Crowe

Crowe RCA Benchmarking Analysis

# Seasonality Has a Bigger Net Revenue Impact Than You Think

March 2019

For every health system finance professional who suspected that seasonality had some impact on net revenue but didn't know how much... you were correct, and the effect is material. Finance teams cite various reasons for fluctuations in net revenue and revenue cycle performance – for example, end-of-calendar-year benefit enrollment, summer physician specialty conferences, severity of flu seasons, number of Medicare payments in the month – as they attempt to explain what happened (positive or negative) to net revenue in the previous month. Crowe has studied net revenue patterns from more than 1,000 hospitals and has determined some trends that health systems may prepare for proactively.

The Crowe Revenue Cycle Analytics (RCA) solution captures every patient transaction for more than 1,000 hospitals nationally 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 605 hospitals within Medicaid expansion states and 409 hospitals in nonexpansion states, as of 2018. Crowe combines financial transaction information with 835/837 account-level data to produce comparative metrics. These metrics include accounts receivable (AR), denials, bad debt, credit balance, and cash to expected pay.

**Here are the industry average highlights of hospitals (regardless of size) within the Crowe platform:**

## CYQ1 (January-March) – AR days up, initial denials up, outpatient revenue down

Days in accounts receivable generally are at their highest industry average for the year in January (51.3 days). In 2018, they are higher than average and then trend downward throughout the calendar year (CY) (Exhibit 1). Initial denials, driven by benefit plan changes and higher outpatient volume from the previous quarter, are 11.1 percent for January (which is 7.8 percent higher than average) (Exhibit 2). Outpatient revenue per case is low (4.0 percent below average) but climbs steadily to the end of the calendar year (Exhibit 3).

**Exhibit 1: True AR days**

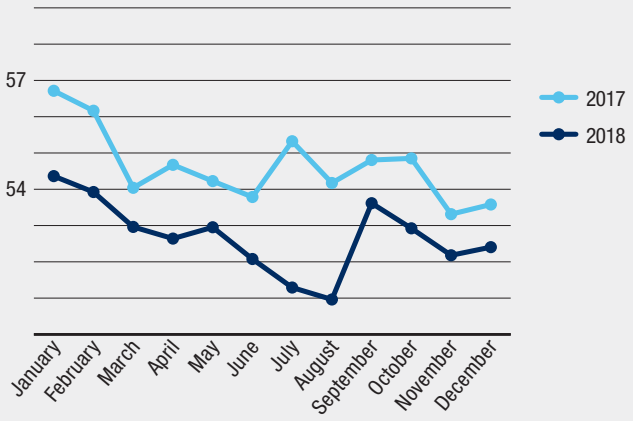



**Exhibit 2: Initial denial rate, % of gross patient service revenue**

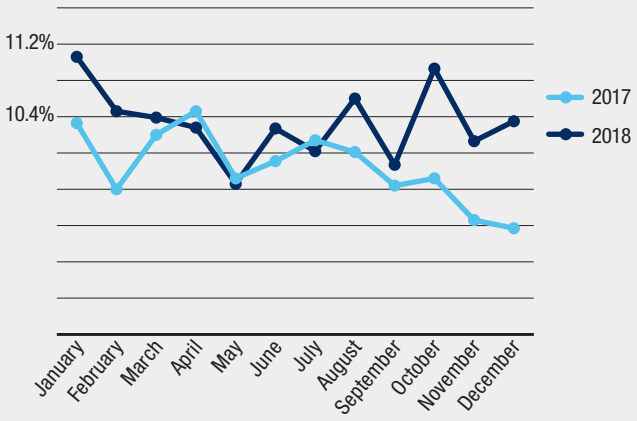
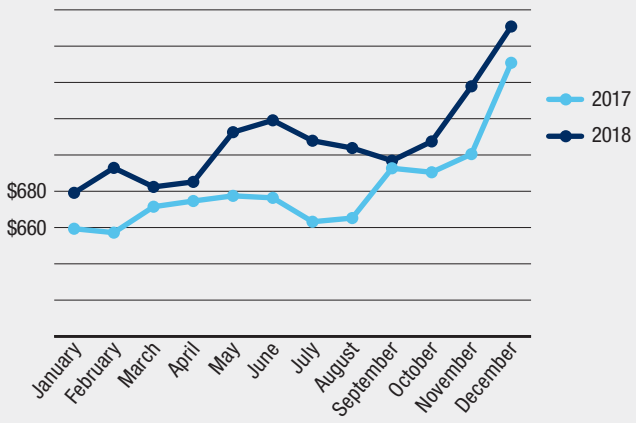



**Exhibit 3: Outpatient net revenue per case**



## CYQ2 (April-June) – Volume/net revenue per case stable, final denials up, bad debt transfers up

Stable is the best word to describe the second quarter from a net revenue (Exhibit 4) and volume (Exhibit 5) perspective, but final denials (Exhibit 6) and bad debt transfers (Exhibit 7) increase materially in June – particularly for those hospitals with a June 30 fiscal year-end. In June, final denials are 18.5 percent higher than average, and bad debt transfers are 8.9 percent higher than average.

