



How We Found \$45 Million for Our CFO

...or...

How We Learned to Love HIPAA

Jeremy E. Pierotti
Director, HIPAA Program
Allina Health System

Rob Beauchamp
Principal
CSC Consulting

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Results We Found

- Over \$60M net positive cash flow over 5 years
- Over \$3.5M operational cost savings in Year 4
- About \$11M investment over 5 years (capital & operating)





**Not for profit
health care
organization**

**Minnesota,
Western
Wisconsin
and the
Dakotas**



ALLINA[®]
HEALTH SYSTEM

Two divisions

**Allina Hospitals
and Clinics**

**Medica Health
Plan**

**22,000
employees**

**15 million customer
contacts annually**





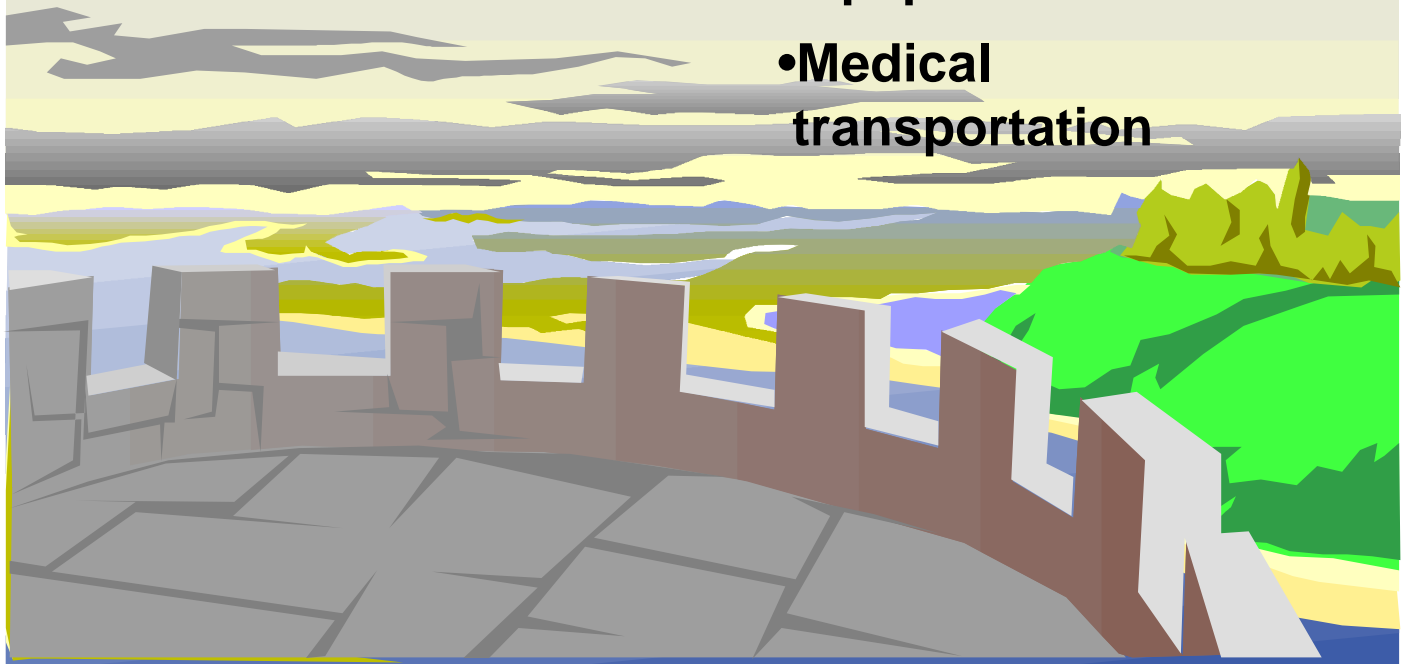
Allina Hospitals and Clinics

- 17 owned and managed hospitals
- 6 nursing homes (managed)
- 56 Allina Medical Clinics
 - 600 providers
 - 2.9 million outpatient visits
- Medical transportation serving 70 communities
- Hospice and home care services



