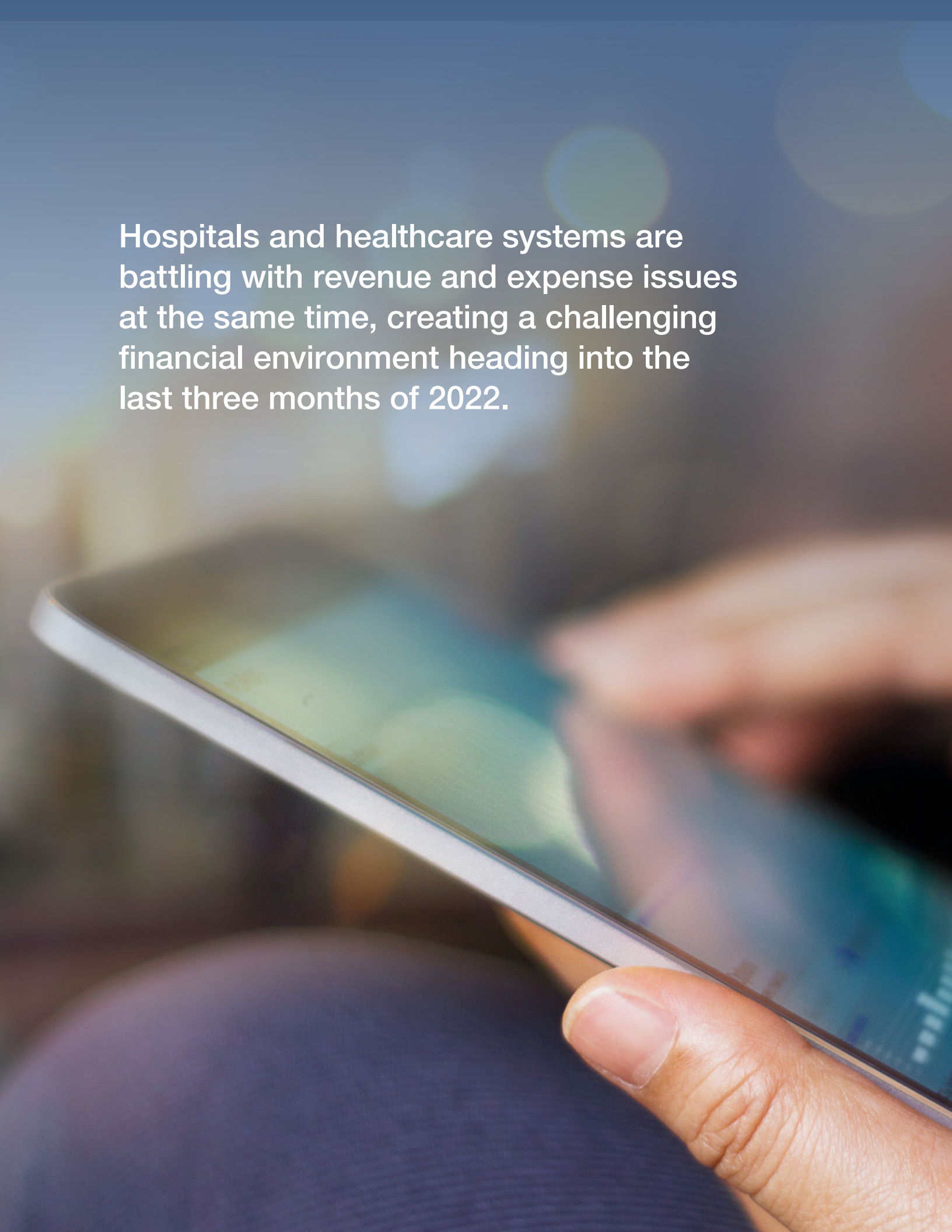
Crowe RCA benchmarking analysis

Hospital double whammy: Less cash in, more cash out

Increasingly frugal payors and high inflation add up to a big financial headache for hospitals and health systems

November 2022



Hospitals and healthcare systems are battling with revenue and expense issues at the same time, creating a challenging financial environment heading into the last three months of 2022.

Inflation has been a mainstay in the national headlines for much of 2022, and chances are individuals have noticed the effects of inflation in their daily life, whether filling gas tanks or filling grocery carts. Prices are up more than 8% for the 12-month period ending in September, according to Oct. 13, 2022, inflation figures from the U.S. Bureau of Labor Statistics. This has forced many Americans to make difficult budgetary decisions and cut expenses where they can.

