



teach &
transform



... 2022 STFM ...

ANNUAL SPRING CONFERENCE

Indianapolis, Indiana
April 30-May 4, 2022

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Health Systems Finances: How the Money Flows and How to Make Business-Based Appeals that Resonate With Health Systems Leaders

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Disclosures

- The presenters have no financial conflicts of interest to disclose. We do share a bias for family medicine and for improving the health of those we serve.

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Welcome

**Remember that time you had a
righteous idea, but you couldn't get
leadership to pay for it?**

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How did that go?

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Our plan for today

- Working in small teams, select an “ask” to develop today
- Health Systems Finance 101 – Matt
- Impact of Financial and Quality Data on Health System Finances – Jonathan
- The Chair and Dean Perspective on Department Finances – Steve
- Write your own business case and pitch
- Present your pitch and get feedback

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Small group assignment

Pick a scenario common to the group. Together, answer these questions on the worksheet (knowing answers may be different for different organizations):

- What is your specific “ask?”
- Who, within your system, has the power to approve your ask?

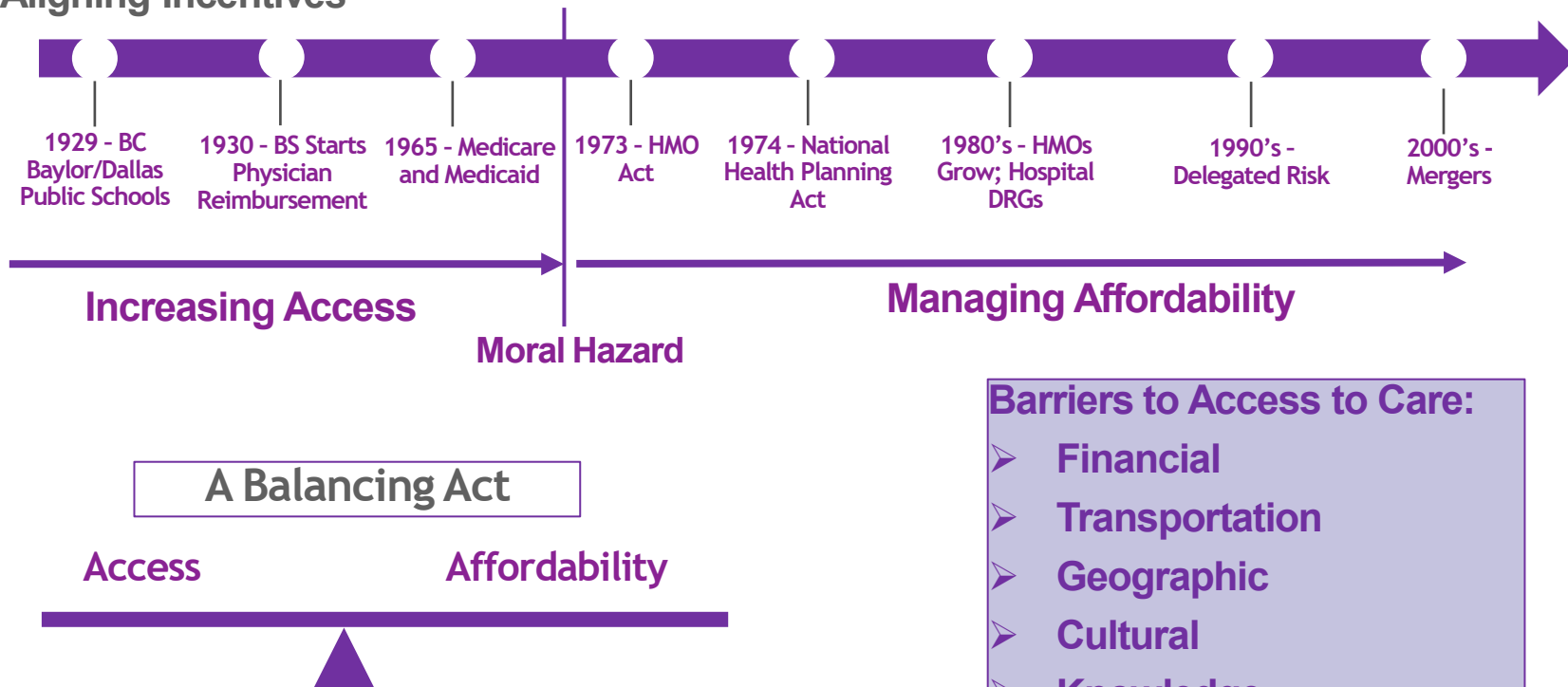
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Aligning Incentives

