



# Net Revenue Modeling Through and Beyond a Crisis

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# Housekeeping

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# Agenda

- The Crisis – What we know
- Preparing for what we don't
- What can you start doing now

# Your Presenters



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# What happened & what we've learned

**The Crisis – What We Know**



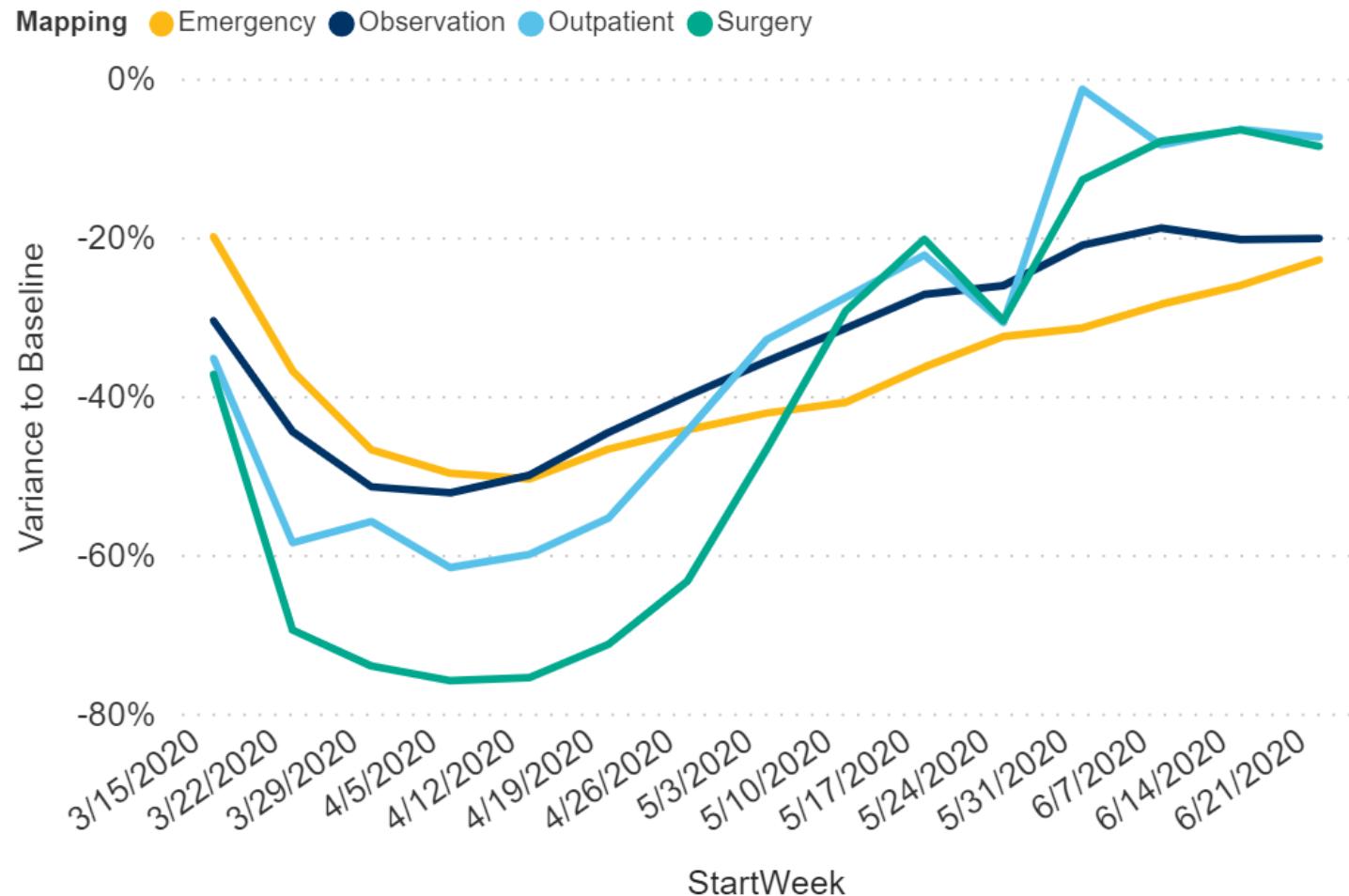
# The Crisis We Know – Background

The impact of COVID-19 was sudden and significant:

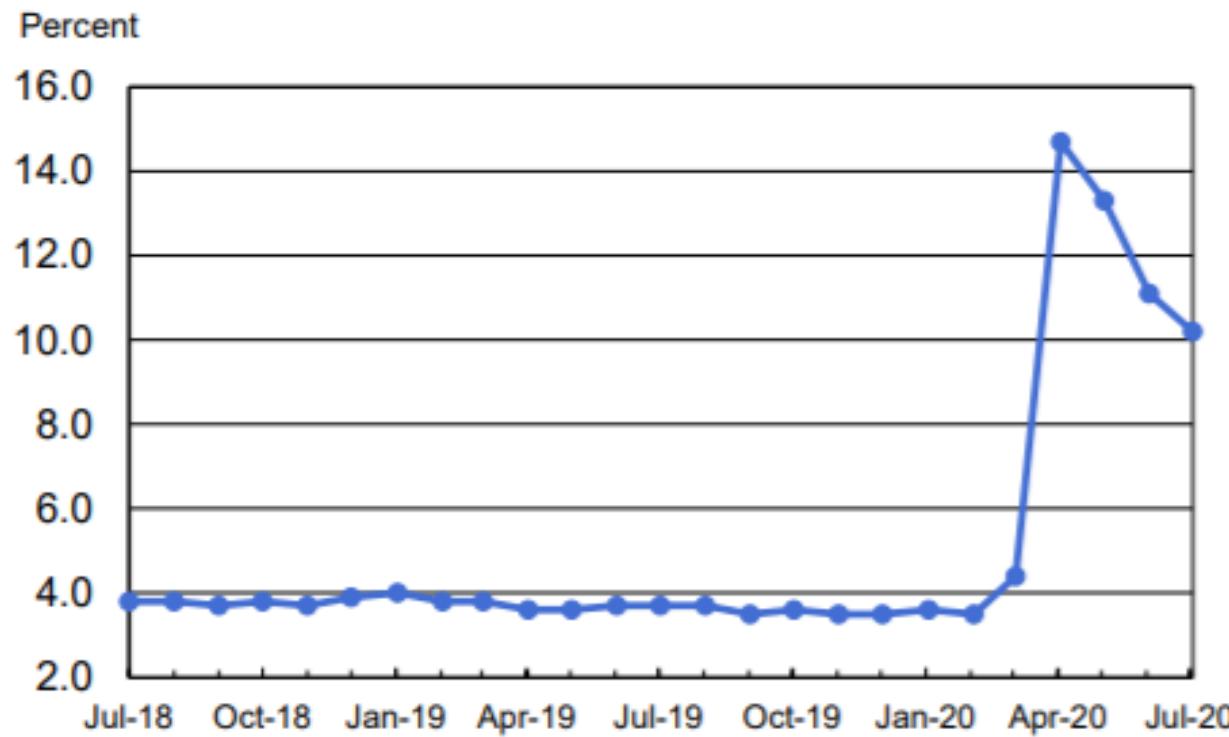
- Health systems suspended non-emergency and elective procedures in the middle of March.
- Stay at home orders in most states drove unemployment to record highs.
- The popularity of new methods of care delivery, such as telemedicine, required health systems to adapt to changing patient needs sooner than expected.
- To the extent possible, most businesses were required to quickly adopt a remote workforce
- Health systems were required to better understand the impact of a drastic change in service mix of services to both ensure the accuracy of their financial statements as well as to attempt to project the impact the virus may have on the organization in the long term.
- The CARES act created a new set of reporting and operational challenges that required significant and immediate attention.



