NATIONAL FINANCIAL CRISIS

LOCAL/STATE TWISTS CAUSE HOSPITALS TROUBLE

The sequester cuts mean trouble for hospitals. They are being touted as “a good deal” to hospital CEOs by Congress and its politicians, compared to the alternatives. On top of this, there are other state issues. For example, Maine and Massachusetts could be hit hard, but in different ways. In Maine, according to an “above the fold” headline story in the February 23 Boston Globe “Maine Says NO to Health Billions”, the state will turn down federal money to expand Medicaid. They are one of 18 states to turn it down. In Massachusetts, there is concern that the Medicare payment equity that last year restored an additional $257 million to hospitals could end.

COST MANAGEMENT CHECKLIST

These are just the latest reasons hospitals are taking stock of their formal cost management initiatives. AMS advocates an approach that has four components:

- management education,
- management span of control,
- labor and non-labor benchmarking,
- implementation and accountability.

The goal of the management education is to provide directors the tools to monitor, manage, and meet performance standards and benchmarks, and do this as an ongoing part of the process. Education can be everything from online, tutorial or didactic. AMS uses a program called “Moving Toward Operational Excellence” as a starting point.

Assessing the current span of control assists in determining the optimal number of direct reports for management positions at all levels. The key objectives are to determine if the roles, responsibilities, positions, titles and organizational dynamics are appropriate and effective. Typical industry output is a management to staff ratio, but for AMS studies, the output is very specific and detailed. AMS has performed 25 “span” projects recently and has three in progress.

A successful labor benchmark process includes questionnaires and interviews with cost center managers to understand “unique characteristics” of the cost centers, with consideration of workflow, interdependencies, and potential physical or operational barriers. The objective of this effort is to establish benchmarks at the function level that
are achievable and will gain acceptance and support as a tool to improve efficiency. A non-labor benchmark utilizes the AMS proprietary database for developing savings plans and strategies to reduce supply chain cost with minimum disruption to physician preferences.

It is only through accountability that results can be achieved and maintained, so implementation focuses on assisting department managers with the design of detailed work plans to drive savings, and identify and implement necessary course corrections in established plans.

**Observation Days Increasing**

Observation status was implemented to avoid costly inpatient admissions for Medicare patients. Observation status means that a patient in an acute care hospital is classified as an outpatient, even though – just like an inpatient – the person is in a hospital bed, wears a hospital gown and ID bracelet, and stays one or fourteen nights. In fact, a patient can be given observation status indefinitely and even retroactively.

According to researchers at Brown University, who published a nationwide analysis of Medicare claims in the June 2012 edition of *Health Affairs*, hospitals are increasingly classifying Medicare beneficiaries as observation patients. During 2007-09, observation stays rose 25%, to more than 1 million in 2009 from 814,692 in 2007. Similarly, the length of observation periods increased by 7% to 28.2 hours.

When reviewing workload requirements, AMS treats 24 hours of observation status the same as a patient day, to quantify the observation patients impact on nursing, dietary, environmental services, care management, etc. The increasing number of observation patients makes this especially critical in patient flow, nurse staffing, and labor productivity analyses AMS performs for its clients.

In April 2012, the American Case Management Association conducted its own survey, received 404 responses, which revealed:

- 71% of respondents have added staff specifically to determine medical necessity on admission status; 32% have spent more than $150,000 for staff.
- 67% report that patients in observation status do not know that their status will result in extra expenses for which they will be held responsible.

**Responding to RAC**

The American Hospital Association’s Center for Medicare Advocacy has been involved in this issue and filed a 2011 class action lawsuit challenging issues around observation days. As the percentage of observation cases steadily rises, this Center also anticipates more RAC activity as hospitals are not complying with Advanced Beneficiary Notice of Noncoverage (ABN) requirements to patients when observation stays exceed 24 or 48 hours. “About 90% of the cases I handle are cases that the RAC has determined to be only medically necessary at an Observation Part B level of care” says Linda Young, JD, RHIA, general counsel and HIM Compliance Manager. For more information contact Alan Goldberg at agoldberg@aboutams.com or Linda Young at lyoung@aboutams.com.
Quickly reveal opportunities to reduce labor expense

The AMS Key Performance Indicator (KPI) Review, is a rapid review to identify cost reduction opportunities in labor expense through a high level, off-site data analysis of payroll and workload statistics. AMS analyzes your performance against other hospitals using comparative data in our proprietary database.

Immediate Benefits

- **Areas of opportunity**: A KPI analysis identifies areas of opportunity that go beyond a typical high level benchmark such as FTEs/AOB. While global labor ratios will be reviewed, AMS will provide indicators of opportunity at the department level.

- **Annual budget planning**: A KPI analysis identifies opportunities to reduce labor expense in next year’s budget.

- **Target resources**: A KPI analysis allows you to quickly identify where to focus your efforts to achieve maximum savings with minimal effort.

Recent Results

- **4 hospital, 1,100-bed regional system**: AMS identified areas with staffing opportunity equal to 6.9% (601 FTEs) of the system’s 8,677 FTEs.

- **120-bed hospital**: AMS identified a labor improvement opportunity of 94 FTEs of the hospital’s 1,273 FTEs. Seven outlier departments accounted for 75% of the opportunity.

- **Critical access hospital**: AMS identified a 5% staffing opportunity in a health system consisting of 25-bed acute care, 25-bed nursing home, 10-bed rehab unit, and support staff for physician practices. A detailed review identified an additional 2.5% staffing opportunity for a total of 25 FTEs.

Labor KPIs

**Global KPIs**
- FTEs/AOB
- FTEs/AOB CMI Adjusted
- Paid Hours/Adjusted Discharge
- Salary, Wages and Benefits as a % of Net Revenue
- Labor Expenses/Adjusted Discharge
- Net Operating Revenue/FTE
- Overtime Usage

**Unit of Service KPIs for Major Departments**
- **Nursing Services**
  - Med/Surg/Telemetry
  - Critical Care
  - Rehabilitation
  - Pediatrics
  - Maternal and Child Health
- **Surgical Services**
  - OR/PACU
  - Endoscopy
  - Sterile Processing
- **Emergency Services**
- **Imaging Services**
  - Diagnostic/CAT
  - MRI
  - Nuclear Medicine
  - Ultrasound
- **Laboratory Services**
- **Environmental Services**
- **Health Information Services**
- **Nutrition Services**
- **Cardiac Cath Lab**
- **Cardiopulmonary Services**
  - EKG
  - Respiratory
- **Pharmacy**
- **Rehabilitation Services**

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