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Healthcare Reimbursement and Strategy

Aligning Incentives



Barriers to Access to Care:

- Financial
- Transportation
- Geographic
- Cultural
- Knowledge

Healthcare “Shewhart Cycle”

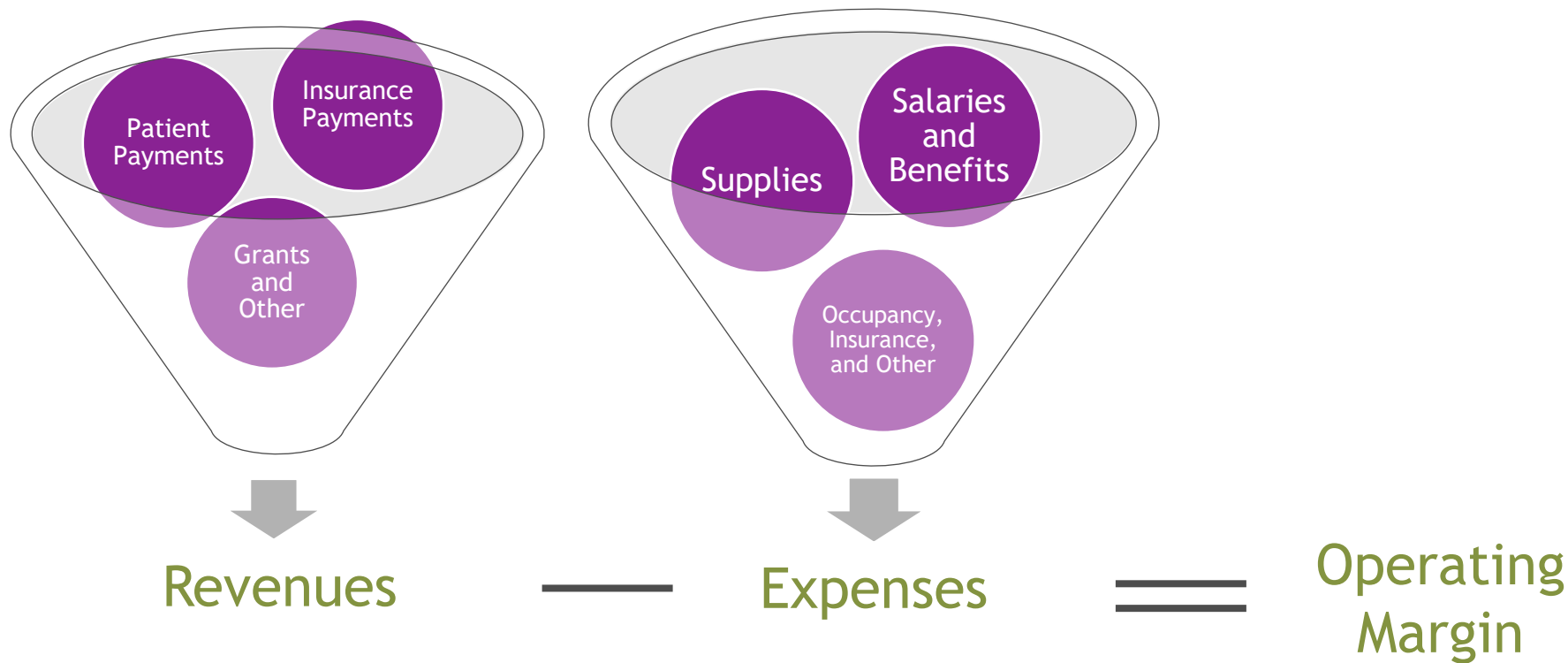
Plan, Do, Check, Act

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Financial Planning Cycle



- Strategic Plan – 5-10 years.
- Long Range Financial Plan (LRFP) – Quantifies Strategic Plan
- LRFP Goals –
 - Bond Rating
 - Cash Flow
 - Operating Margin Targets
 - Capital Investment Funding