# The Crisis We Know – Outpatient Volumes



# The Crisis We Know – Unemployment



Source: BLS.gov

## Polling Question

**What impact could a historic increase in unemployment have on accounts receivable and net revenue?**

A

Higher bad debt expense on patient pay after insurance accounts

B

Higher Medicare contractuels

C

Increased pre-cert denials

D

None of the above

# The Crisis We Know – Net Revenue Modeling

The COVID-19 pandemic has reinforced several important net revenue and accounts receivable reserve fundamentals:

- 1 Your reserve model should be closely and routinely monitored to ensure it is aligned with hospital operations and evolving with your underlying business. Poorly aligned assumptions can cloud data and misinform key decision makers.
- 2 Coordination and understanding across all net revenue stakeholders is vital for responding to rapid and unexpected change. Net revenue opportunities or issues often have widespread implications and organizational understanding of net revenue data sources, definitions, and reporting is key for coordinating effective responses.
- 3 Change in prior, current month net revenue, and transactional reporting via RCA should be fully adopted and utilized by the organization to both monitor and explain net revenue.
- 4 Significant shifts in operations from historical trends can create risk and uncertainty in accounts receivable reserve models. A deep understanding of the reserve model and net revenue drivers is required for proactively and efficiently addressing risk.

# The Crisis We Know – Reserve Rate Adjustments

A zero balance account or ZBA methodology is traditionally used for estimating contractual reserves, unless the account is billed and discounted at time of billing. The ZBA is applied by payor and in/out type, so *payor mix changes are naturally addressed in the model*, however the service mix of the open A/R today is essentially assumed to be the same as the ZBA. To the extend that the yield on services is different, drastic changes in today's service mix may require an adjustment to the ZBA in order to avoid over to understatement.

Service Mix Within the ZBA – Payor A					Service Mix within Open AR Today – Payor A			
Service Type	Total Charges	Total Contractual	Rate	ZBA Weight	Account Balance	Weight	Expected Contractual	Rate
Surgical	\$200,000	\$100,000	50%	67%	\$100,000	33%	\$50,000	50%
Medical	\$100,000	\$80,000	80%	33%	\$200,000	67%	\$160,000	80%
Total:	\$300,000	\$180,000	60%	100%	\$300,000	100%	\$210,000	70%

- Somewhat surprisingly, most of our clients found that the contractual rate was actually quite similar across service lines. However, this kind of analysis requires the use of ancillary data fields in RCA, such as service type, or data from additional sources.
- Changes in payment terms, such as the 20% increase in reimbursement for COVID-19 cases and the suspension of the 2% sequestration adjustment, can also create a misalignment.

# The Crisis We Know – Reserve Rate Adjustments

Start Date ATB: 12/31/18		Postings over 12 months			End Date ATB: 12/31/19	
Aging Bucket	Open Balance	Contractual	Payment	Bad Debt	Ending Balance	Payment Rate
0-30	\$100,000	(\$80,000)	\$(-10,000)	\$0	\$0	10%
31-90	\$50,000	(\$30,000)	\$(-10,000)	\$(-10,000)	\$0	20%
91-120	\$200,000	(\$150,000)	\$(-50,000)	\$0	\$0	25%
121-180	\$150,000	(\$75,000)	\$(-50,000)	\$(-25,000)	\$0	33%
181-360	\$50,000	(\$30,000)	\$0	\$0	\$20,000	0%
360+	\$25,000	\$0	\$0	\$(-25,000)	\$0	0%

- Patient pay financial classes, such as Self Pay After Insurance and Self Pay, are often considered “high risk” in RCA and are reserved using a hindsight only approach. This essentially results in reserving AR in these categories down to their historical payment rate (by aging bucket).
- To the extent that the payment rate within these financial classes is expected to be materially worse than it was historically, an adjustment to the reserve rates may be necessary.
- The nature of patient responsibility – specifically the length of time it takes to receive payment – makes assessing changes in the payment rate a challenge.
- Key indicators related to patient collections such as payor mix, bad debt write-offs, charity applications and adjustments, and average daily collections, should continue to be monitored to determine whether an adjustment is necessary.