Businesses are in a different situation. Inflation creates a need for pay increases for employees, which compounds the expense effects. Data suggests that median pay increases in 2022 are more than 4%.[1] And for hospitals, these increases are much more significant. A nationwide healthcare worker shortage has increased the need for hospitals to rely on contract labor, resulting in a 37% increase per patient in labor costs for hospitals between 2019 and March 2022.[2]

Imagine individuals dealing with increased personal expenses and their employers doing the following:

1. Delaying paychecks such that employees receive only 97% of the total, they are paid in small increments, and it takes six months to get the reduced amount
2. Denying paying for 11% of hours worked and requiring employees to spend unpaid time to provide additional evidence about why they should be paid
3. Taking back 1.8% of amounts employees already have been paid, directly out of their accounts
4. Forcing employees to spend more than one-third more on doing a quality job, acknowledging the additional out-of-pocket expenses, but refusing to increase pay to cover the costs

Sounds infuriating, doesn't it?

This is the landscape that healthcare providers are facing in 2022 – expenses greater than the rate of inflation, less cash for the services performed, and higher administrative burdens to receive payment.

Crowe used its proprietary Crowe Revenue Cycle Analytics (Crowe RCA) net revenue software platform, which monitors every patient transaction every day from more than 1,700 hospitals and more than 200,000 physicians, to determine what the effects have been for healthcare organizations across the country.

The most recent data from August illuminates the challenges facing healthcare financial leaders as they try to drive cash performance to compensate for growing cost pressures.

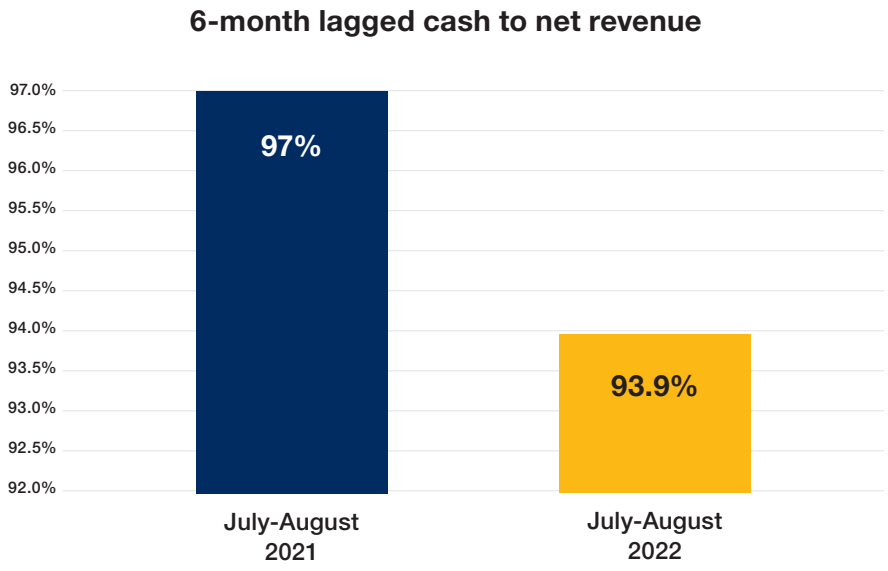
6-month lagged cash to net revenue

One of the metrics monitored by Crowe is six-month lagged cash to net revenue, which measures the amount of expected cash that a healthcare provider collects within six months of the date of service.

Unlike in many other industries, healthcare providers must file a claim for payment after services are rendered; often, that is just the beginning of the administrative burden.

According to Crowe research, in the summer of 2021, hospitals on average had collected 97% of their expected cash within six months. During the same period in 2022, that percentage dropped to 94%. The three-percentage-point decrease in cash coupled with a more than 9% increase in expenses creates a minimum of a 12% negative impact on a health system's finances.