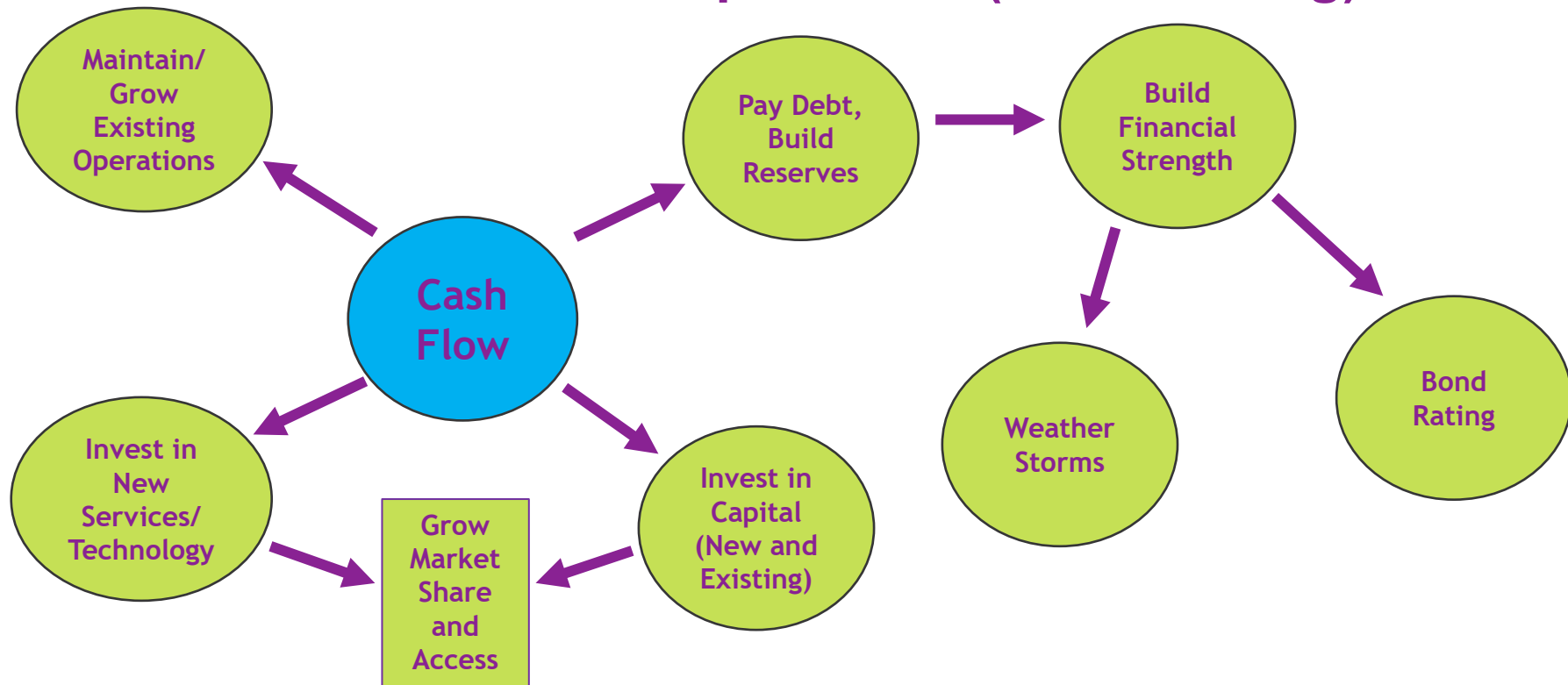


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Income Statement

Income Statement	YTD December
Revenues:	
Charges	\$10,000,000
Discount and Allowances	(\$5,500,000)
Bad Debt and Charity	<u>(\$1,000,000)</u>
Net Revenues	\$3,500,000
Expenses:	
Salaries and Benefits	\$2,000,000
Supplies	\$250,000
Insurance	\$100,000
Occupancy	\$350,000
Purchased Services	\$50,000
Repairs	\$25,000
Depreciation	\$100,000
Other	<u>\$35,000</u>
Total Expenses	\$2,910,000
Operating Margin	\$590,000
Add Depreciation	<u>\$100,000</u>
Cash Flow from Operations	\$690,000

Cash Flow from Operations (Cash is King)



Strategic Plan (and Funding) Influencers

“Socialize” ideas in multiple forums with multiple audiences.

“The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday’s logic.”

– Peter Drucker

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Strategic Capital Brainstorming Inputs

- New and expanding services – 95% of care where you live
- Patient Access Data – (Hospital and Physician) – Wait times
- Market share
- County/Regional Health Plan
- Five year Physician Recruitment Plan (1,000 sq ft/MD)
- Profitability
- Technology and Science – Evolution of Care
 - ❖ Where will patient care be in 2-5 years?

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Strategic Plan (and Funding) Influencers (Think 2-5 Years Out)

Think Strategically:

Patient Care Concern/Public Health

Opportunity:

- Enhanced Patient Access
- Organization's Mission
- Social Responsibility/Public Health Plan
- Chronic to Acute

Strategic Implications/Regulatory/Funding:

- Where is technology/science going? (Telehealth)
- Who Pays? (Reimbursement/grants/donors)
- Regulatory/Safety driver (Reduce patient and employee/physician workplace injuries)
- New programs, core equipment, new service line/equipment (ROI)

How do We Sell It?

- Socialize to Decision Makers