Scope

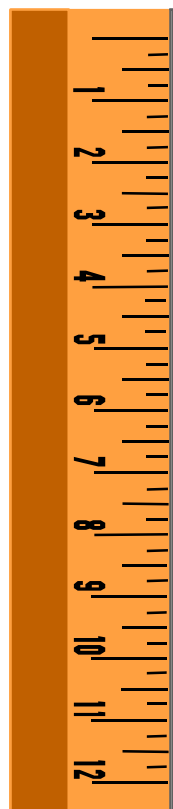
- 26 applications
- Administrative business processes
- 11 owned hospitals
- Primary care and specialty clinics
- Home health care
- Home medical equipment
- Medical transportation





Specific Measures

- We learned how the business measured itself



Reduced Payment Cycle Time

Reduced Claim Rework

Reduced Contractual Adjustments

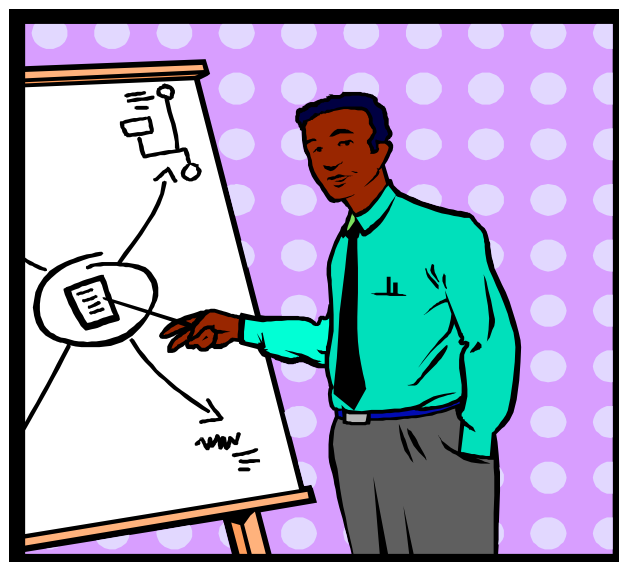
Reduced Postage and Printing Costs

Greater Efficiency (cost per claim)



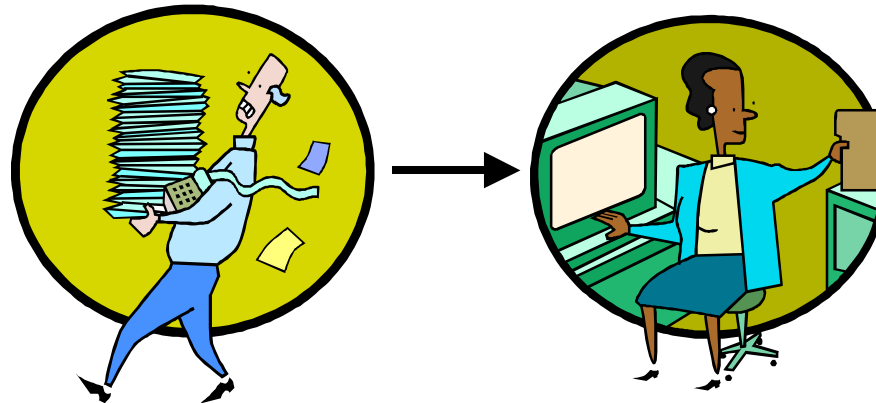
Savings Calculations

- Analyzed specific measures by each transaction
- How did we decide to focus on an area of opportunity?
 - Savings opportunity had to be realistic
 - Measures had to be defensible (Are you willing to make that claim in front of our CFO?)