## Polling Question

**The ability to adjust baseline historical rates and quickly perform what-if analyses is a critical step in setting AR reserves. What tools are available in RCA to adjust baseline rates?**

A

Adjusting pricing and realization configurations

B

Manually updating historical hindsight rates

C

Adjusting rates through MRA's "other" adjustments

D

All the above

# Preparing for what we don't [*know*]



# Preparing for the Unknown

What Crowe heard:

- March through June was more art than science
- Wait and see approach
- Conservative approach = apply conservatism based on general economic indicators

1. Optimizing the net revenue function
2. Budgeting and projecting net revenue
3. Asset mix and underlying cost structures

# Preparing for the Unknown

Optimizing the net revenue function

- Staffing, Structure, and Workflow
- Net Revenue Alignment
- Reporting and Analytics
- Controls, Data Integrity, and Governance
- Automation



# Budgeting and Projecting Net Revenue

## Budget Model Integrity

- Standardized and consolidated data set with built in data integrity checks
- Modeling variables that have robust historical data

## Service Line and Payor Assumptions

- Volume growth assumptions developed at a service line level – its easy to get too granular
- Limit outpatient service lines to summary groupings that are standardized across the organization
- Payor groups limited to material groupings

## Variance Review

- Reduction in manual reporting process
- Top down approach with the ability to drill down into both actual results and budget assumptions

## Polling Question

**When projecting net revenue, what types of variables can you consider?**

A

Volume data (e.g. cases, days, wRVU's, etc.)

B

Anticipated changes in service mix

C

Revenue Cycle / Strategic Initiatives

D

All the above

# Asset Mix and Related Cost Structures



**Overspend at the asset level is going to produce overspend in many other parts of the business**

# What can you start doing now?



## What can we do now

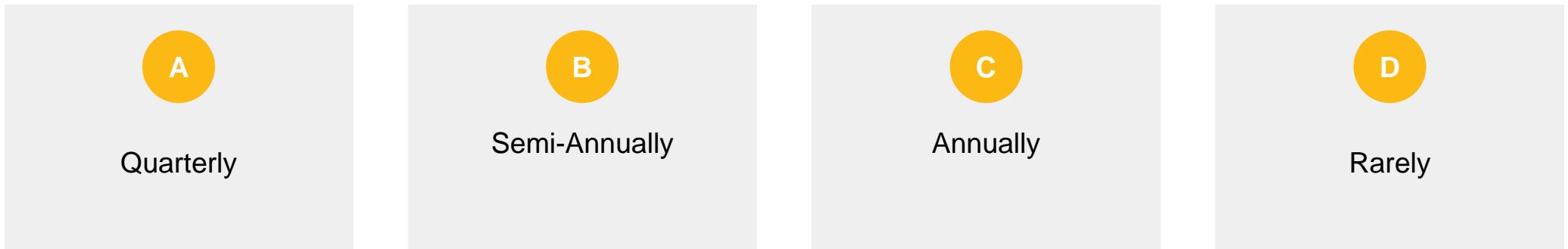
- 1 Organizations should regularly assess the health of their reserve model by asking themselves key questions:
  - Does the reserve model accurately reflect the cash I expect to receive on my open AR?
  - Are we taking full advantage of the reporting available to our teams?
  - Are we challenging the appropriateness of the assumptions used in the reserve model?
- 2 Inventory net revenue, accounts receivable, and transactional reporting in an effort to consolidate, simplify, and automate to the extent possible.
- 3 Define key terms and determine the most appropriate data sources for reporting key performance indicators such as denials, bad debt and charity write-offs, and cash collections.
- 4 Ensure the chart of accounts, income statement, and balance sheet reconciliations are functional and automated, to the extent possible.

## What can we do now - Continued

- 5 Perform a critical assessment of the overall finance function in order to identify areas of inefficiency and overspend.
- 6 Understand and inventory asset profiles, utilization rates, associated cost structures (i.e. FTE requirements, room modifications, service agreements, lease out clauses, etc.)
- 7 Consider your process for budgeting and capital allocation discussions. Are these discussions and decisions driven and supported by a validated data set?

## Polling Question

**How often do you perform an assessment of the appropriateness of your reserve assumptions**





# Thank you

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