



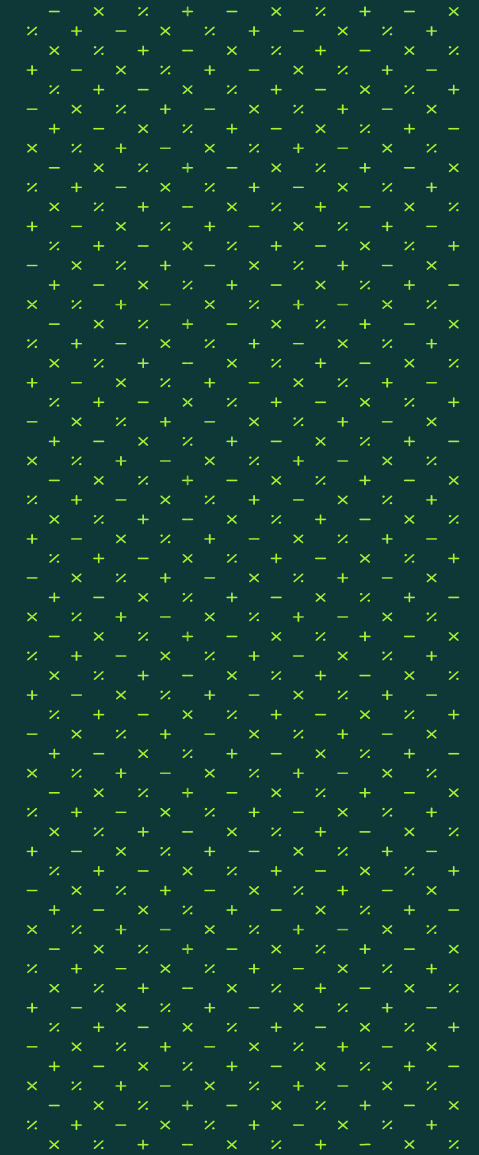
MOSSADAMS

Surviving to Thriving: Cost Reduction & Service Line Optimization

Karl Rebay and David Kim

May 18th, 2023

Hospital Association of Southern California Annual Meeting





Moss Adams Health Care Consulting

Innovative Solutions for the Complex Business of Health Care

FIRM

- 109 Year History
- 380 Partners
- 3800 Professionals
- \$1B Revenue

HEALTH CARE SPECIFIC

- 3,700 Health Care Clients
- 1,200+ Hospital Clients
- 285 Health Care Professionals
- 30 Health Care Partners



Top Reasons Keeping Hospitals CEOs up at Night

- 1. *Workforce challenges including personnel shortages and staff burnout***
- 2. *Financial challenges***
3. Behavioral health and addiction issues
4. Patient safety and quality
5. Government mandates
6. Access to care
7. Patient satisfaction
8. Physician hospital relations
9. Technology
10. Population health management
11. Reorganization – M&A, partnerships and restructuring