Calculation Examples

- Reduced remit processing costs
- Reduced A/R from sending claims status transaction when payer does not respond
- Reduced A/R from sending electronic claims instead of paper





Calculation Example

- Reduced remittance processing costs

$$\begin{array}{ccccc} \# \text{ of FTEs processing remittances} & \times & \text{Average yearly} & & \text{Target} \\ & & \text{cost of FTE} & \times & \text{reduction} \\ & & \text{processing} & & \text{percent} \\ & & \text{remit} & & \end{array}$$



Estimated hospital business office savings

\$275,000/year



Second Calculation Example

- Reduced A/R from claims status capability

Days added to payment cycle
due to no response from payer

360

x

of claims per
year
resubmitted due
to no response
from payer

x

Avg. amt.
collected
per claim



Estimated total (one-time) hospital A/R reduction

\$9 million



Third Calculation Example

- Reduced A/R from sending electronic claims

$$\frac{\text{Days to pay paper claim} - \text{Days to pay electronic claim}}{360} \times \begin{matrix} \# \text{ of} \\ \text{paper} \\ \text{claims} \\ \text{per year} \end{matrix} \times \begin{matrix} \text{Avg. amt.} \\ \text{collected} \\ \text{per claim} \end{matrix}$$



Estimated total (one-time) hospital A/R reduction

\$26.7 million

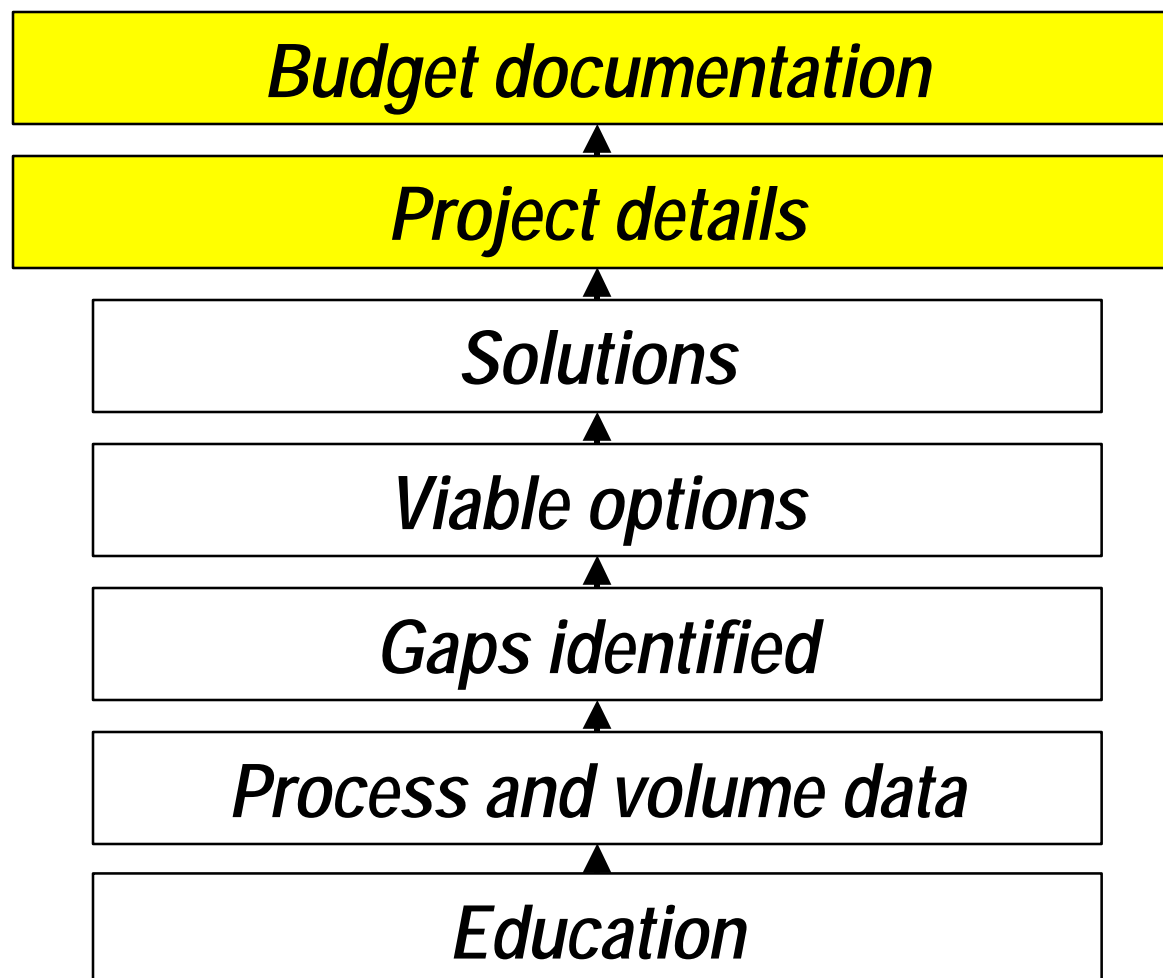


Project Approach

- Flexible framework
- Clear objectives and deadlines
- Phased approach
 - Education, Gap Analysis, Solution ID, Project ID, Business Case Development
- Adaptive to individual situations
- Workshop deliverables



Project Approach

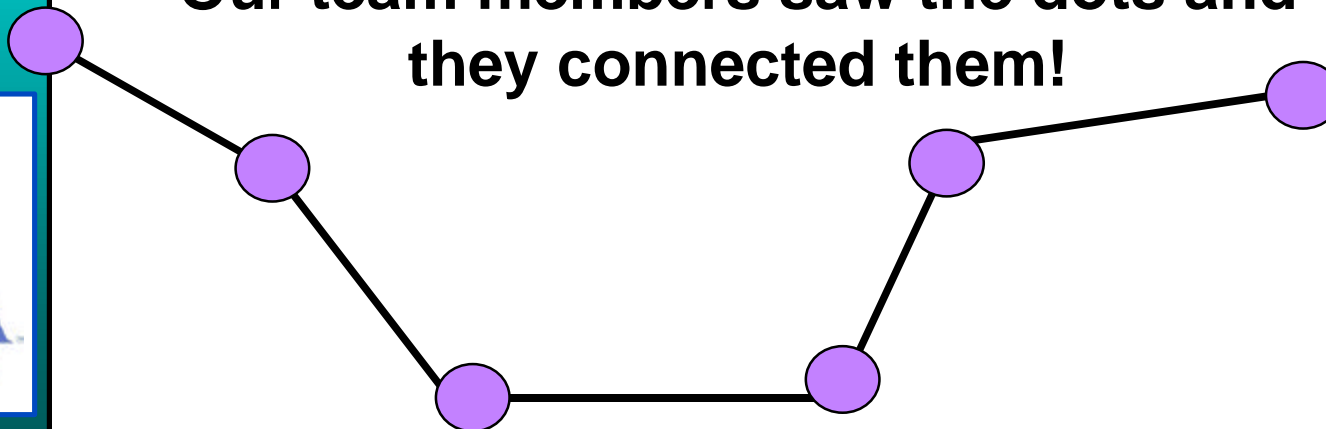




HIPAA Education

- General overview on HIPAA regulations
- EDI X12 education
- Transaction-specific education

**Our team members saw the dots and
they connected them!**



Gap Analysis: Process Documentation

- How did we get valid process information?
 - Facilitated sessions
 - Business staff identified problem areas



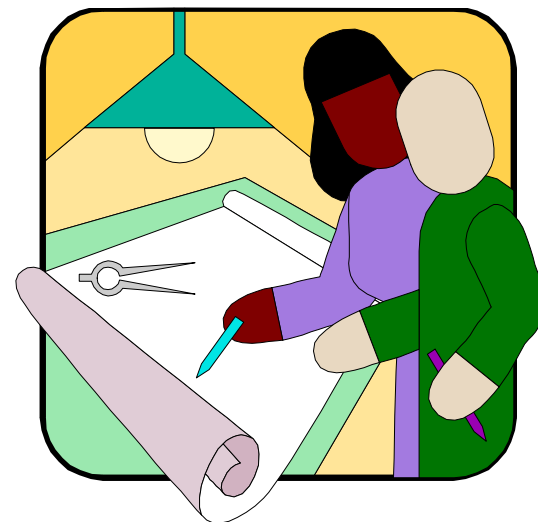
Solution ID: Valid metrics?... anyone...anyone?

