

Financial Health Forum

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Principles of Finance in Health Care

Anne Moses

Harder Company Community Research

Financial Factors in Health Care

- Academic Setting presents special challenges
Higher cost, inefficiency, bureaucracy, competing goals, slow to change
Academic Setting does present special benefits
Who are the customers?
- Patients, clients, groups, disease, problems, cases
- The customers are from very diverse backgrounds, phases of life, gender, ethnicity, socioeconomic, psych problems, diseases
- Each decide whether to return, not return, refer others
- These decisions affect financial performance

Insurance programs

Medicare, medi-cal, HMO's, private, grants, contracts, university, donations, self-pay

Payment methods

By the visit, by the day, by the diagnosis, by the year, by the enrolled person, by the year, by the hour, by the goals of the grant

Cost Factors

Direct, overhead or indirect costs, one-time costs, recurring, allocated

Direct Costs

Staff, space, medical supplies, pharmaceuticals

Indirect

Administration, finance, information services, UC allocations

One-time costs

Equipment, hardware, software, building a new facility, renovation

May be called depreciation

The Bottom Line

Revenue-direct cost = bottom line from operations

Revenue-direct cost + Indirect cost = real bottom line

Financial performance = actual bottom line vs expected bottom line

What is a financial loss?

Operating loss: revenue-direct costs = negative

Breakeven: revenue = cost

Overall loss

Influencing costs

- Staff efficiency, program design
- Space - negotiate leases
- Purchasing decisions - generic drugs, group purchasing, equipment choice
- Usage decisions - drug choice, supplies given away or used in treatment

Influencing revenue

- Marketing to insured patients
- Negotiating contracts with payers
- Helping uninsured people get insurance through public agencies or health plans
- Increasing paid activity

What you can do

Know your costs

Design your program or practice that costs less

Choose lower cost staffing patterns, drugs, supplies

Negotiate different contract terms

Attract new clients

Get donations
Write grant applications

Marketing Approach for Negotiating APN Positions Jeanne Ann Seago

Advanced Practice Nurses (APNs)
APNs - NPs, CNS, CRNAs, CNMs,
Master's level of education
National certification
Variation across states
CA Song-Brown Family Physician Training Act - Increased number of NPs, PAs with a training act because of perceived need

Trends and demands

- Managed care incentive to lower costs
- Nursing care has not been separately costed
- NPs used as substitutes for mds
- Competition in many areas along the spectrum
- Some resolution by price wars
- Some argue that nurses bring a different perspective and skill set - the perspective of wellness

Trends

APNs may be used for inpatient care
Downsizing of residency programs, especially specialties
Fewer sicker hospital patients
That has now changed
APNs and PAs
Duke, 1965 1st PA program
Originally to assist mds in rural communities
1985 required to focus on primary care
1990 - eligible for national health service corps scholarships
1998 - US

PAs 1/2 the number of NPs

APN edu

Barriers

Few experience faculty
Few training sites
High cost apn education
36 times for money for med ed
govt. have more levers on med ed
nursing responds to market forces
medicine brings govt. \$ to clinical sites - nursing does not
so apns may be squeezed out
primary care vs specialty

Additions in Education

APNs must learn to measure their value
need better understanding of the economics of health care delivery

Total Financial Requirements

The financial resources needed to provide for the health care needs of the population served by the organization
Any activity needs to make a profit - where the profit goes is part of decision-making

Costs of doing a business

Routine operating costs, remodeling, replacing equip, reserves, unplanned expenses

Break even analysis

How to calculate how your organization is getting money

A technique - will be able to predict future

3 ways to reduce break even level

- lower fixed costs
- increase price
- reduce variable cost per-unit by increasing efficiency - redesign

Marketing
Process of providing goods and services in exchange for value
Health Care
Production orientation - focus on delivery
Selling orientation - getting customer to use
Marketing Orientation
Thinking of client first
Customer orientation
Money will be spent to determine what the customer wants
"antimarketing behavior" can defeat the most costly market research
Understand-
Difference bwtm services and services
Health care services are intangible - the customer cannot sample it before hand and usually Cannot evaluate it after receiving it
Competitors commonly offer the same services and different service
Your competitors - MDs, Pas, NPs
Can you explain what service you provide?
Market penetration
Improve your product, improve the quality of your service, faster service, reliable or reduce price, create a new service, new service area, innovative delivery
Be first, be best, be unique
Most prestigious, positions against competitors
You know your customers

Compensation Plan Zina Mirsky

1987 Compensation Plan was written - applied to UCSF and UCLA SON for the first time
Eligible for 51% employees
Salary - no further funding may come from the state above our base salary
X, Y, Z factor
X factor- Academic Rank Component of 4 levels (0.00 is base. 0.10, 0.20 and 0.30 levels are assigned by the Department Chairperson each academic year. Levels above base are determined by additional funding sources (e.g., training and research grants).
Y factor – is a negotiated component based on accomplishments in research, teaching, clinical practice, and administrative work.
Z factor – A clinical incentive factor can be applied to individual's salary if the individual participates in an income generating clinical activity. This incentive component applies to an individual's salary after accounting and billing costs have been met.