Crowe RCA Benchmarking Analysis

“My Net Revenue Is Stable” – Said No Hospital CFO, Ever

December 2018

Audit / Tax / Advisory / Risk / Performance

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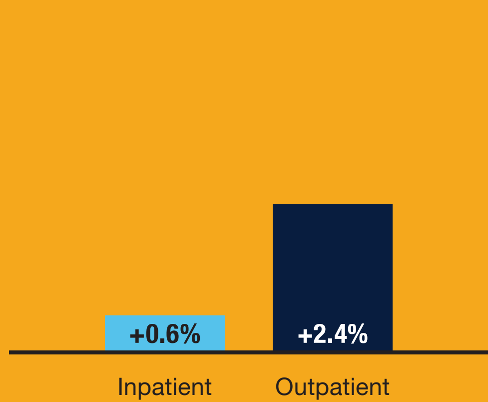
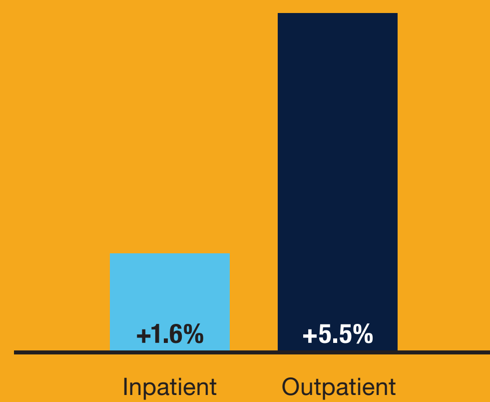
Despite increases in national inpatient and outpatient volumes as well as net revenue per case, hospital net revenue performance has become more volatile. Major swings in net revenue per case by payer class (government, nongovernment, self-pay) has made the job of a hospital CFO that much more challenging, as the inability to explain net revenue has become a monthly frustration.

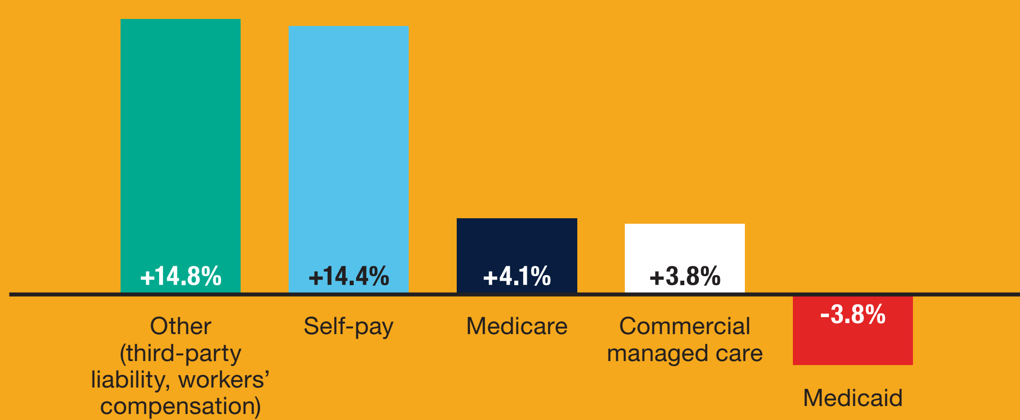
More than 1,000 hospitals nationally have implemented the Crowe Revenue Cycle Analytics (RCA) solution to capture every patient transaction for purposes of automating hindsight, accounts receivable valuation, and net revenue analyses. Within its benchmarking database, Crowe analyzed a portfolio spanning 45 states and comprising 622 hospitals within Medicaid expansion states and 389 hospitals in nonexpansion states, as of 2018. Crowe combines financial transaction information with 835/837 account-level data to produce comparative metrics for approximately 950 hospitals. These metrics include accounts receivable, denials, bad debt, credit balance, and cash to expected pay. Crowe analyses of full outsourced revenue cycles to insourced (hospital-run) revenue cycles is revealing.



Volume



Net revenue per case



Net revenue per case

In comparing similar nine-month periods (January through September) of 2017 and 2018, Crowe noted a national inpatient volume increase of 0.6 percent and an outpatient volume increase of 2.4 percent. These numbers are consistent with the year-over-year transition of inpatient stays to outpatient care. Gross revenue per case, however, increased by a larger percentage, exhibiting a 5.3 percent increase on the inpatient side and a 7.1 percent increase on the outpatient side. These numbers also generally are consistent with annual price increases for hospitals, with higher increases within outpatient settings due to more intensive care in those settings. Net revenue per case exhibits greater volatility – with inpatient increasing 1.6 percent and outpatient increasing 5.5 percent. It is important to consider that these trends do not hold true across all payers. As a result, some hospitals may be more exposed to diminishing growth in net revenue per case. Although an increase in net revenue appears to be good news for hospitals, the manner in which revenue is increasing follows some troublesome trends:

- Final denial write-offs (that is, patient bills that were not paid by payers) have decreased by 14.9 percent overall for outpatient services, reflecting improvements in business office operations. This likely has contributed to the higher net revenue per case during 2018. However, recent changes in managed care contracting (particularly for outpatient diagnostic imaging) will challenge denial rates significantly going forward.
- Payer mix shifts continue, with Medicare managed care, self-pay, and other (for example, third-party liability, workers' compensation) increasing by 1.6 percent for inpatient and 1.1 percent for outpatient overall. In addition to these payer classes having a lower net realization overall, they also challenge finance leadership's ability to forecast net revenue, as seasonality and patient engagement vary by facility.
- Medicaid (traditional and managed care) net revenue per case has dropped precipitously – down 6.9 percent for inpatient and down 1.1 percent for outpatient. Negative regulatory changes (for example, changes to Disproportionate Share Hospital payments and 340B Drug Pricing Program benefits) tied to the Medicaid population also will compromise hospitals that treat a greater percentage of Medicaid recipients.
- The highest percentage increase in net revenue per case has been (and will continue to be) the most challenging to collect – self-pay. Collections on this population of patients, now representing approximately 6.0 percent of an average hospital's payer mix, increased by 16.1 percent.