- How did we arrive at valid numbers?
 - Solid process documentation
 - Just kept asking
 - Revenue cycle brain trust (Task Force)



Project ID: Identifying Project Costs

- Business staff defined business functionality
 - High-level specifications
 - Based on functional understanding of HIPAA transactions



Project ID: Identifying Project Costs

- IS staff and managers
 - Detailed HIPAA and X12 education
 - Functional questionnaire about applications
 - Data-element gap analysis
 - magnitude of change





Project ID: Identifying Project Costs

- Methodology for estimating work by hours
 - Used existing PM resources
 - 3 Stages: Define, Design, Deliver
 - Existing I.S. Project Office templates
 - Standard Project Office methodology
 - Experienced technical project manager



Project ID: Identifying Project Costs

- Reviewed cost estimates with I.S. VPs
 - Reality check
 - React to their managers' estimates



Business Case Development: NPV/ROI Analysis

- Finance approved our NPV/ROI model
- Reviewed specific analyses with business unit finance VPs
 - Magic words: “Conservative and realistic”

No surprises!





NPV Model

Year	0	1	2	3	4	5
Savings	\$0	\$0	\$6,736,758	\$45,233,430	\$21,864,875	\$5,905,350
Costs	(\$1,675,950)	(\$4,751,900)	(\$1,895,861)	(\$973,511)	(\$941,311)	(\$945,301)
Net	(\$1,675,950)	(\$1,051,900)	\$4,840,897	\$44,295,919	\$20,923,564	\$4,960,049
NPV	\$45,581,144					



Why go through this?

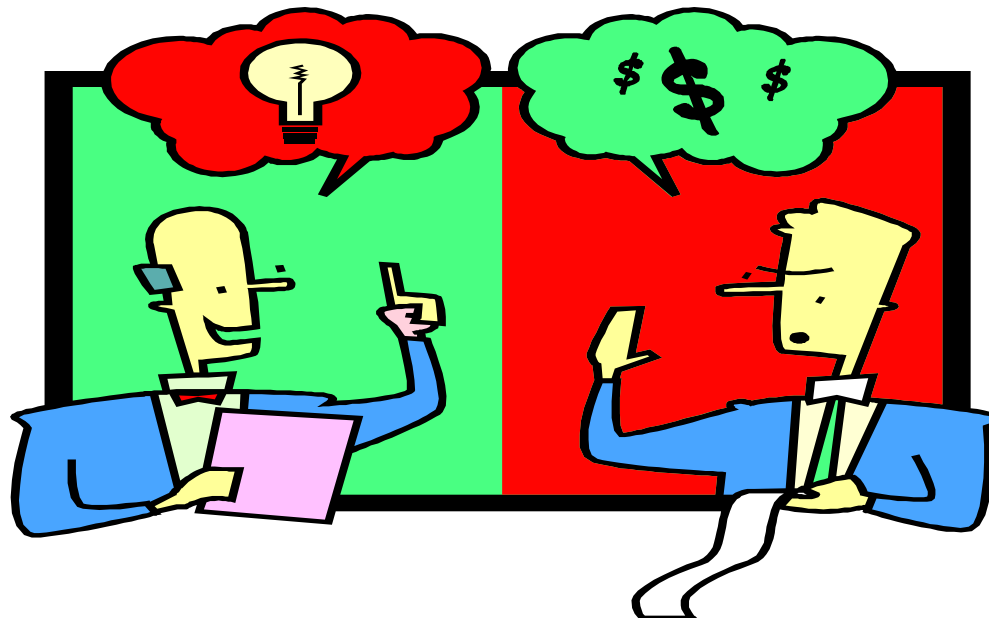
- Justify an investment
- COO and CFO creating a culture of financial accountability
- Business vs. risk-management perspective



Future Considerations

- ✓ Need strong commitment from business units
- ✓ Superior project management
 - ✓ No incentive to cut corners
 - ✓ Real NPV of one year delay: \$5 million
- ✓ Quick hits
 - ✓ Eligibility (270/271)
 - ✓ Claims (837)

What would you rather be?



EDI visionary
capturing \$millions
in additional cash
and savings

or

Compliance staffer
sucking out \$millions
from the company