**Exhibit 4: Net revenue**

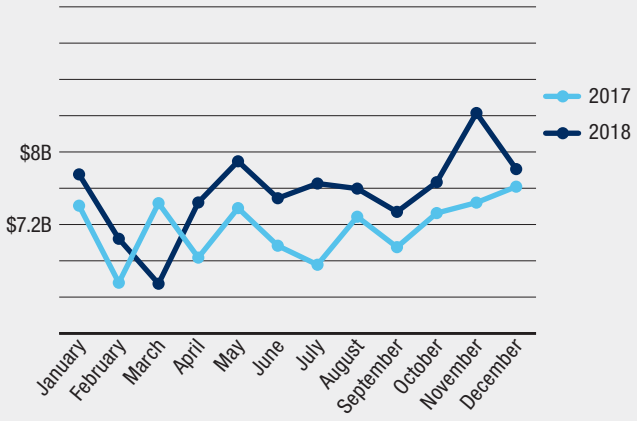



**Exhibit 5: Inpatient admits**

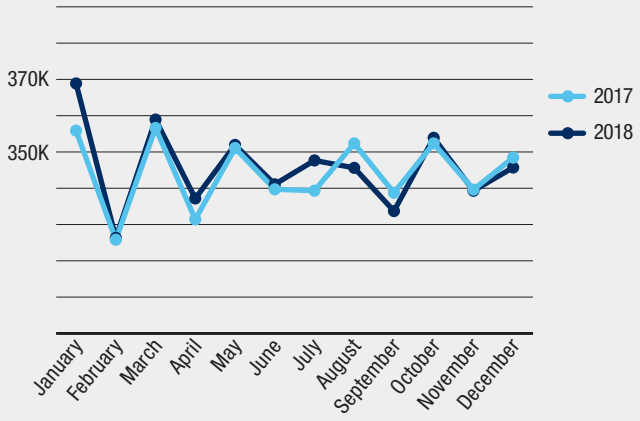



**Exhibit 6: Final denial-write-offs, % of net patient service revenue**

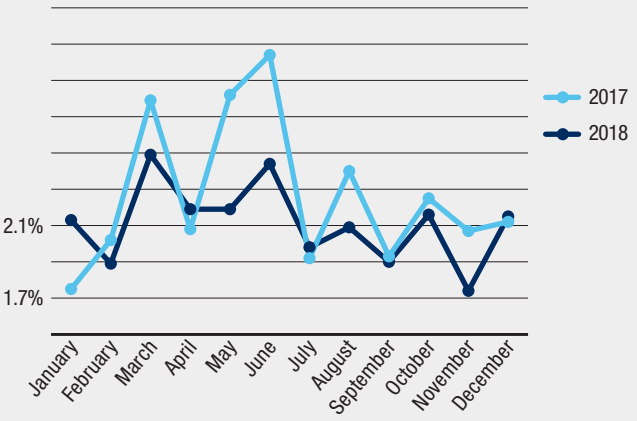
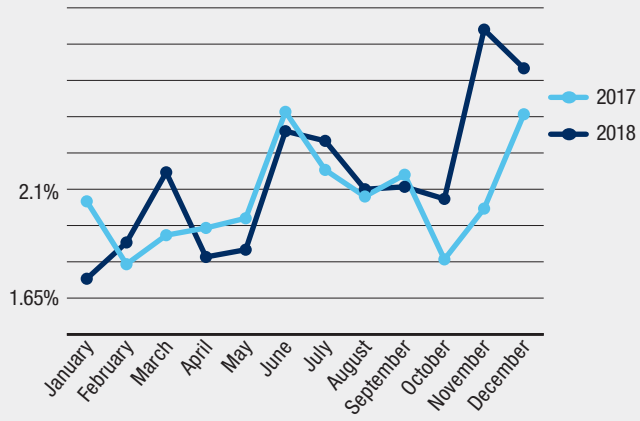



**Exhibit 7: Bad debt write-offs, % of gross patient service revenue**



### CYQ3 (July-September) – Outpatient volume down, revenue cycle metrics flat

A sharp decrease in outpatient volume from August to September is notable, dropping 6.4 percent during that time (Exhibit 8). Gross revenue generally continues to improve (Exhibit 9), with some volatility in final denials and bad debt transfers.

