

**“Two Numbers You  
Need to Know”**

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# Two Numbers You Need to Know

**Bernie Citerone, CPA**

**Vice President & CFO**

**St. Francis Hospital**

**Wilmington, DE**

**[Bciterone@che-east.org](mailto:Bciterone@che-east.org)**

**302-575-8316**

**Bill Phillips, FACMC**

**Vice President & CRO**

**Revenue Strategies,  
Inc.**

**Fort Lauderdale, FL**

**[Billinfll@juno.com](mailto:Billinfll@juno.com)**

**240-305-5100**

# Two Numbers You Need to Know

You will learn:

- A. What makes an effective executive**
- B. Two Numbers**
- C. Two Numbers - a live example**
- D. Gretsky's First Law on Scoring**

# If you have an early tee time, remember...

**1. Opportunities**

**2. 5%**

**3. 70%**

**4. \$1.8 M**

# What makes an effective executive?<sup>1</sup>

## *A. Focus on opportunities*

- **Good executives focus on opportunities rather than problems**
  - Problems must be addressed, not swept under the rug
- **But problem solving does not produce results.**
  - It only prevents damage!
- **Exploiting opportunities produces results!**

<sup>1</sup> "What makes an effective executive", Peter Drucker, HBR, June 2004

# What makes an effective executive?

## *B. Change*

- They treat change as an opportunity rather than a threat.
- **Ask: how can we exploit this change as an opportunity?**

# What makes an effective executive?

## *C. Scan seven situations for opportunities*

1. Unexpected success or failure in their own or a competing enterprise,
2. Gap between what is and what could be
  - In a market, process, product, or service
3. Innovation in a process, product, or service

# What makes an effective executive?

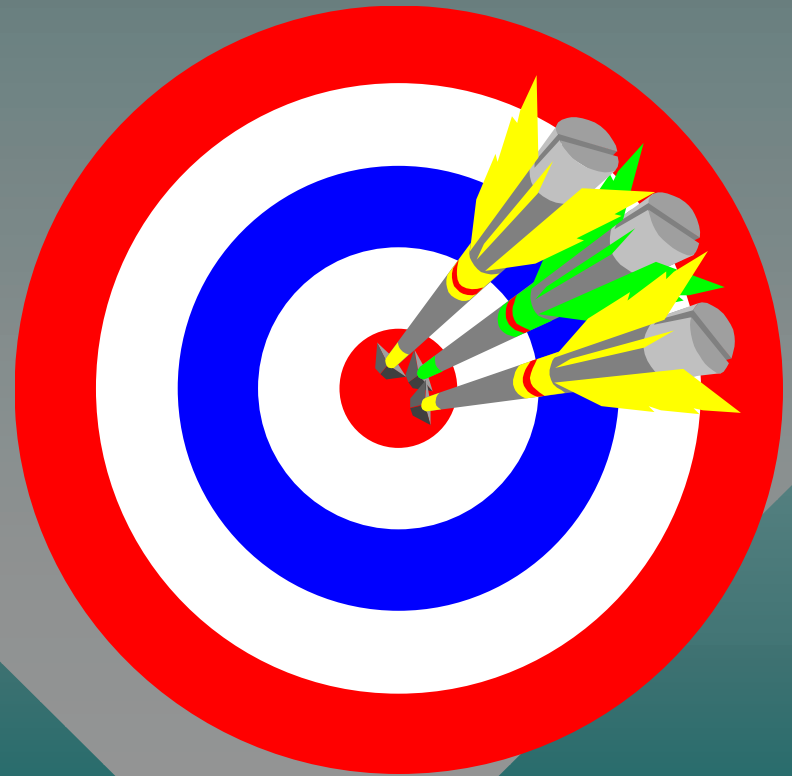
*Scan seven situations for opportunities (cont):*

4. Changes in industry or in market structure
5. Demographics
6. Changes in mind-set or perception
7. New knowledge or new technology.



# June 26, 1876 was not a good day for 7th Cavalry

- Indians off the reservation
- 7th Cavalry
  - Long ride ahead
  - Rough terrain
  - New guns too difficult to bring; so left behind
    - Gattling & Co.