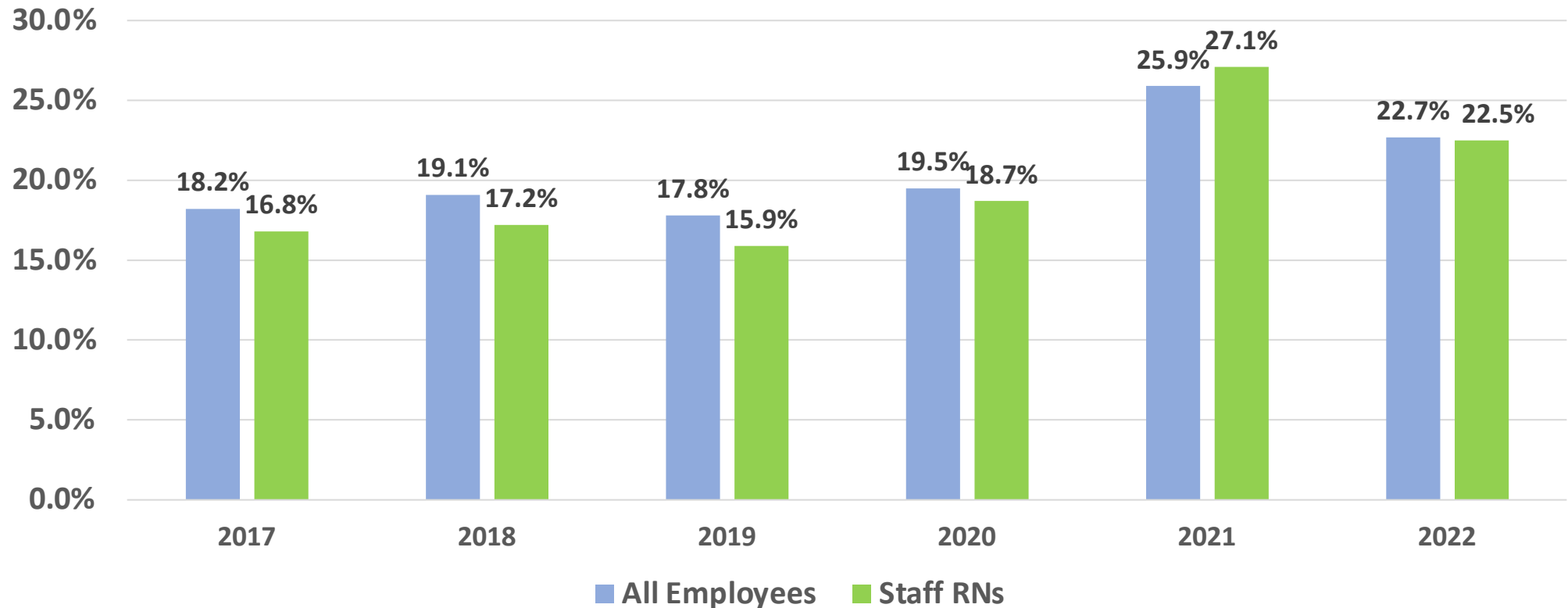
Source: American College of Healthcare Executives



Hospitals Staff Turnover Rate Trends

The reason workforce issues have become the top concern for CEO's is due to the rapidly rising turnover rate in hospitals.

Hospital & Staff RN Turnover



Source: NSI Nursing Solutions – 2023 National Healthcare Retention & Staffing Report