Break

Why does finance care about quality?

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Financial Implications of Quality

Direct cost of patient care

Length of stay,
resource
utilization

Patient safety -
medical errors,
lawsuits

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Hospital-acquired conditions are costly

Condition	Studies (n)	Estimate
Adverse Drug Event (ADE)	2	\$5,746
Falls	3	\$6,694
CAUTI	6	\$13,793
<i>C. Difficile infections</i>	6	\$17,260
CLABSI	7	\$48,108

Estimating the Additional Hospital Inpatient Cost and Mortality Associated with Selected Hospital-Acquired Conditions. AHRQ. November 2017

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Financial Implications of Quality

- Direct cost of patient care
 - Length of stay, resource utilization
 - Patient safety – medical errors, lawsuits
- Quality metrics have financial incentives and/or penalties
 - CMS Star Rating
 - Readmissions Reduction

Medicare.gov Care-Compare

Overview

Distance from 02215	0.7 miles	1.1 miles	1.5 miles
Overall star rating	★★★★☆	★★★★☆	★★★★★
Patient survey rating	★★★★☆	★★★★☆	★★★★★
Patient survey rating			
Timely & effective care			
Complications & deaths			
Unplanned hospital visits			
Psychiatric unit services			
Payment & value of care			

Financial Implications of Quality

- Direct cost of patient care
 - Length of stay, resource utilization
 - Patient safety – medical errors, lawsuits
- Quality metrics have financial incentives and/or penalties
 - CMS Star Rating
 - Readmissions Reduction
- Value-based Care Programs
 - Bundled Payment program
 - ACO

Medicare.gov Care-Compare

Overview

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Patient survey rating				▼
Timely & effective care				▼
Complications & deaths				▼
Unplanned hospital visits				▼
Psychiatric unit services				▼
Payment & value of care				▼

Why does Quality care about Finance?