# Problem or Opportunity?

**Drug Eluting Stents**

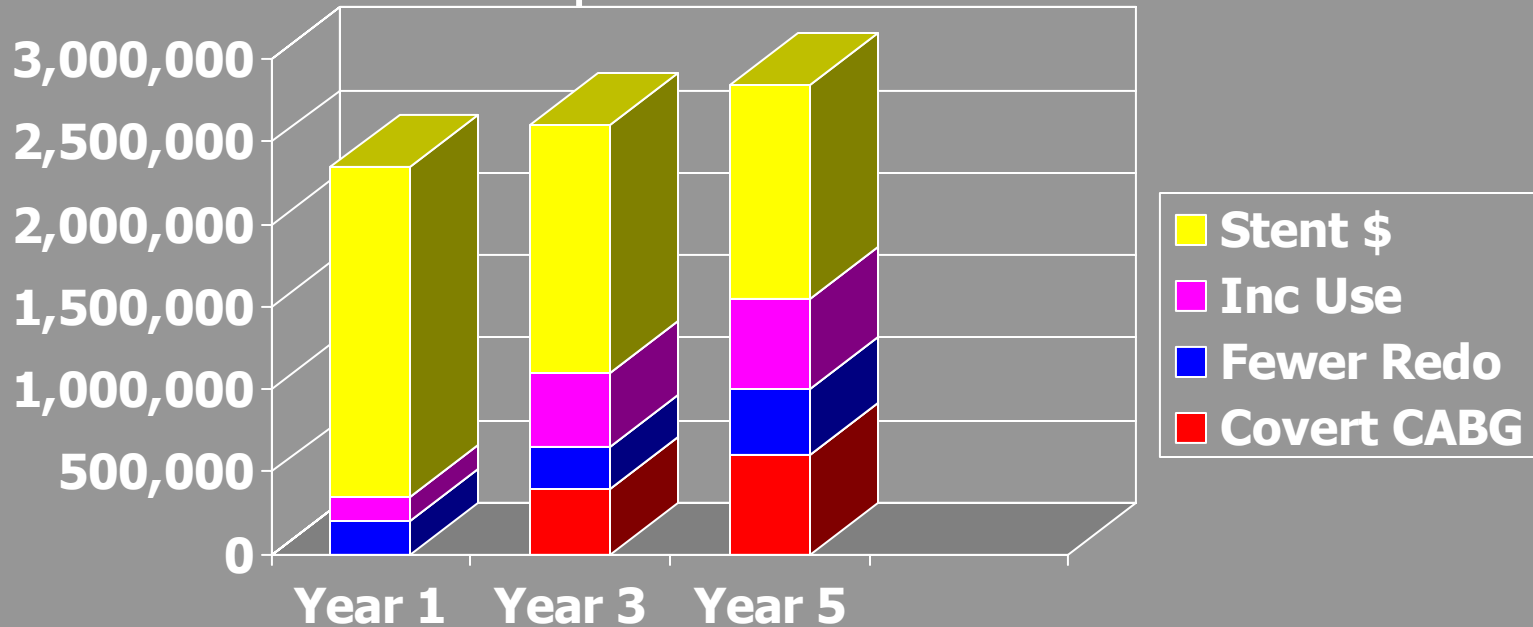
# Drug-Eluting Stents

- Re-stenosis rate down - 35% to 3%, \*
- FDA approval April 25, 2003,
- Early data confirms lower re-stenosis,
  - Long term clinical impact still not clear
- Cardio advance enables 'cath lab' to encroach on open heart surgery,
- Poster child - technology vs. cost.