**Exhibit 8: Outpatient visits**

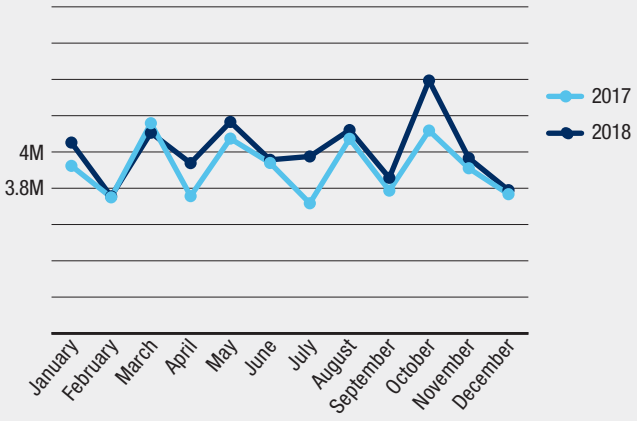
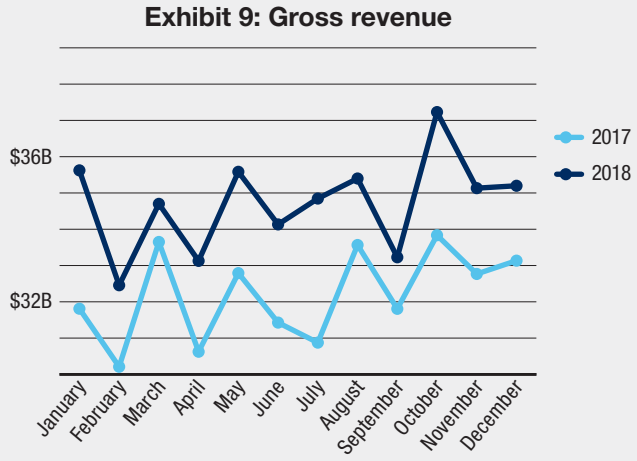


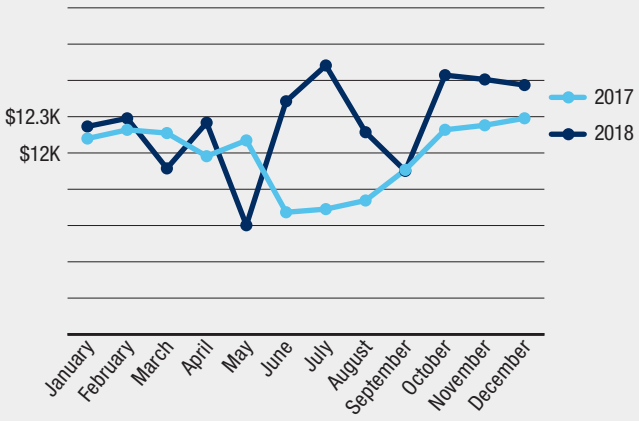

**Exhibit 9: Gross revenue**



### CYQ4 (October-December) – Outpatient net revenue per case way up, high fluctuation in denials, AR days down, bad debt transfers way up

The revenue picture for this quarter is generally positive, with outpatient net revenue per case trending upward and inpatient net revenue per case at 8.9 percent higher than the average for the year (Exhibit 10). Denials (initial and final) trend slightly lower overall but are volatile – with October exhibiting a spike in both initial denials and in final denials before trending closer to the yearly average in December. Accounts receivable days are at their lowest (48.5 days – 1.6 percent lower than average) this quarter. And bad debt transfers, likely driven by cleanup activity, spike upward to 22.1 percent higher than average.

**Exhibit 10: Inpatient net revenue per case**



Health systems that use old-school budgeting processes (for example, use last fiscal year's budget as the baseline and divide costs and revenues equally over 12 months) are the most affected by seasonality fluctuations. However, health systems that are adopting quarterly or "rolling" budgets can more easily adjust to anticipated changes, whether they are updates to managed-care contracts, new service line developments, or the expected impact of seasonality. Projecting net revenue performance allows health system operators to modify resource needs, diagnostic equipment usage, and other cost drivers that affect already thin operating margins.

The impact of seasonality likely will become more extreme as consumerism and out-of-pocket payments continue to increase. To prepare for this continuing shift, finance professionals can consider these three major operational actions to turn the fluctuations of seasonality into a positive:

1. Move to a rolling budget process to enable rapid management decision-making.
2. Review the optimal use of diagnostic assets, as these frequently high-cost items often are underutilized and can be scaled.
3. Build greater autonomous functions into the revenue cycle to handle ebbs and flows of exceptions (for example, denials) without the need to adjust the workforce.

## Learn more

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

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