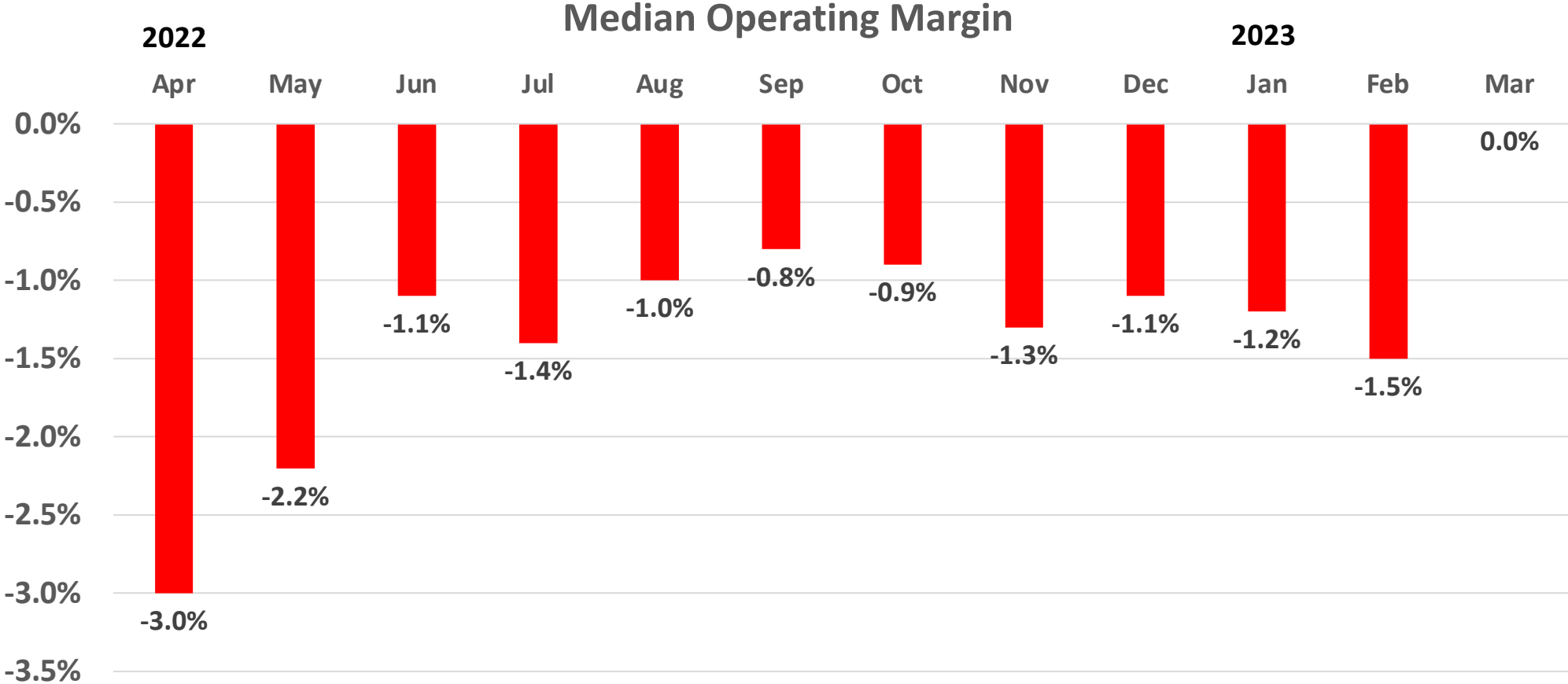
Cost of RN Turnover

Staff turnover is very expensive and especially RN turnover has cost hospitals millions of dollars annually. This has become the top cost driver for hospitals over the past few years as agency/travel RN costs have skyrocketed.

1. Average cost of turnover for a staff RN = \$52,350
2. Average hospital lost \$8.55M in 2022 due to RN turnover
3. Each percentage change in RN turnover could save the average hospital \$380,000 annually
4. Reducing travel RNs with full time RN saves \$210,000 per FTE per year



Hospitals Operating Margin Trend – 2022/2023



Source: Kaufman Hall





Strategy & Solutions Discussion

- Assessment of where your organization stands
- Develop shorter-term solutions to shore up cash flow
- Explore longer-term solutions to create sustainable change
- Use a disciplined approach to manage the process



Strategy & Solutions

Near-Term Focus Areas:

- Labor and Productivity
- Supply Chain
- Technology – System Redundancy
- Information Flow Management
- Patient Discharge Management

Longer-Term Focus Areas:

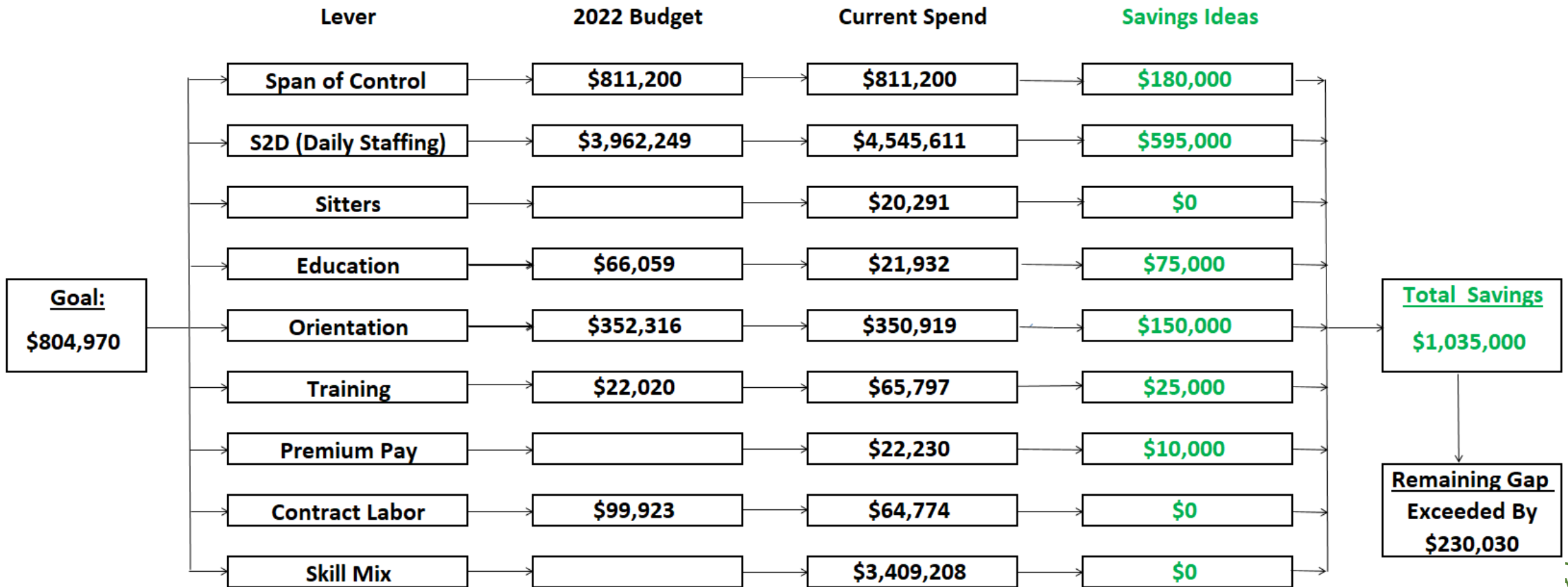
- Care Variation
- Capacity and Length of Stay
- Technology – System Integration
- Service Line Structure



