



ARE LOSSES ON YOUR EMPLOYED NETWORK UNBALANCING YOUR BUDGET?

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“Our employed physician network is losing too much money” is a common refrain from healthcare executives, many of which struggle to define an appropriate level of subsidy for their employed physician network. This lack of clarity is often coupled with no strategy for meaningful performance improvement.

Then there are clients that are getting more specific. In a recent RFP, a health system defined their objective as halving the loss, cutting it from \$24 million to \$12 million. Framing the objective in that fashion is extremely helpful to us as consultants, causing HSG to sharpen its process to deliver the desired result.

Specific objectives help us determine the decisions that organizational leaders need to make if they are to achieve that objective with our help. That framing helps us develop a realistic plan, as it pushes tough, and potentially costly, decisions to the front. That includes political decisions about services and specific physicians.

HSG has found it useful to evaluate collections and expenses per wRVU, define realistic objectives for each metric based on rigorous analysis, and tying that assessment to the subsidy objective.

Networks seeking a 50% reduction in its overall employed physician network subsidy may find that it realistically can only cut 25% of its subsidy through operational improvement. The next step may be evaluation of divestiture of providers or practices. This approach paints a clearer picture of what is realistic, and the underlying decisions required to drive improvement.

Sensitivity Analysis of per wRVU Collections and Expenses

Fiscal Year wRVUs = 310,000	Cost Per wRVU							
	\$130.00	\$128.00	\$126.00	\$124.00	\$122.00	\$120.00	\$118.00	\$116.00
Revenue Per wRVU \$72.00	-\$18.0M	-\$17.4M	-\$16.7M	-\$16.1M	-\$15.5M	-\$14.9M	-\$14.3M	-\$13.6M
\$74.00	-\$17.4M	-\$16.7M	-\$16.1M	-\$15.5M	-\$14.9M	-\$14.3M	-\$13.6M	-\$13.0M
\$76.00	-\$16.7M	-\$16.1M	-\$15.5M	-\$14.9M	-\$14.3M	-\$13.6M	-\$13.0M	-\$12.4M
\$78.00	-\$16.1M	-\$15.5M	-\$14.9M	-\$14.3M	-\$13.6M	-\$13.0M	-\$12.4M	-\$11.8M
\$80.00	-\$15.5M	-\$14.9M	-\$14.3M	-\$13.6M	-\$13.0M	-\$12.4M	-\$11.8M	-\$11.2M
\$82.00	-\$14.9M	-\$14.3M	-\$13.6M	-\$13.0M	-\$12.4M	-\$11.8M	-\$11.2M	-\$10.5M
\$84.00	-\$14.3M	-\$13.6M	-\$13.0M	-\$12.4M	-\$11.8M	-\$11.2M	-\$10.5M	-\$9.9M
\$86.00	-\$13.6M	-\$13.0M	-\$12.4M	-\$11.8M	-\$11.2M	-\$10.5M	-\$9.9M	-\$9.3M
\$88.00	-\$13.0M	-\$12.4M	-\$11.8M	-\$11.2M	-\$10.5M	-\$9.9M	-\$9.3M	-\$8.7M
\$90.00	-\$12.4M	-\$11.8M	-\$11.2M	-\$10.5M	-\$9.9M	-\$9.3M	-\$8.7M	-\$8.1M

Color	Description
	Most Recent Fiscal Year Organizations Current Performance
	Realistic Target Range – Based on National Benchmarks
	Stretch Target Range – Each variable requires significant change from current state
	Unrealistic Target Range – Collections Per wRVU and Cost Per wRVU both required to moved too drastically

FACTORS IMPACTING EMPLOYED NETWORK FINANCIAL SUSTAINABILITY

For networks looking to improve financial performance, HSG utilizes a multifaceted approach centered around evaluating the network's performance on a per wRVU basis. To achieve employed physician network "financial sustainability," the network must focus on four areas:

- Collections per wRVU
- Expenses per wRVU
- Incremental Production of wRVUs with existing resources
- Divestiture of Underperforming Practices or Providers

Network Improvement Opportunities	Influencing Factors
<i>Can we increase collections on existing volume?</i>	<ul style="list-style-type: none"> • Commercial payer contract rates • Fee schedule • Payer mix and market demographics • Revenue cycle effectiveness • Coding and documentation
<i>Can we decrease expenses on existing volume?</i>	<ul style="list-style-type: none"> • Provider compensation • Provider mix (Physicians vs Advanced Practitioners) • Staffing levels and utilization • Staffing compensation • Administrative overhead • Practice overhead • Practice consolidation
<i>Can we generate more volumes with existing providers and staff?</i>	<ul style="list-style-type: none"> • Patient retention • Provider schedules and scheduling templates • Patient access • Efficient practice operations • Care management • Service and procedure mix • Top-of-license provider utilization
<i>Should we divest or add any providers or practices?</i>	<ul style="list-style-type: none"> • Mismatch with current/future health system strategic needs • Opportunities to move practice to independence or aligned 3rd Party (FQHC, etc.)
<i>Do we have the required organizational capabilities to make these adjustments?</i>	<ul style="list-style-type: none"> • Shared vision and culture • Management infrastructure • Data reporting • Physician leadership and engagement

IMPROVING COLLECTIONS PER wRVU

Many networks struggling with financial performance focus on “cutting” their way to success – staff, management resources, etc. Maximizing revenue from the work currently being performed within the network is just as important as controlling costs. This is largely done through the following areas:

1. Maximizing Commercial Payer Contract Rates
2. Updating Fee Schedules
3. Improving Payer Mix
4. Improving Effectiveness of Revenue Cycle
5. Coding and Documentation Improvements

EXPENSES PER wRVU

While maximizing collections is critically important, just as crucial is ensuring expenses per wRVU are being incurred at a sustainable rate. Improvements in expense per wRVU are generally found in the following areas:

1. Aligning Provider Compensation with Production.
2. Optimizing Provider Mix
3. Utilizing Advanced Practitioners at Top of License
4. Staffing Levels and Utilization
5. Staffing Compensation
6. Administrative Overhead Allocations
7. Practice Overhead
8. Practice Consolidation Opportunities

INCREMENTAL PRODUCTION OF wRVUS WITH EXISTING RESOURCES

Even for networks struggling with maximizing collections per wRVU, generating more wRVUs with existing resources almost always generates a positive contribution margin. Typical gaps in maximizing wRVUs produced by a network’s current provider resources include:

1. Retention of Patients / Network Integrity Improvement
2. Maximization of Provider Schedules/ Templates
3. Improving Patient Access
4. Optimizing Practice Efficiency
5. Top of License Provider Usage
6. Maximization of Care Management Revenue Opportunities
7. Improving Service and Procedure Mix

DIVESTURE OF UNDERPERFORMING PRACTICES OR PROVIDERS

Many networks struggling with financial performance are simply victims of employment decisions made over the past 10-15 years. The composition of employed networks that were built in the early-to-mid 2000s may not always be reflective of a health systems strategy today. In these cases, it makes sense to take a step back and evaluate the practices and providers that a network is subsidizing and ask, “why are we continuing to employ this practice?” Divestiture opportunities tend to present themselves in three ways:

1. Mismatch between employment of the practice/specialty and the health system’s strategic needs
2. Opportunity for the practice to move back to independence or join a loyal 3rd party, such as a local FQHC
3. Realization that a practice will not be successful because of the physician’s weaknesses and/or demeanor

PURSUING FINANCIAL SUSTAINABILITY

HSG partners with employed physician networks across the country to implement this type of analysis and move towards sustainable subsidies through performance improvement plans. For more information, contact Travis Ansel or David Miller.



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