Five priorities for sustainable health care financial performance

Optum

Moving toward better financial health

Chris Martin

Senior Vice President, Optum

Amid the COVID-19 pandemic, health care leaders have focused on their most urgent priorities — caring for patients, securing staff and acquiring sufficient supplies. In fact, since the spring of 2020, health care providers served their communities heroically and with great sacrifice. Justifiably taking the back seat were issues like growth strategy, operational planning and other factors related to financial performance.

Today, health care leaders are again looking forward. They see many of the same old challenges, including margin pressures, consumerism and growth. But they also see some new ones — an even tighter labor market and greater demand for enhanced technology-enabled experiences (for patients and clinicians). There also is significant opportunity to forge a more stable and sustainable health system, better able to meet the needs of all members of our communities.

In the following pages, we'll explore five priorities of sustainable financial performance: cost management, revenue integrity, workforce optimization, digital infrastructure and growth strategies. These are a set of interdependent fundamentals that together can help health care leaders restore their footing, lift financial performance, move their mission forward and lay the groundwork for driving the transformation needed for success in a new era of health care.

As you read, follow the links to interviews with experts working with organizations like yours.

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1: Cost management

More than a decade of focus on reducing administrative costs has yielded frustratingly little progress. In 2019, before the disruptions that accompanied the COVID-19 pandemic, it was estimated that administrative expenses consumed 25% to 31% of total health care spending annually in the U.S. For hospitals and health systems, the share of administrative costs (or the costs to support operations and overhead) drag down margins, consuming resources that could be re-allocated to serving patients, improving population health and supporting other strategic priorities.

But it's not just administrative costs. Care delivery is impossible without people. As such, labor costs take up to 50% of the expenses on the balance sheet. Supplies consume another 20% to 25% of overall costs.

When these costs are unconstrained, they reduce margins. According to Chicago-based hospital consulting firm Kaufman Hall, hospital margins could be 11% lower than pre-pandemic levels and 76% of hospitals report having less than 60 days of cash on hand. At the same time, care delivery costs are increasing due to sicker patients, lingering COVID-19 protocols and a shrinking workforce.
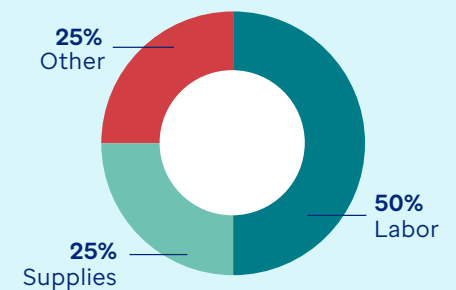
Cost management is fundamental to restoring financial health. But cost management isn't just about cutting expenses — an oftentimes futile endeavor. Slowing the rate of increase can be just as powerful, without starving the organization of capital for needed investments. Of course, those investments must also be prioritized to ensure discipline that drives better results — financial and clinical — over the long term.

Critical areas to focus cost-management efforts

- Administrative simplification and automation
- Technology infrastructure
- Workforce optimization
- Inventory and supply chain
- Smartsourcing partner

Cost Management Focus

Two areas comprise around 75% of hospital expenses:

- 25% Other
- 50% Labor
- 25% Supplies

Cost management

What the experts are saying

Eric Young | Vice President, Performance Improvement, Optum Advisory Services

What are the top challenges health care leaders face today around managing costs?

As health systems issue their 2021 reports, what we're beginning to see is that, despite a slight increase in operating margins, most are underperforming even their 2019 performance. It's estimated that about 50% of all health systems had a negative margin in 2020 and 2021.

Most of the challenges related to managing operating costs have to do with three things. The first is that health leaders and staff members are exhausted. They may need to take a step back and catch their breath before resuming the initiatives they were focused on pre-pandemic. Complicating matters are staff and physician shortages. With the extra work and focus required during the pandemic, we've also seen a lot of burnout.

The second challenge is supply chain shortages. Some of this we experienced pre-pandemic, but these shortages increased during and following the crisis.

When you think about the health system income statement, workforce and supply chain represent about 70% to 80% of all health care costs. Every health system needs to focus on ensuring they address these two high-cost items to increase margins, build liquidity and continue to provide uninterrupted services to their community.