Cost Reduction: Labor Cost Management Levers

ILLUSTRATIVE

Labor is still over 50% of a hospital's total cost structure so it's critical to evaluate it for efficiency opportunities. It is easier if you identify the key cost levers and break down each component for potential cost savings.



Cost Reduction: Non-Labor Cost Management Levers

For cost reduction opportunities, non-labor and purchased services costs should be evaluated and prioritized for rapid implementation as appropriate.

- Medical/Surgical Supplies
- Physician Preference Items
- Purchased Services
- Food & Nutrition
- Facilities and Energy Management



Why Hospitals Can't Just Rely on Cost Cutting

As hospitals attempt to get back to financial stability, they should look beyond just cost cutting as the major driver for long-term financial health.

- There's only so much cost that can be cut and
 - Non-labor cost reduction opportunities should be prioritized for rapid implementation
 - Labor costs are still the largest cost category but finding areas to save costs are difficult and hospitals need to rigorously assess where true opportunities exist
- For long-term sustainability, hospitals need to embrace transformation of how they deliver care and how to optimize their service lines – this takes careful planning and time to implement



Comprehensive Service Line Continuum



Service Line Optimization Requires Focus and Dedication in Challenging Areas

Traditional Service Lines



Traditional service models are not strategic or coordinated...

...they are inadequate for sustained success

Best-in-Class Service Lines

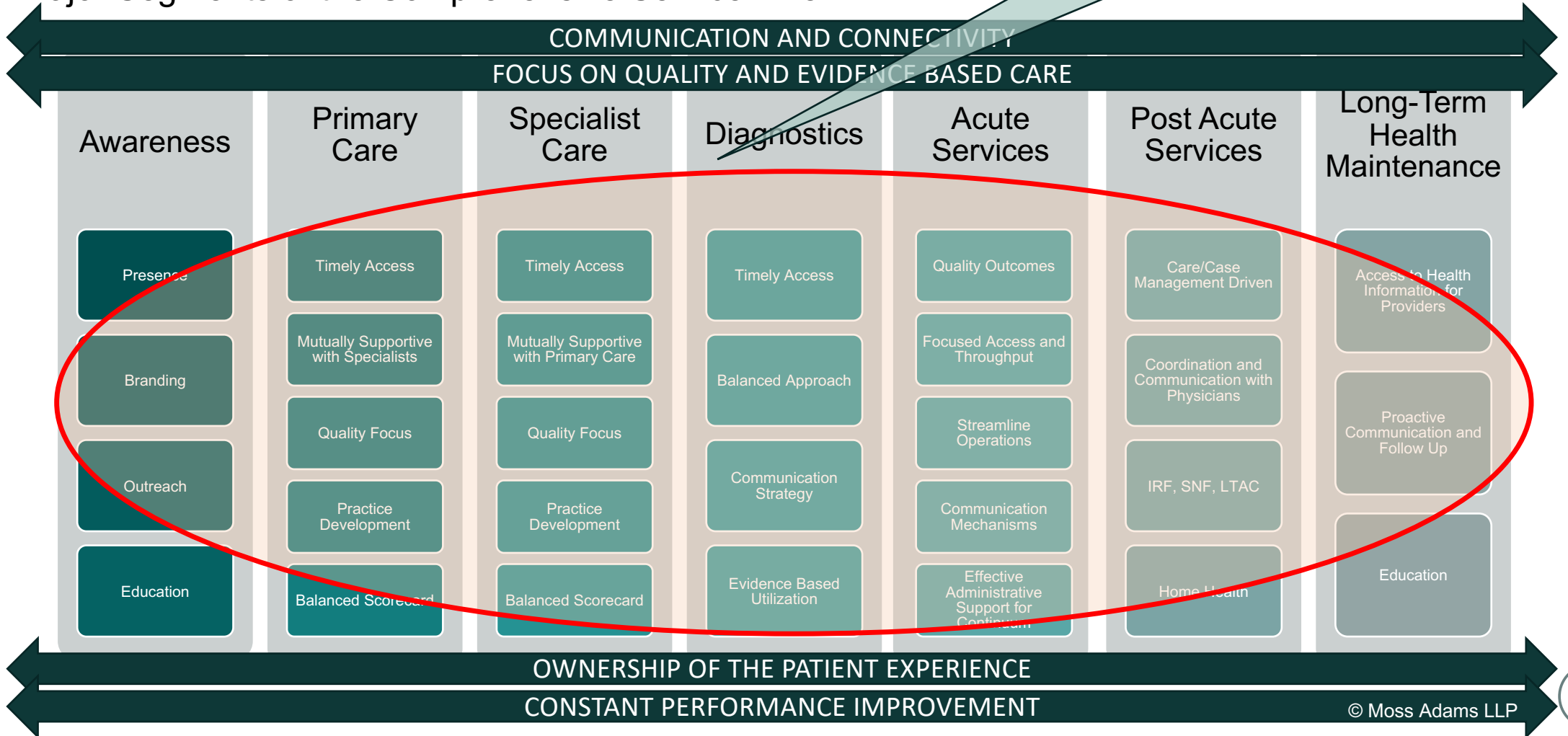


Service Line Strategy

Desired State

Desired Structure Incorporates the Pre- and Post-acute Environments

Major Segments of the Comprehensive Service Line



Service Line Strategy

Development



Service Line Strategy

Sample Priorities



Service Line Strategy

Sample Priorities



Service Line Strategy

Sample Priorities



Care Variation