\* Source: Cordis News Release

# Problem or opportunity?

Lost Revenue  
per Year



Source: CFO Interviews

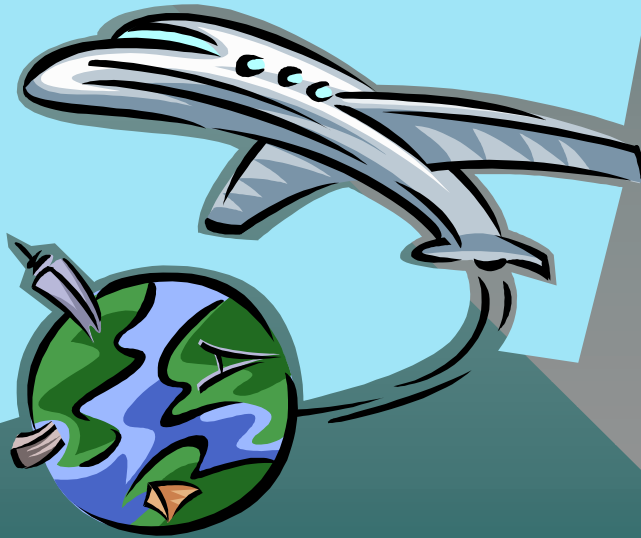
# Revenue opportunities?

- Accident claims \$ \_\_\_\_\_
- Strategic pricing \$ \_\_\_\_\_
- Underpayments \$ \_\_\_\_\_
- Gain-sharing \$ \_\_\_\_\_
- **Denials** \$ \_\_\_\_\_
- **Total** \$ \_\_\_\_\_

# Two Numbers

## Airline Industry

1. Completion rate
2. On time departure
  - FAA required
  - Publicized by best.



# Two Numbers You Need to Know

**Denials**

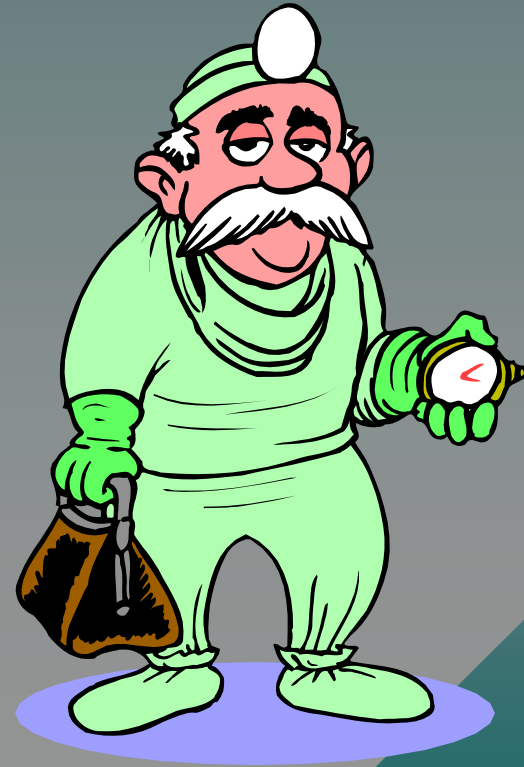
# Managed Care Denials

- **Denial - Any claim (any claim) that is not paid.**
  - There are no “rejects”
  - There are no “technicals”
  - There are no “clinicals”
  - They are ALL denials.



# Where do denials occur?

- UR 1%
- Appeals 3%
- M C 2%
- Payer 27%
- Access/Adm 28%
- Business Off 29%



# Top Five Reasons



5. **Untimely filing**
4. **Non-covered**
3. **Incorrect / invalid info - CPT, HCPCS, revenue code**
2. **Not eligible**
1. **No AUTH**

# Problem or opportunity?

- **Do you know your 'denial rate'?**
- **Do you know your 'recovery rate'?**
- **How do you compare to 'best practice'?**
- **How much revenue did you lose?**
- **How much revenue is recoverable?**

# # 1: Denial Rate

- $DR = \frac{\text{Net MC claims denied}}{\text{Net MC revenue}}$

## # 2: Recovery Rate

- $RR = \frac{\text{Net Denial Dollars Recovered}}{\text{Net Dollars Denied}}$

# What is best practice?

## Denial rate

**Poor - 20% >**

**Good - < 20%**

**Best - 5%**

# What is best practice?

## Recovery rate

Poor - <40%

Good - 40% >

**Best - 70%**

# How much revenue lost?

- **LR = Denial dollars not recovered**
- **RR = Recoverable revenue at 'best practice' (70%)**



# Best Practice Assessment

- 1. Denial rate – column 3**
- 2. Recovery rate – column 5**
- 3. Lost revenue – column 6**
- 4. Recoverable revenue (at BP) - 7**
- 5. Key improvements**