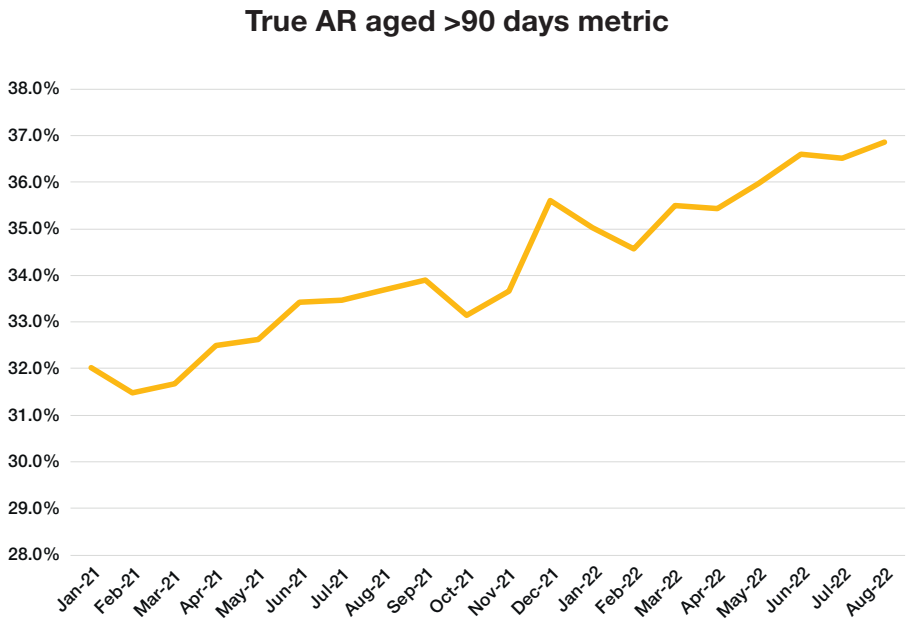
Crowe research has focused on the root causes of this material decrease in cash, and striking data points indicate changes in payor behaviors are driving negative revenue cycle performance.



Aged AR performance

As already mentioned, sending a claim is just the starting point of the administrative burden placed on healthcare providers. Healthcare organizations employ teams to follow up on open accounts receivable (AR). The longer an account ages, or stays open, the greater the administrative burden on the organization.

Crowe measures AR performance using the total proportion of the receivable that has aged over 90 days (about three months). That metric has grown to 37% in August 2022 from 32% in January 2021. Imagine the frustration of calling to check on the status of 37% of a paycheck and then waiting more than 90 days to receive it. This five-percentage-point jump directly affects the cost of care, but none of the cost is related to the actual cost of caring for the patient.



Growth in denials

Denials occur when payors process a claim for a provider but do not provide payment. The reasons for denials vary from requests for additional documentation and prior-authorization issues to medical necessity.

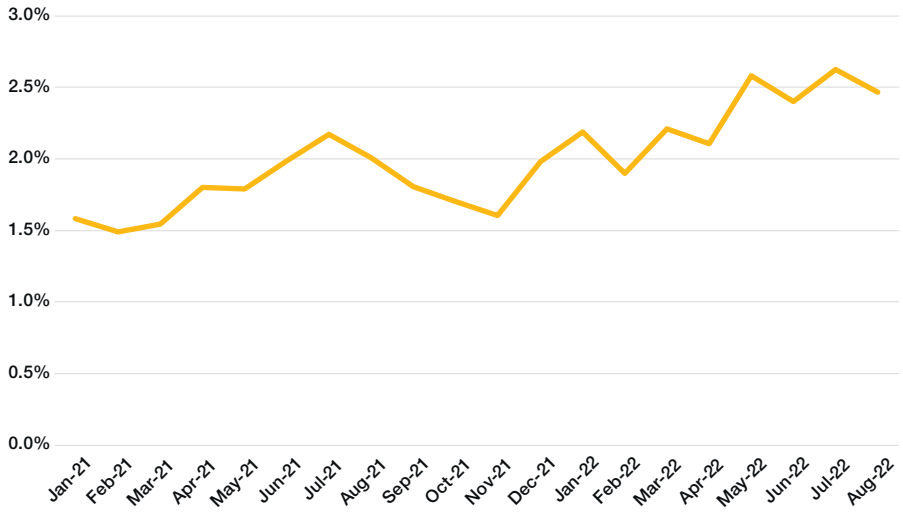
In 2021, Crowe benchmarks measured an initial denial rate of 10.2%. That important metric has grown to 11% in 2022.

For an average size health system, that translates into 110,000 unpaid claims. Any increase in denial rates will increase the burden on the provider to resolve the denial and receive payment.

Prior-authorization denials on inpatient accounts are a key driver behind the dollar value of denials increasing to 2.5% of gross revenue in August 2022 from 1.5% of gross revenue in January 2021. That's an increase of 67%.