Care variation can be worth up to 30% costing the average hospital between \$50M and \$150M Annually. Some national estimates suggest \$750B or more annually.

It's complicated, but getting care variation under control is a long-term, sustainable part of controlling costs in a way that also fosters high quality

Cost	Clinical outcomes	Clinical efficiency	Systemness
<ul style="list-style-type: none">• Cost spread• Supply costs• Pharmaceutical costs• Lab/imaging costs• Medication substitution costs	<ul style="list-style-type: none">• Readmission rate• Complication rate• Nurse sensitive indicators (e.g., pressure ulcer rate, fall rate, hospital acquired infection rate)• Adverse event rates	<ul style="list-style-type: none">• Length of stay (LOS)• ED wait time• Unnecessary or duplicative tests• Lab turnaround time• Blood, pharmacy, lab, imaging utilization• Discarded or unused supplies	<ul style="list-style-type: none">• Standardized supply usage• Clinical protocols and order set adherence rates• Core measure adherence rates• Variation across facilities• Evidence-based care adherence



Care Variation Analysis

Sample Analysis Done by DRG

Simple Average Charge Per Encounter Variation

Service Item Summarized	DR. A	DR. B	DR. C	DR. D	DR. E
ANESTHESIA	\$1,907	\$1,756	\$1,705	\$1,843	\$1,827
BLOOD PRODUCTS	\$2,289	\$565	\$1,383	\$1,013	\$647
CARDIOLOGY	\$5,743	\$5,692	\$7,020	\$7,817	\$6,676
DIAGNOSTICS	\$19,532	\$14,334	\$19,198	\$18,705	\$17,955
EMERGENCY DEPARTMENT	\$619	\$310	\$383	\$710	\$509
NURSING	\$29,244	\$20,125	\$24,078	\$25,017	\$24,235
OUTPATIENT	\$375	\$178	\$253	\$226	\$210
PHARMACY	\$10,745	\$7,760	\$12,011	\$10,971	\$9,840
PHYSICIAN SUPPORT	\$0	\$0	\$0	\$0	\$0
STATISTICAL CODES	\$0	\$0	\$0	\$0	\$4
SUPPLY	\$23,944	\$21,114	\$21,706	\$28,934	\$36,232
SURGERY	\$35,681	\$27,719	\$28,240	\$28,792	\$32,436
TREATMENT	\$6,034	\$3,039	\$6,628	\$4,806	\$5,876
Total	\$136,114	\$102,592	\$122,604	\$128,835	\$136,448

The simple average charge analysis above compares physicians for a specific DRG. The breakdown by charge category allow for more detailed variation analysis.