# Two Numbers

**Table 1**

## **Hospital Denial and Recovery Rates**

	Net Rev	Denials	<u>DR</u>	Net Rec	<u>RR</u>	Lost Rev	Rec Rev
A	\$40.8 M	\$ 2.2 M	5%	\$0.88M	40%	\$ 1.30M	\$ 0.91 M
B	\$ 7.0 M	\$1.19 M	17%	\$0.32M	27%	\$ 0.87M	\$ 0.61 M
C	\$168.0M	\$45.36M	29%	\$12.25M	27%	\$33.11M	\$23.18M
D	\$ 42.6M	\$19.7 M	46%	\$ 3.94M	20%	\$15.76M	\$11.03 M
E	\$ 74.4M	\$16.8 M	23%	\$ 0.86M	5%	\$15.85M	\$11.10 M

Source: Managed Care Solutions, 2004

# Two Numbers

Table 2

## Effective Payment Rate

	Net Rev	%AHP	Net AHP	<u>DR</u>	<u>RR</u>	Actual Rev	<u>Eff Rate</u>
A	\$40.8M	21%	\$8.57M	5%	40%	\$ 8.31M	97.0 %
B	\$ 7.0M	20%	\$ 1.4M	17%	27%	\$ 1.23M	87.9 %
C	\$168.0M	30%	\$50.4M	29%	27%	\$40.47M	80.3 %
D	\$42.6M	24%	\$10.2M	46%	20%	\$ 6.44M	63.1 %
E	\$74.4M	25%	\$18.6M	26%	5%	\$13.91M	75.3 %

Source: Managed Care Solutions, 2004

# Two Numbers

**Table 3 - A**

***First Year Increase in Net Revenue from Denials***

C	Net Rev	Denials	<u>DR</u>	Net Rec	<u>RR</u>	Rec Rev	<u>Add Rev</u>
Pre	\$168.0M	\$45.36M	29%	\$12.25M	27%	\$23.18M	-
1 Yr	\$168.0M	\$16.80M	10%	\$12.94M	77%	-0-	-
Chg.	-	\$28.56M	19 %	\$ 0.69M	50%		\$29.25M

Source: Managed Care Solutions, Inc. 2004

# Two Numbers

**Table 3 - B**

***Second Year Increase in Net Revenue from Denials***

C	Net Rev	Net Denial	<u>DR</u>	Net Rec	<u>RR</u>	Rec Rev	Add Rev
Pre	\$168.0M	\$16.80M	10%	\$12.94M	77%	\$3.86	
Post	\$168.0M	\$ 5.04M	3%	\$ 4.13M	82%	-0-	
Chg	-	\$10.76M	7%	(\$ 8.81M)	5%		\$1.95M

Source: Managed Care Solutions, Inc. 2004

# Two Numbers

Table 5

## Increase in Net Revenue from Denials

E	Net Rev	Net Den	<u>DR</u>	Net Rec	<u>RR</u>	Rec Rev	Add Rev
Pre	\$74.4 M	\$16.8 M	23%	\$0.86 M	5%	\$11.16 M	-
Post	\$74.4M	\$16.8 M	23%	\$0.86 M	5%	\$11.16 M	-
Chg	-	\$ -0-	0%	\$ -0-	0%		

$\$11.16\text{M} / \text{yr} / 12 = \text{\$930,000 loss / month}$

Source: Managed Care Solutions, Inc. 2004

# Two Numbers

A Live Example

# Hospital # 117

- **Situation**
  - 200 bed community hospital
  - \$12.0 M Gross MC Revenue
  - \$ 7.0 M Net MC Revenue
- **In the beginning...**
  - Denial rate: guesstimate of 15%
  - Recovery rate: not known.