The third cost-management challenge health systems face is the continual need to address the concept of "systemness," meaning the capability to make decisions that are optimal for the organization as a whole, rather than by individual service lines or facilities. We've seen a lot of changes in the market through merger and acquisition activities and other types of partnerships. However, one area of focus hospitals still need to address is corporate costs and administrative structures.

This excerpt is from a conversation with Eric Young.
Follow the link to read the entire interview.

2: Revenue integrity

On the surface, the two sides of every income statement — revenue and expenses — appear simple. But the inherent complexities of the health system make timely, full reimbursement and compliance monumentally difficult. Thus, the focus on the discipline of revenue integrity.

Traditionally, revenue integrity includes charge description master management, utilization review, coding, clinical documentation integrity, and reconciliation and audit. A more modern approach is more comprehensive, incorporating denial and claim management. Optimizing all processes to support a high-performing revenue integrity program requires considerable coordination and effective communication across the revenue cycle.

The stakes are high. Consider the impact of utilization review alone. With an average differential between inpatient and outpatient reimbursement of $3,500, making mistakes in patient status can cost hospitals and health systems millions over the course of a year.

Providers should evaluate their revenue integrity program to understand any gaps and build short- and long-term strategies that will strengthen people, process and technology. This strategy should also assess the structure of revenue integrity, including policies and procedures governing the program and technology assessments.

Steps to take for optimal revenue integrity

- Leverage intelligent technology for efficiency and data accuracy
- Fully staff the revenue integrity team
- Ensure accurate clinical documentation
- Take a holistic approach to revenue cycle management

11%
rise in medical claims denials nationwide[*]

*Medical Claim Denial Rates Rising, Highest in Initial Covid-19 Hotspots." AJMC, January 2021

Revenue integrity

Renee Monahan | Senior Director, Revenue Cycle Solutions, Optum Advisory Services

What are the top three challenges when trying to achieve superior revenue integrity?

The first challenge is in finding talent and staffing a revenue integrity program. Revenue integrity — as a discipline — is a fairly new concept, and it isn't easy to find people with appropriate skills. One possible solution to that challenge is engaging a strategic outsourcing partner to provide seasoned staff. Typically, partners also bring technology and best practices that help you make the most of your talent.

The second challenge is the state of constantly changing payer requirements. A good way to address this challenge is by ensuring your technology is kept up to date. That includes your electronic health records system (EHR) and all its associated and supporting technologies. You really want the latest technology built into your workflows before claims go out so you can maximize the chances of your claims being paid appropriately instead of being denied.

Finally, providers face a constantly shifting regulatory environment. I've worked in health care for a long time, and the regulations have always been constantly changing. Again, agile technology supported by people who understand those regulatory updates can help.

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> Typically, partners also bring technology and best practices that help you make the most of your talent.

This excerpt is from a conversation with Renee Monahan.
Follow the link to read the entire interview.

3: Workforce optimization

Workforce shortages and rising labor costs are pressing issues across industries today. Our population continues to grow older, bringing a greater share of people to retirement age. Declining birthrates mean fewer workers are taking their place. The U.S. Bureau of Labor Statistics projects a further 2% drop in labor force participation by 2030. These factors are compounded by pandemic-era complications, including staff burnout and other challenges.

Greater competition to recruit and retain talent is driving higher labor costs, as well as demand for better benefits and flexibility. These are not short-term issues. They've accumulated over the past decade and intensified more recently — and will not be resolved overnight.

Labor shortages are affecting clinical operations but are also taking a considerable toll on administrative functions. In a recent survey conducted by Healthcare Financial Management Association, 50% of CFO respondents say it's getting more difficult to find qualified finance and revenue cycle workers.

Health care leaders need to find creative ways to get the work done despite limited resources and increasing demands.

The good news is there are many options, including:

Technology: Streamlined and automated processes improve efficiencies, reduce errors and ensure employees are working at the top of their license or skill set.

Managed services: Partial outsourcing builds in flexibility and agility to manage through resource shortfalls or sudden increases in volume.

Strategic partnerships: A strategic partner can help strengthen operations and reduce costs, all while upgrading technologies without new capital investment. Leveraging the scale of a larger services provider can also enhance professional development opportunities for an organization's staff.