Assess for trends and anomalies among the group to support collaborative discussions with physicians regarding reducing variation.

Charge Per Encounter Variation

Service Item Summarized	DR. A	DR. B	DR. C	DR. D	DR. E
CARDIOLOGY	\$5,743	\$5,692	\$7,161	\$7,817	\$6,676
CARDIAC CATH LAB	\$9,554	\$9,861	\$10,091	\$10,154	\$9,964
CARDIAC REHAB	\$0	\$0	\$0	\$0	\$0
EP LAB	\$836		\$2,675	\$3,114	\$640
H&V PROCEDURE	\$1,443	\$1,649	\$9,457	\$4,009	\$7,550
INTERVENTIONAL RADIOLOGY	\$0				\$0
DIAGNOSTICS	\$19,532	\$14,334	\$19,198	\$18,705	\$17,955
CT SCAN	\$3,296	\$1,429	\$3,286	\$2,230	\$2,524
DIAGNOSTIC RADIOLOGY	\$1,720	\$1,264	\$1,488	\$1,547	\$1,592
ECHOCARDIOLOG	\$3,275	\$2,385	\$3,136	\$3,006	\$2,766
EEG	\$1,037			\$1,037	
EKG/ECG	\$776	\$731	\$765	\$888	\$733
ENDOSCOPY	\$5,600		\$1,652		\$1,814
LABORATORY	\$12,289	\$8,996	\$11,496	\$11,223	\$11,127
MRI	\$2,599		\$1,745	\$2,386	\$2,161
NEURODIAGNOSTICS			\$627		
NUCLEAR MEDICINE		\$6,924	\$6,924	\$6,924	\$6,924
PERIPHERAL VASC LAB	\$2,079	\$1,327	\$1,685	\$1,637	\$1,172
PULMONARY FUNCTION	\$18	\$14	\$47	\$97	\$28
STRESS TEST		\$746	\$746	\$746	\$746
ULTRASOUND	\$1,931	\$1,701	\$1,427	\$2,117	\$2,090