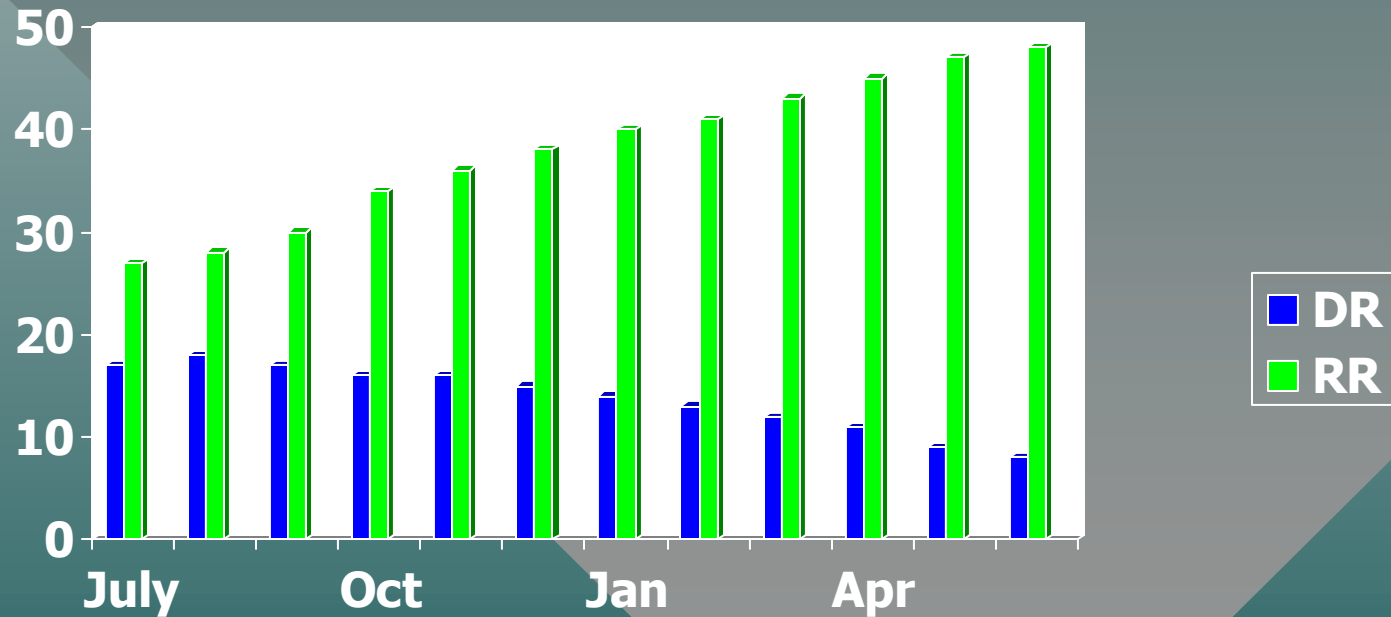


# **Hospital # 117**

## **Initial Findings:**

- **Denial rate = 17%**
- **Recovery rate = 27%**
- **Lost revenue = \$0.87 M**
- **Recoverable revenue = \$0.61 M**
- **IP and OP data.**

# First Year Results



# Two Numbers

**Table 117 - A**

***First Year Increase in Net Revenue from Denials***

117 Net Rev	Denials	<u>DR</u>	Net Rec	<u>RR</u>	Rec Rev	<u>Add Rev</u>
Pre \$10.0M	\$ 2.70M	27%	\$ 0.78M	29%	\$1.34M	-
1 Yr \$10.0M	\$ 1.80M	18%	\$ 0.86M	48%	-0-	-
Chg. -	\$ 0.90M	9%	\$ 0.08M	19%		\$ .98M