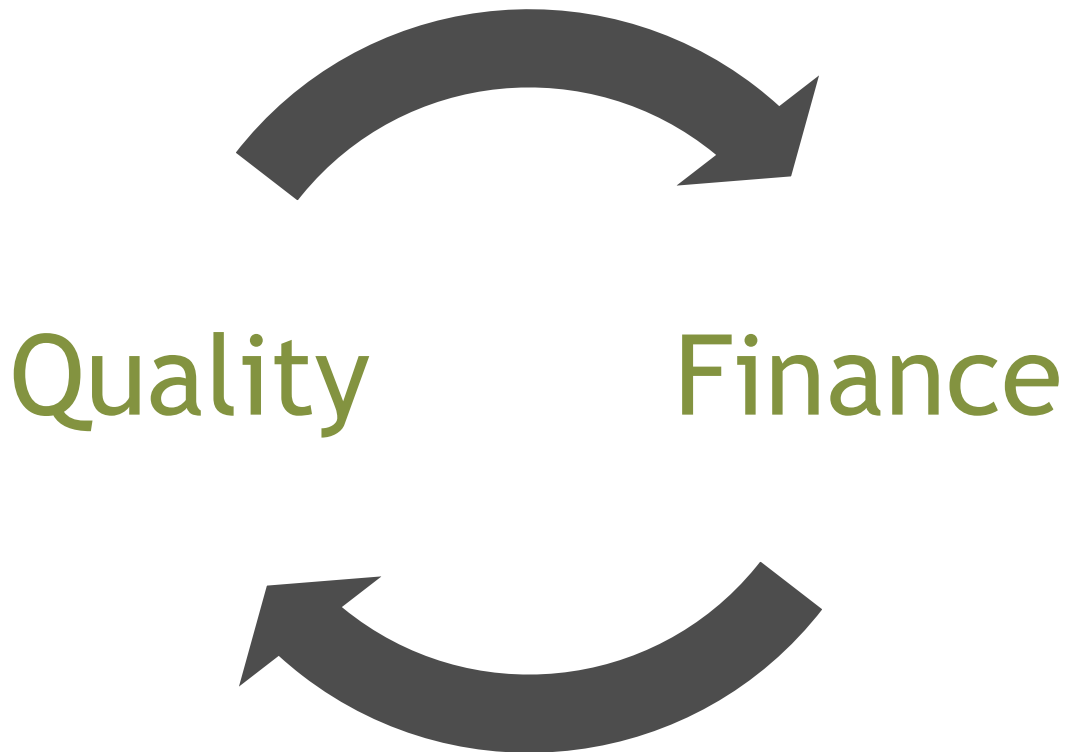
Investment in resources



Hospital financial
performance and quality
are positively associated



Influence within your
organization



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The Journey to Value-Based Care

Fee-for-Service

Global Capitation, Full Risk



Pay for Performance

PMPM with Risk Sharing

Bundled Payments

Sub-Capitation

Larkin, J and J Yoo. Risk-based Contracting for Value-based Care, A Founder's Playbook. April 6, 2022

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The Journey to Value-Based Care: Where is your organization?

Fee-for-Service

Global Capitation, Full Risk



Pay for Performance

PMPM with Risk Sharing

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Business Model Differences

Fee-for-service

Rewards volume

Be as lean as possible

Value-based

Need to drive
outcomes so must
invest in programs

Up front revenue
allows for investment

Project Considerations

- Where is your organization?
 - FFS vs value based
- Does your proposal improve an existing quality metric?
- Can your proposal save money?
- What is the time-course for ROI?