*Sample data in an actual analysis

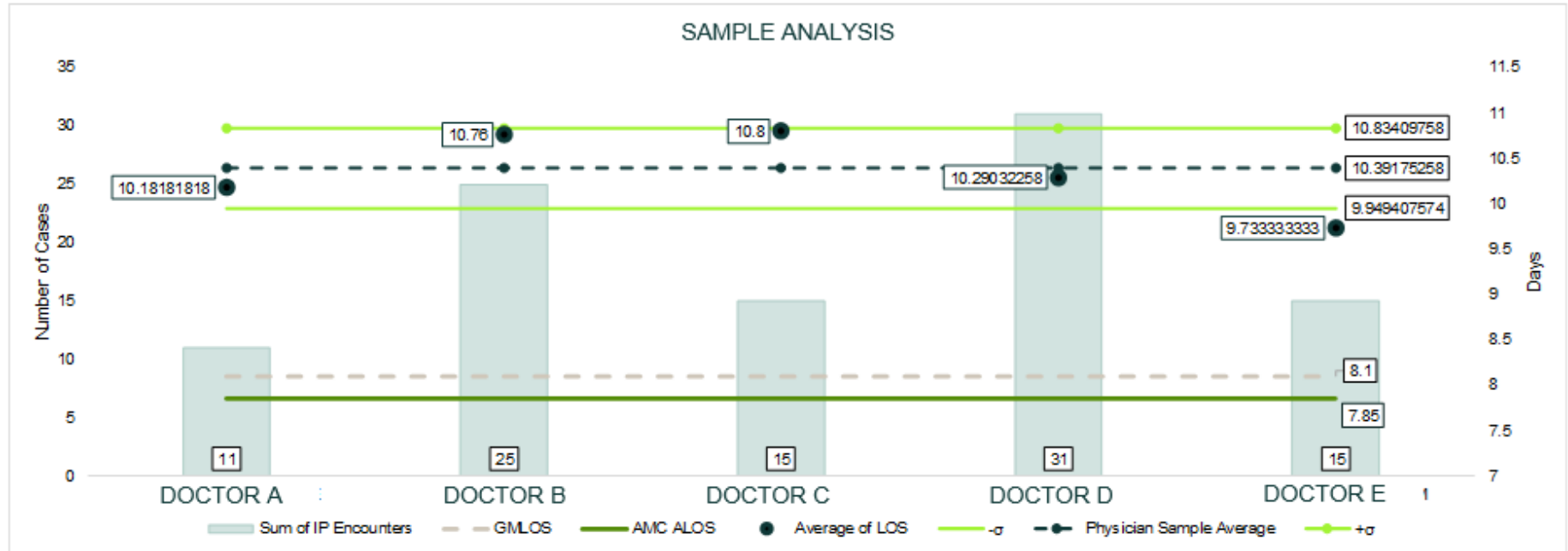


Care Variation Analysis

Sample Analysis Done by DRG

We then compare physician specific information for each DRG using the same benchmarks.

Note, there is potential opportunity for physician comparison *and* overall LOS.



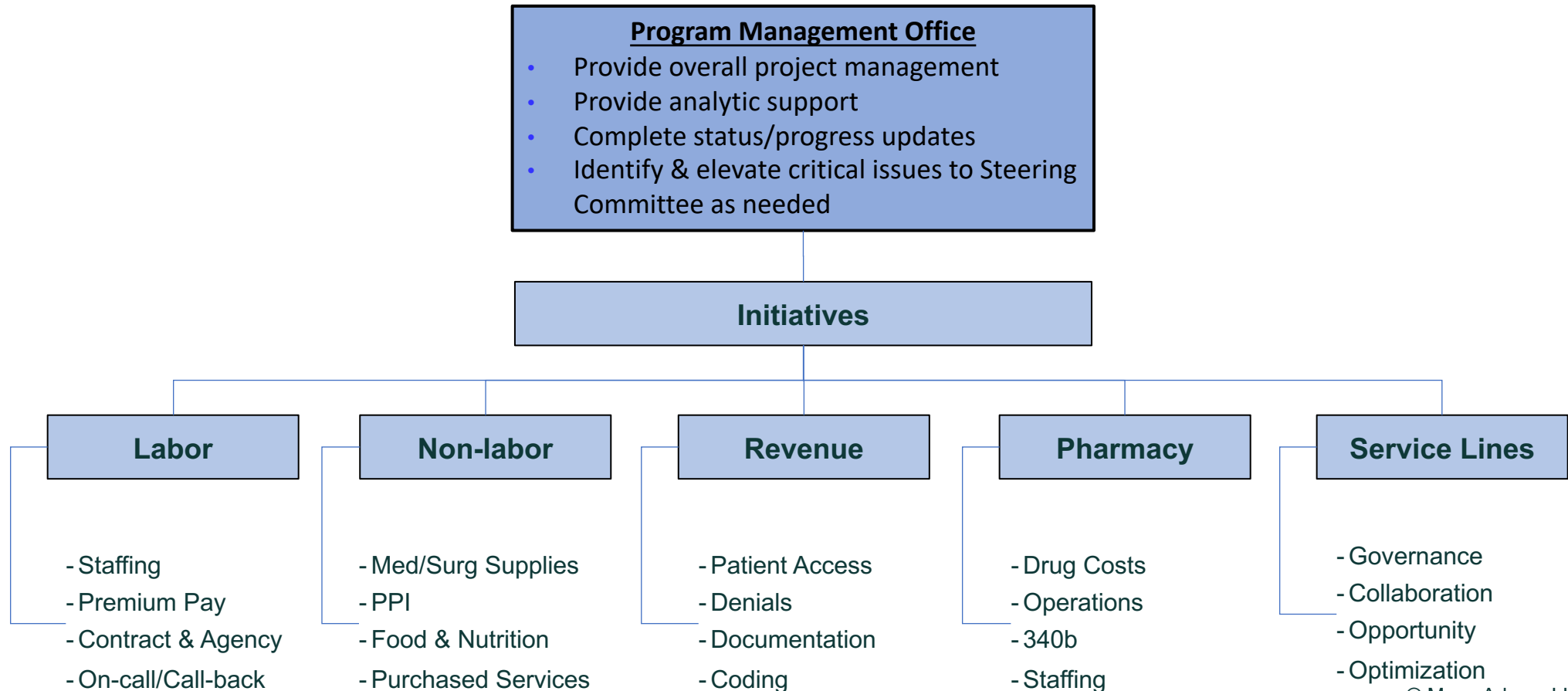
Actual LOS based on actual claims data provided by management; Long Term LOS is 80th Percentile



Governance & Management

ILLUSTRATIVE

Each major initiative needs to be carefully managed by a Program Management Office to ensure timely progress and coordination of the various workstreams



Key Takeaways

The situation for many hospitals and health systems is dire and solutions need to be achievable quickly, but also be sustainable in the long-term.