Ways to achieve workforce optimization

- Enhance workforce productivity and efficiency
- Access and retain high-quality workforce
- Support new capabilities and processes
- Partner with vendors to tap into scale, flexibility and cost effectiveness

Ease in finding qualified finance/revenue cycle workers*

n=137

1% Easier

50% Harder

49% Same
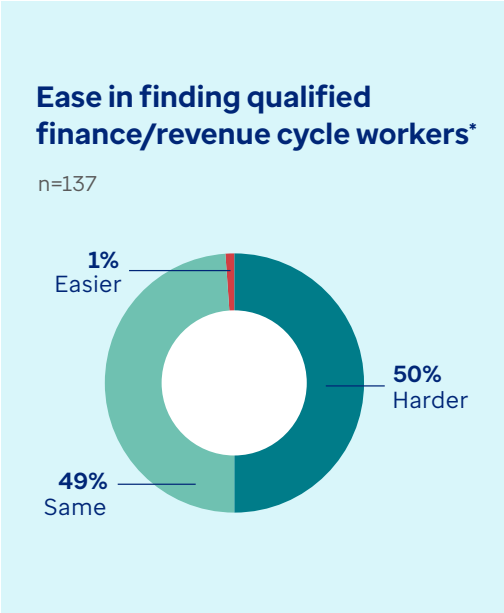
*HFMA. Workforce of the future: Empowered, more diverse and vulnerable to technology.

Mica Mione | Senior Director, Organizational Alignment and Development, Optum

What are some workforce trends or new obstacles facing health systems?

It's no secret that health systems are experiencing significant workforce challenges. Given the current climate and labor market, we've witnessed the balance of power shift to employees over the last year. An unprecedented number of workers struggle with burnout. They've become unsatisfied with their benefits package, and the pandemic has them physically and mentally exhausted — with many deciding to leave their jobs.

The pain of the "Great Resignation" is real, and it's pushing companies to examine their compensation models and their employee experience initiatives. For example, employees seek a workplace that cares about their health and wellness, including their mental health.

We have an aging workforce and high levels of retirement. This means there will be much greater competition for recruiting talent, which impacts wages. Additionally, employees seek a more flexible work environment where they are also being challenged and have opportunities to develop professionally.

Many providers are focused on improving how the work gets done through process revitalization, real-time analytics, automation for repetitive tasks, and bringing in experts to go deep and focus on strategic initiatives. Some are also finding strategic partners to help achieve their mission. These partners may help create standards for operating discipline and automating processes in a way that brings in new technology and analytics.

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> The pain of the "Great Resignation" is real, and it's pushing companies to examine their compensation models and their employee experience initiatives.

This excerpt is from a conversation with Mica Mione.
Follow the link to read the entire interview.

4: Digital infrastructure

Record growth in spending on health IT continues unabated, with electronic health records (EHR) systems accounting for the biggest slice of the IT investment pie. According to research group Fredonia, U.S. hospitals will spend nearly $10 billion on EHR systems alone by 2024.

At the same time, greater demand for technology-enabled capabilities to expand access to information, automate processes and deliver virtual care and other patient and consumer services is driving IT costs even higher. For example, care delivered in digital or virtual environments grew significantly during the pandemic. If consumerism was a trend before 2020, it's a driving force in 2022 and beyond as patients have grown accustomed to the convenience and affordability of meeting their doctor online.

Today, hospitals, medical centers and health systems must prepare to reach new consumers and engage new and existing patients with offerings and experiences they have now come to expect, such as online scheduling, telemedicine, convenient locations and self-service offerings. But building and supporting the advanced technology platforms needed to support these capabilities eats up capital.

As health care leaders begin resetting for the future, it may help to being thinking about digital strategy as a means to drive broader business or operational goals. Stepping back to see how digital infrastructure supports different ways to engage consumers or patients and employees, as well as suppliers and other partners, provides an integrated framework for prioritizing and planning investments and initiatives.