Final denial write-offs **DECREASED** by

14.9%

Payer mix* **INCREASED**

1.6% for inpatient | **1.1%** for outpatient

** Medicare Managed Care, Self pay and Other (e.g. 3rd party liability, worker's comp)*

Medicaid net revenue **DOWN**

6.9% for inpatient | **1.1%** for outpatient

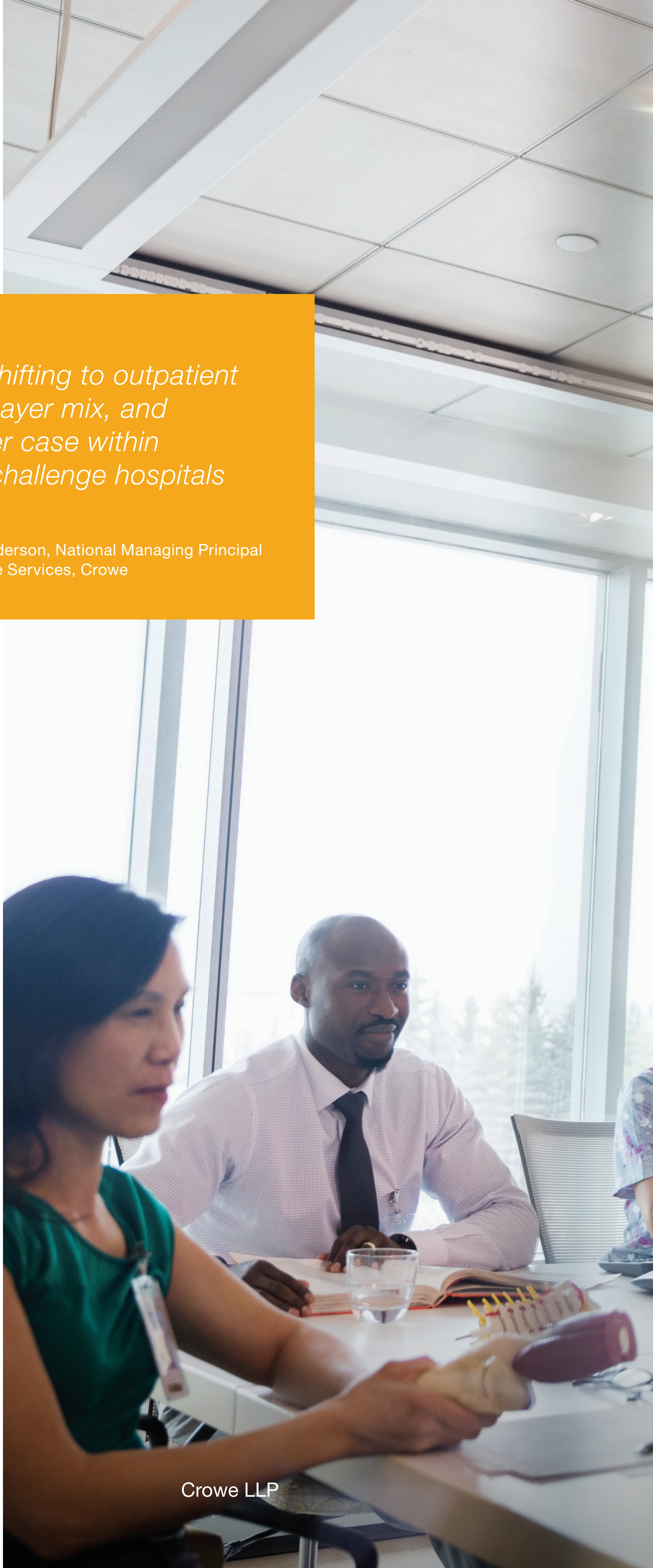
Self-pay **INCREASED**

16.1%

to represent **6%** of payer mix

> *The continuing trends of shifting to outpatient care, increasing self-pay payer mix, and decreasing net revenue per case within Medicaid will continue to challenge hospitals into the next year."*
>
> – Brian Sanderson, National Managing Principal
> Healthcare Services, Crowe

As many health systems expand their portfolio of services (more outpatient facilities, entrees into insurance products, and other ancillary investments), stability of hospital-based net revenue becomes more important to financial decisions. Unfortunately, instability appears to be the current trend, forcing many CFOs of not-for-profit healthcare systems to study operations and budget them on a monthly or quarterly financial performance basis, in the same manner that their peers in for-profit organizations do.



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Learn more

For more information on the Crowe RCA benchmarking program, please visit crowe.com/benchmarking or contact:

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For purposes of this report, Crowe focused on five measures that appeared to have material differences in performance. Other metrics analyzed but not reported include accounts receivable, uncompensated care, credit balances, and cash as a percent of net accounts receivable. To inquire about these additional metrics, please contact Crowe.

crowe.com/benchmarking

The Crowe Revenue Cycle Analytics (Crowe RCA) solution was invented by Derek Bang of Crowe LLP. The Crowe RCA solution is covered by U.S. Patent number 8,301,519.

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