Source: Managed Care Solutions, Inc. 2004

# Two Numbers

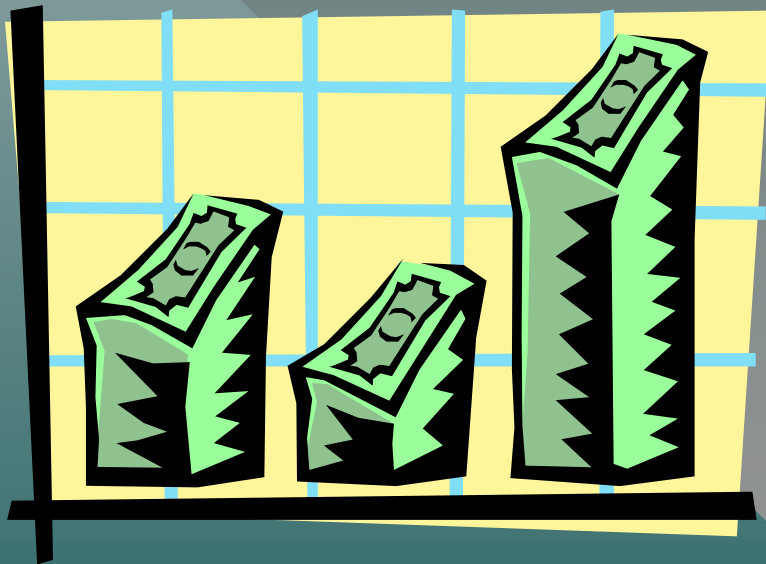
**Table 117 - B**

***Second Year Estimated Net Revenue from Denials***

117 Net Rev	Net Denial	<u>DR</u>	Net Rec	<u>RR</u>	Rec Rev	Add Rev
1st \$10.0M	\$ 1.80M	18%	\$ 0.86M	48%	\$	.66
2nd \$10.0M	\$ 0.50M	5%	\$ 0.35M	70%	-0-	
Chg -	\$ 1.30M	13%	(\$ 0.51M)	5%		\$0. 79M

Source: Managed Care Solutions, Inc. 2004

# Hospital # 117 Strategies:



**1<sup>st</sup> Year:**

**Recovery = \$1.0 M**

**2<sup>nd</sup> Year:**

**Forecast = \$0.8 M**

# Hospital # 17

**In addition...**

- **Denial Task Force**
  - Meets monthly,
  - Denials by dept,
  - Denials by payer,
  - See improvement or lack thereof!



# Denial Task Force

# 26	Digital Mamo	Denial 70865 w/ 76092. Both should be paid.	Monitor	New
# 22	Acute code criteria not met.	22 of 28 denials from Plan F	ER physician education	10/03
# 18	Auth fields not sufficient	Add fields	Staff education	09/03
# 14	No ins verif ER, Path, Rad.	Lack of terminals to verify	New terms to be installed	08/03

# In addition to revenue...



1. Focus on problem areas,
2. Specific data on payers,
3. Improve contract terms



# In summary...



- Two numbers we didn't know
- Two numbers we know and track.
- From high denial rate to lower denial rate
- From low recovery rate to higher recovery rate.
- **Both add net revenue!**