Success factors for digital innovation

- Establish an IT foundation that supports digital strategies (for example, automation, patient and consumer experiences, virtual care, etc.) enabled by cloud-based data security, apps and data
- Accelerate speed-to-value through an optimized core EHR system and optimized performance of health information technology across clinical and administrative workflows
- Develop strategy for digital innovation to modernize patient access, self-assessment and automated guidance to appropriate venues of care and treatment options

The Global EHR system market size is projected to reach more than **$47 billion by 2027,** from $29 billion in 2020.*

$47B
$29B

2020   2027
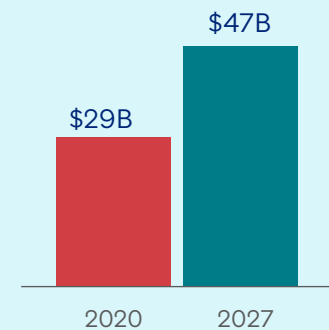
*Global Electronic Health Records (EHR) System Market Report, History and Forecast 2016–2027

Digital infrastructure

What the experts are saying

Scott Gaydos | Vice President of Product, Optum

What should be the top areas of focus for health IT leaders?

In the next 12 to 18 months, health care leadership should really sharpen their focus on two or three highly impactful areas when thinking about their digital strategy. First, be sure to link the business strategy and technology strategy together. Either could be done independently, and that will help to make some progress. But without both explicitly linked to one another, digital transformation isn't possible.

Next, figure out how you'll leverage cloud services in a privacy- and security-safe manner. Then invest properly in both, as well as the application support ecosystem wrapped around clinical and administrative technologies.

Last, look for help. This work is quite hard, and each organization's journey is somewhat different. There are different business strategies, different technologies and different workforce situations. Find a partner that can support your priorities and enhance your organization's ability to deliver on the promises of digital transformation to meet the needs of your communities.

> "
> Look for help. This work is quite hard, and each organization's journey is somewhat different.

This excerpt is from a conversation with Scott Gaydos. Follow the link to read the entire interview.

5: Growth strategies

Growth is the clearest sign of a healthy organization. For care delivery organizations, the fastest track to growth is by improving wellness within their communities. That starts with regaining their own financial health.

There are several dimensions in the pivot to growth. One key is profit margin. Even not-for-profits require margin to drive and sustain investment back into their operations. Another key dimension is operational expansion — both geographic and capabilities or service lines.

Growth strategy should be driven by what key stakeholders are asking for — market demand — and aligned with the values or mission of the organization. In a general sense, the triple aim goals of affordability, quality and patient experience is a great starting point. These form a common set of expectations across patients, payers and regulators.

Health leaders are further refining how they can meet these objectives within the context of their own organizational growth agenda, or the more specific needs of their communities.

Growth can be achieved in a positive way by centering business strategy around these fundamentals, and in context of the experiences providers can offer not just to patients, but to clinicians and partners.

Initiatives to drive growth

- Maintaining and growing market share through service line expansion and identifying new revenue streams
- Developing a technology strategy to drive more efficient, effective operations and meaningful experiences in ways that align to and support the growth strategy
- Retaining current patients and solidifying the organization's position as a preferred provider of health and wellness services

$6 trillion
U.S. health care spending by 2026

Growth strategies

What the experts are saying

Keith Shah, PhD | Senior Vice President, Optum Strategy and Growth

What are some of the areas C-Suite leaders might think about when allocating their finite time?

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Growth has to be integrated. It's that next level of maturity — bringing that integration together and bringing it to bear on progress.

We look at health systems as organizations with very finite resources across the board and significant community and patient responsibilities. Usually, they're stretched too thin and usually they have challenges that are thrown to them in real time.

When we look at our partnerships — and where we're growing in our sophistication of what we bring to the marketplace — we're working to bring the best of Optum® and UnitedHealth Group® to the doorsteps of our most strategic partners. We try to take a balanced approach that is performance and growth based.

It's not just about taking cost out of the system. It's about how to shift from acute to ambulatory in the context of increasing modalities, care venues and technology enablement.

The other piece is growth orientation. How can you meet and exceed performance expectations and have that be complementary to where you want to grow? What type of growth makes the most sense? We pragmatically focus on the balance of both and try to keep each at the forefront of the agenda.

It can't be just a series of discussions where you spend 10+ hours with senior staff working through a whole array of performance questions, only to ask at the end of the day what's being done about growth. It's not a bolt-on. Growth has to be integrated. It's that next level of maturity — bringing that integration together and bringing it to bear on progress.

This excerpt is from a conversation with Keith Shah.
Follow the link to read the entire interview.

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