References

- Estimating the Additional Hospital Inpatient Cost and Mortality Associated with Selected Hospital-Acquired Conditions. AHRQ. November 2017
- Larkin, J and J Yoo. Risk-based Contracting for Value-based Care, A Founder's Playbook. April 6, 2022.
<https://a16z.com/2022/04/06/risk-based-contracting-for-value-based-care-a-founders-playbook/>
- Moses, James. Interview. March 9, 2022.

Small group assignment

For your scenario, answer these questions on the worksheet (knowing answers may be different for different organizations):

- What is the “win” for the system?
- Where could the funding come from?

Revenue - All Sources Summary

Revenue Sources	FY21	FY20
Clinical Revenue	\$230,377,654	\$223,480,513
MUHC	80,809,002	74,958,931
Sponsored Research	58,087,741	47,382,725
General Operating (Tuition)	22,151,818	20,126,000
School UP Trust	13,610,164	11,911,712
General Operating (Other)	11,181,194	17,961,934
Contracts	7,287,580	7,693,100
Endowments/Gifts	7,268,942	6,860,789
Service Operations	6,006,978	5,222,012
Restricted State Approp	3,781,746	3,782,202
Other Unrestricted Designated	2,697,507	3,065,539
Research Incentive Funds	1,714,007	1,411,942
Fixed Price Contracts	695,313	364,907
Patent & Royalty	304,494	145,143
TOTAL	\$445,974,140	\$424,367,449

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Annual CARTS investment from collaborative work with MU Health Care

Clinical: \$39M

Administrative:

- Clinical Chair Support (10%) \$1.1M
- Medical Dir \$7.6M
- Clinic Managers \$250K

Research: \$15-20M/annually

- Office of Research: \$3.9M
- MD/PhD & Umbrella Programs: \$750K
- Current PI Startups: \$6M
- TRIUMPH pilot projects: \$1.5M
- RISE-UP Projection (new research faculty hires): \$15-20M

Teaching: \$9 M (not counting resident/fellows' salaries)

- Faculty Teaching \$2.2M
- Clinical Chair Support (10%) \$1.1M
- Residency Prog Dir \$5.2M
- Resident Clerical \$600K

Strategic: \$4.9M

How do family medicine departments contribute to academic health centers?

Teaching

Residency training

Research

Capture market share - the more patients you have the more valuable you are

Enhance quality metrics

Create cost savings

Sources of Funding for MU FCM

- Total FY22 budget \$24 million
 - Clinical \$17.4
 - Research 1.8
 - School of Med 1.7
 - Dean's trust 0.4
 - MU Health Care 2.4
- MU Health Care also pays for cost of clinics and resident salaries
- CARTS "R" – source of funding for research recruits
- How are we spending in clinical, administrative, research, teaching, and service areas of effort (another CARTS acronym)

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How can a leader create value with others?

- Who is the decision maker?
- Different expectations of Dean vs. CEO?
- Create a win-win – “What problem can I solve for you?”; aligning mission and values
- Community engagement
- Finding other partners before the ask
- Know your data better than anyone; make sure it is accountable
- Managing up and down
- Are there training and/or research opportunities?

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Case response: Benefits of the diabetes initiative

- Can you lead on quality metrics?
- Can you leverage research opportunities?
 - For residents
 - Participation in investigator initiated clinical trials or pharma trials
 - PCORI grants
- Can you create stronger community linkages and health address health disparities?
- Can you become a differentiator that could attract patients, industry or insurers?
- Can it be supported by education/training collaboratives or other partners?
 - Nursing, social work, dietetics, exercise physiology – faculty students who could support the program

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Making *your* business case



**What's your
ask?**

**Who is the
decision
maker?**

**How will you build
ROI into your ask?**

Individual assignment

- Work on your own business case/pitch/worksheet
- Pitch your idea!

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Questions?

Observations?

**Are you ready to make your appeal
to your leaders at home?**



Thank You