When healthcare providers are supplying around-the-clock care for the sickest and most vulnerable patients, a denial by the payor implies that the care provided was not warranted and that its necessity must be proved by appeal. Often, these appeals take months to resolve and cost healthcare facilities thousands of dollars. Even then, the payor still might claim that the care was not warranted and not pay the provider.

Inpatient prior-authorization denials



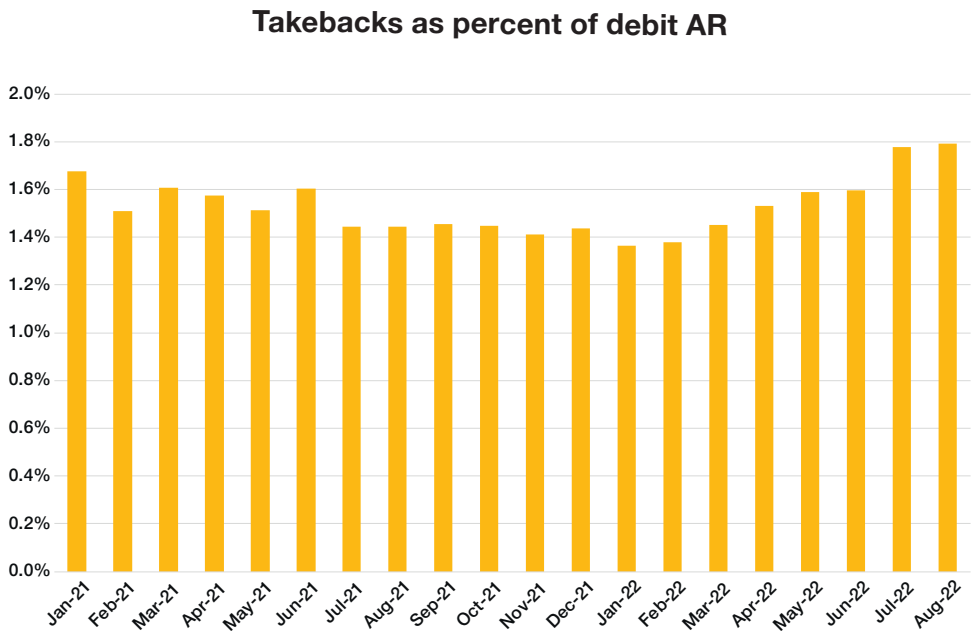
Growth in takebacks

Finally, once the administrative burden of resolving a denial is completed, an additional risk to a healthcare organization's cash comes in the form of a takeback. Takebacks occur when payors retract previous payments made to providers after an audit is completed.

This is similar to individuals examining a checking account balance and finding out that their employer took back some of their paycheck from the previous month after questioning their productivity from three Tuesdays ago.

Takebacks have been in practice for quite a while, but Crowe research has uncovered a disturbing trend over the past year. In July and August, takebacks were at the highest levels since Crowe began measuring the information. To measure this, Crowe monitors takebacks as a percentage of debit AR.

From January 2021 through June 2022, payor takebacks averaged 1.4% of debit AR a month. But that percentage jumped to 1.8% in both July and August of 2022. For added context, this equates to more than $1.6 billion in takebacks per month for providers on the Crowe RCA benchmarking platform.



Envisioning a future

Individuals, businesses across the country, and certainly healthcare providers are making changes to manage the issues facing the economy. It is a challenging time. But healthcare providers have a history of adapting to an ever-changing environment. Moving forward, strategies and tactics to mitigate some of the challenges likely will include:

- Creating more data-driven payor conversations to monitor shared key performance indicators and set goals in alignment with established partnerships
- Implementing proven automation solutions to reduce the administrative burden
- Engaging the patient to aid in resolving denied claims

For more on how to successfully navigate these trends and maintain and improve the revenue cycle performance of your hospital or health system, please contact the dedicated and experienced revenue cycle team at Crowe.

Learn more

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

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[1] Sheryl Estrada, "Say Goodbye to the Standard 3% Raise–One-Quarter of Employers Plan to Give Increases of 5-7% Next Year," Fortune, Sept. 8, 2022, https://fortune.com/2022/09/08/goodbye-standard-3-percent-raise-employers-increase-next-year/

[2] Mark Hagland, "Kaufman Hall: Hospitals' Agency Nurse Costs Explode," Healthcare Innovation, May 12, 2022, https://www.hcinnovationgroup.com/finance-revenue-cycle/news/21267574/kaufman-hall-hospitals-agency-nurse-costs-explode

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

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