- Long-term change has to be a part of the solution and it's almost never too late to start.
- Candid assessment of areas of opportunity and an open mind to tough change is necessary.
- There is a LOT of opportunity if you know where to look but it's going to take courage and stamina to make it work.
- Most systems have very talented people but lack bandwidth and ability to step back and see the forest through the trees.
- Anything worth doing is going to require investment.



Contact Information



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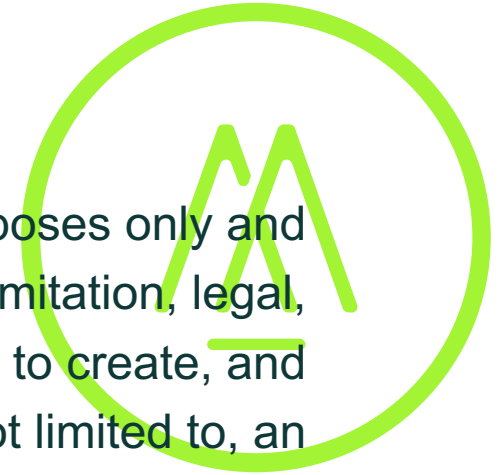
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Nov. 1-3, 2023 | JW Marriott Resort & Spa | Las Vegas

The conference will kick off with our second annual Women's Health Care Leadership Forum Nov. 1, 2023, followed by our main event on Nov. 2-3, 2023

Keynote Speakers



Donna Brazile



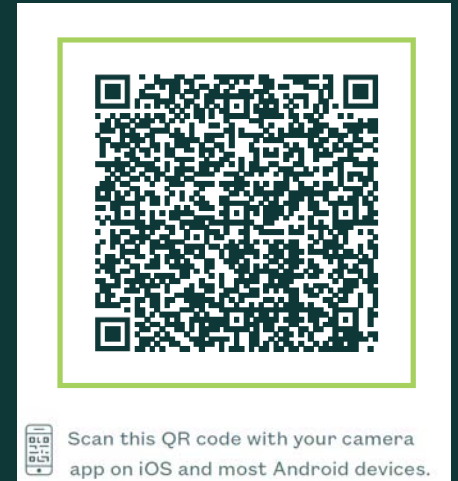
Chris Christie



Daniel Kraft, MD



Bradford Koles, Jr.



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Why attend the 2023 Executive Health Care Conference? Check out highlights from 2022

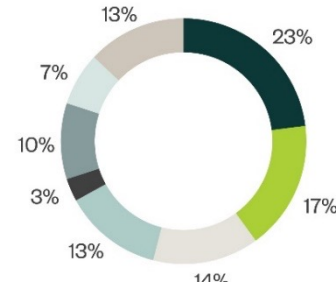
- Topics affecting the health care continuum
- Networking opportunities among executives
- [See sessions from 2022](#)

MOSS ADAMS 2022
 ANNUAL HEALTH CARE EXECUTIVE CONFERENCE

November 2-4 2022	230 <small>Attendees</small>	Executive Women's Leadership Retreat	75% <small>of attendees held executive leadership positions</small>
Red Rock Casino Resort & Spa <small>Las Vegas, Nevada</small>	39 <small>industry presenters</small>	13.5 <small>CPE Credits</small>	84% of those who responded to our survey indicated they were "very satisfied" with the conference


Attendee Profiles


- Ancillary Health Care Services
- Hospitals and Health Systems
- Health plans and insurance
- Medical groups and physicians
- Long-term care
- Financial services organizations
- Tribal health
- Other





Category	Percentage
Ancillary Health Care Services	23%
Hospitals and Health Systems	17%
Health plans and insurance	14%
Medical groups and physicians	13%
Long-term care	10%
Financial services organizations	7%
Tribal health	3%
Other	13%


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