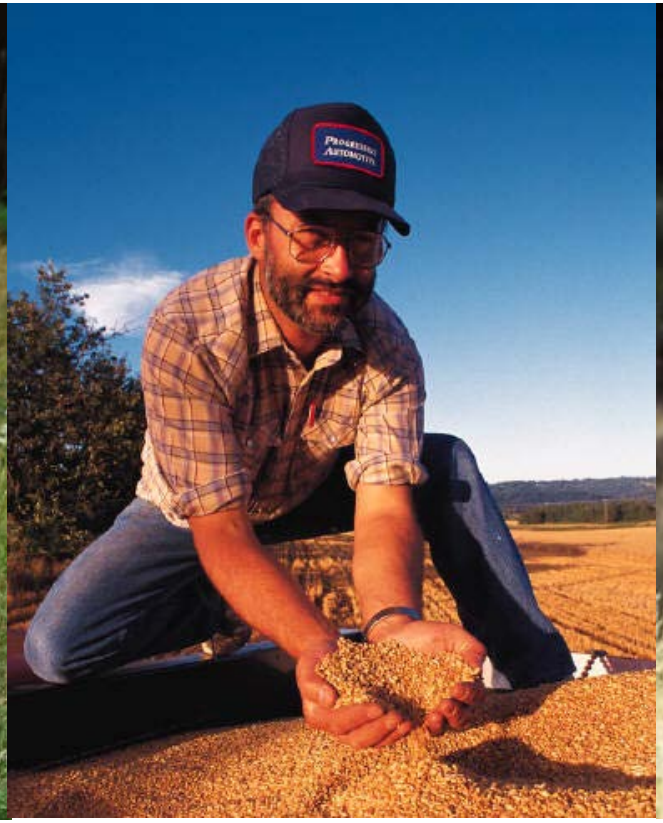
- Beyond medical care
- Hospital as the community locus for *health*
- Redefining the 
- But is this <u>our</u> job?
- It is if we are paid to improve health not just deliver medical care!



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."

Healthy Communities



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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
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