

INSIGHTS AND INNOVATION FOR RURAL HOSPITALS AND PROVIDERS



Night Vision

by Jim Burnette, President/CEO, HospitalMD

*"The one characteristic more essential than any other is **foresight**... It should be the growing nation with a future which takes the long look ahead."*

—President Theodore Roosevelt

The Medicare and Medicaid programs were enacted by Congress in 1965. But little did lawmakers understand what they would become. In the past 52 years, there have been 33 different Federal Government programs established by Congress, with several additional program initiatives launching and continuing to evolve as part of the Affordable Care Act (ACA).¹

¹ Centers For Medicaid & Medicare Services, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>

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All of these programs have been established in an attempt to define measurable quality outcomes that can be linked to payment for those outcomes. Evidence to date suggests that the result (and surely the intent) has been reducing the price (revenue to your hospital) and usage (volume to your hospital) of healthcare services paid by the government payers.

UNBRIDLED GROWTH

Aggregate total health care expenditures as a percent of Gross Domestic Product (GDP) for the U.S. is used as a benchmark of expenditure trends. If the effectiveness of these government efforts is judged in terms of reducing healthcare expenditures as a percent of GDP, they have been a failure. Five years before the creation of Medicare and Medicaid in 1965, national healthcare expenditures were 5% of GDP. That has more than tripled to 17.8% of GDP today. In spite of these massive, expensive, and intrusive governmental efforts to curb the cost of healthcare, expenditures are forecast to continue to grow at an annual rate of 5.8% by 2025, reaching 20% of GDP. ²

It is easy to lose sight of the local and personal impacts of these national trends. The media reports almost daily about individuals who are foregoing healthcare due to rising out-of-pocket expenses. You see the effect of uncollected revenue (bad debt) related to those without insurance who can't or won't pay. These are your customers.

To put it simply, as a hospital, the price you are paid by your federal and state government for your patient care services will continue to decline per patient visit (e.g., patient visit, surgery case, diagnostic exam, etc.). You will continue to lose revenue to outmigration. You will experience the inflationary creep of operating costs that are beyond your control. Small Community Hospitals (SCHs) will become increasingly more vulnerable year after year. If you

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continue business as usual, the resulting downward revenue trend and an upward expense trend will eventually intersect at a dead end where recurring annual financial losses accumulate.

None of these federal and state programs help the providers (physicians and hospitals) increase revenue, or manage the operational costs of their respective businesses, and compete in this disruptive economic transition. You don't have to face this problem alone.

HEADLIGHTS AND NIGHT VISION

Trying to achieve revenue growth and reduce costs without a structured method is dangerous. Imagine driving through a long, pitch-black tunnel with failing headlights. You can choose to keep driving and hope you get past the uncertainty, but it comes with obvious risk and almost certain catastrophe. Or, you can pull over. This too is risky, but is this risk greater or less than continuing on blindly? Even if your headlights suddenly come on, it might be too late to react effectively to the unexpected.

You need an even more powerful tool. I saw an article recently about the advancements in night vision. The previous generation night vision goggles with green colorization are evolving into high-definition goggles that turn night into day, with greater range of view, detail, multi-spectrum imaging, and colors. You need cutting-edge vision that permits you to continue to travel through regulatory and economic uncertainty, regardless how dark it is, how long the dark lasts, and enables you to travel into the future as if the darkness doesn't exist.

WHAT SHOULD I DO?

So what is your night vision tool? Based on my work with SCHs over the last 20 years, I believe the purposes, techniques, and application

² Centers for Medicare & Medicaid Services, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/Proj2015.pdf>

of the concepts and fundamentals of Performance Improvement (PI) are poorly understood, and thus the power of PI methods has not been effective in reforming and transforming delivery of health-care. A simplistic view of financing the enterprise is to maximize revenue and minimize cost. Literal interpretation of this view is a simplistic “either/or” solution. This perspective is risky. If minimum cost produces a poor outcome, or high cost results in an unprofitable one, you may still fail.

Fortunately, PI methodologies contain all the tools and techniques necessary to make objective, more predictable decisions. But you have to know how to use the tools.

Why should this matter to you? We have sat in your chair and have PI experience that can remove the mystery and make this a simpler undertaking and more effective.

Well designed PI efforts provide much more than simplistic “either/or” options. They intrinsically provide the ability to **balance** medicine quality, customer service, and financial considerations. This need to embrace PI tools and techniques is, in my view, the most important need for SCHs.

THE FINANCIAL REALITY

I have heard hospital leaders say that the reason they have PI staff and PI meetings is that PI is a regulatory requirement of CMS and The Joint Commission (and other certification agencies). This is true.

Foresight asks, "What is the financial impact or implication of this decision?"

But, the importance of understanding PI methods is that PI is a means to an end. It is not a bureaucratic exercise. You should always be asking yourself and your team, “What is the financial impact or implication of this decision?” (foresight). Almost no product or service can be provided without the use of resources. Every resource has a cost. There is a cost to produce every dollar of revenue. Someone has to pay the price. Even if you have an infinitely large endowment, it is irresponsible to completely drain the endowment and not have a concern for replenishing it to benefit others in the future.

THE FINANCIAL FORMULA

The PI perspective is an “optimization” methodology. When properly used, PI methods provide the basis for understanding the effects of manipulating either revenue or cost and assist you to design services for optimal outcomes.

CONCLUSION

Over the next several months, future editions of **in•sight™** will focus on presenting the concepts and fundamentals of PI methods that I hope bring you better

vision— a stronger working understanding and application of PI tools and techniques. Detailed discussions of methods will be available in white papers, case studies, and other instructional materials at: hospitalmd.com/resources/insight.

I welcome your requests to address specific topics of interest to you. I'd like to hear your success stories and your challenges, and I hope you share them with your peers as well. We want to see community hospitals thrive! Write me at insight@hospitalmd.com. 

–Jim Burnette



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them thrive in today's rapidly changing healthcare climate. Jim is a graduate of Georgia Tech and resides in Peachtree City, a small community right outside Atlanta.

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