# # 1 Strategy

**What's the # 1 denial?**

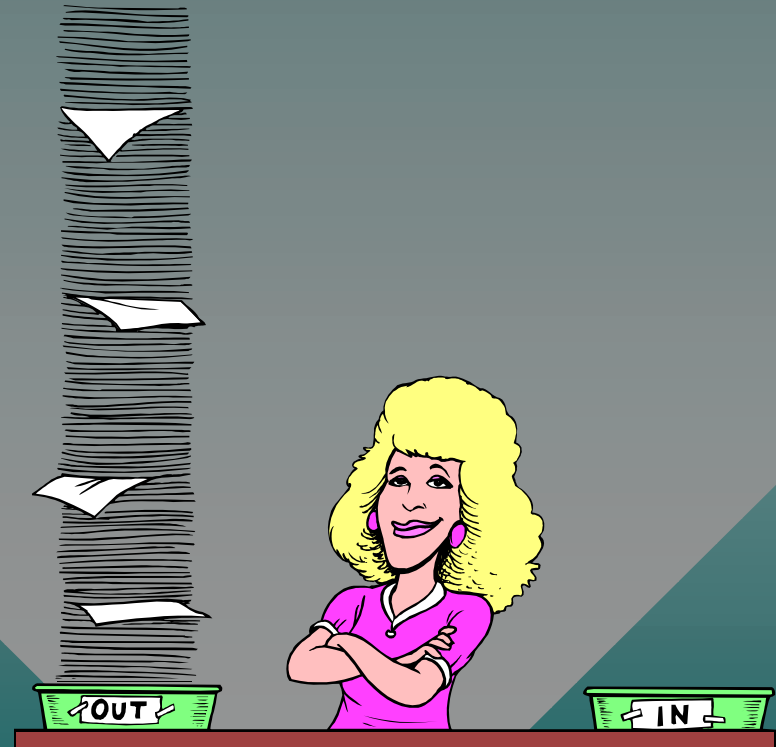
- *No authorization*

**What's the # 1 strategy?**

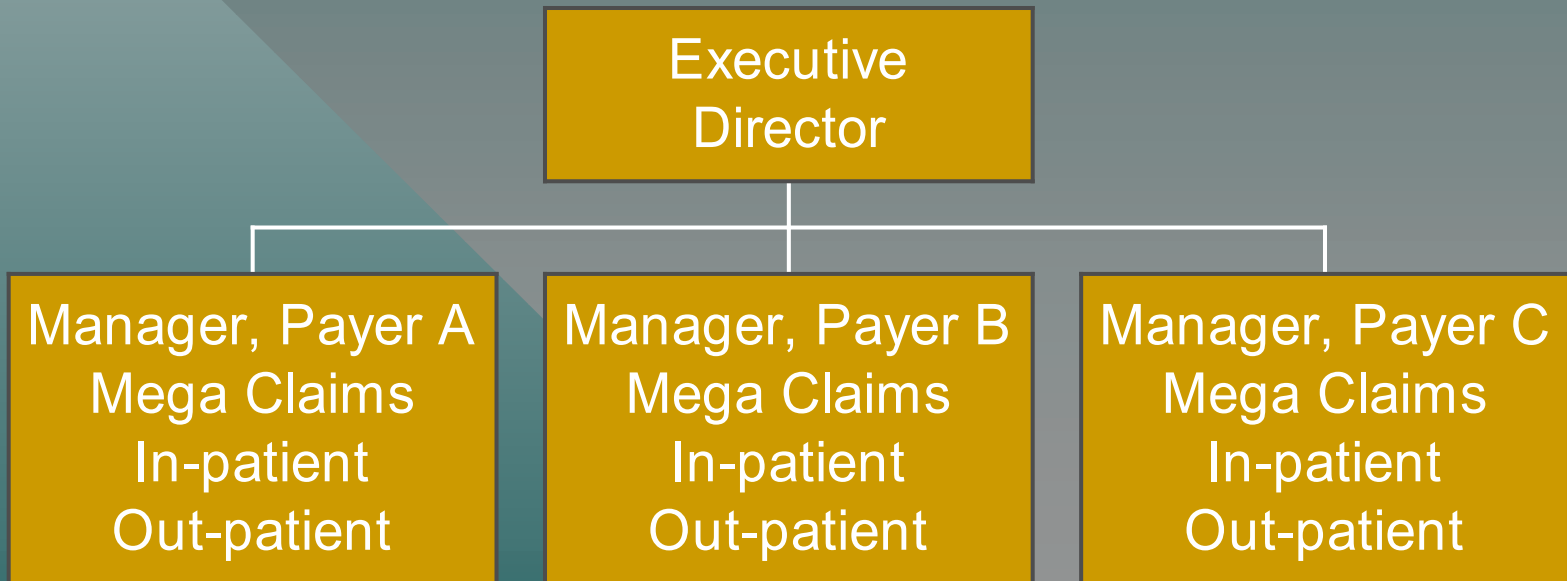
- *Centralized Authorization Unit*

# Central Auth Unit

- One source on authorizations
- Same answer each time
- Payer changes identified faster
- Lower training \$



# Central Auth Unit



# In summary...

- **What makes an effective executive?**
  - *Focus on Opportunities*
- **Healthcare Opportunities**
  - Drug Eluting Stents
- **Two Numbers**
  - Denial rate – 5%
  - Recovery rate – 70%.

# Adding it up...

- Accident Claims 2% - 4%
- Strategic Pricing 1% - 2%
- Underpayments 1% - 3%
- Gain-sharing 1% - 2%
- **Denials** 6% - 8%
- Revenue Realization \* 11% - 19%

\* Depending on volumes and changes selected

# Gretsky's First Law



**"You miss 100%  
of the shots  
you don't take."**

# Reference Sources

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- “What Makes an Effective Executive?”, HBR, 06/04