Understanding Practice/Service Costs & How to Control Costs using LEAN

Prepared by:

DHG HEALTHCARE

The national healthcare practice of DOWN HUGHES GOODMAN

Agenda

- Identifying Practice Costs in a transformed environment
- LEAN – Background/Goals
- Five Principles in Problem Solving
- Value of a PAR system
- Next Steps

Costs

Understand ways to categorize and view practice costs establishing a foundation for the transformed healthcare environment.

LEAN

Articulate the Principles of LEAN and the role of organizational leadership related to LEAN methodologies.

Identify the Problem Solving Process

Identify the 5 Steps in the Problem Solving Process and goals of LEAN management.

Value of a PAR system

Determine how establishing a PAR system can benefit your practice.

Identifying practice Costs in a transformed environment

Our Transformational Point-of-View

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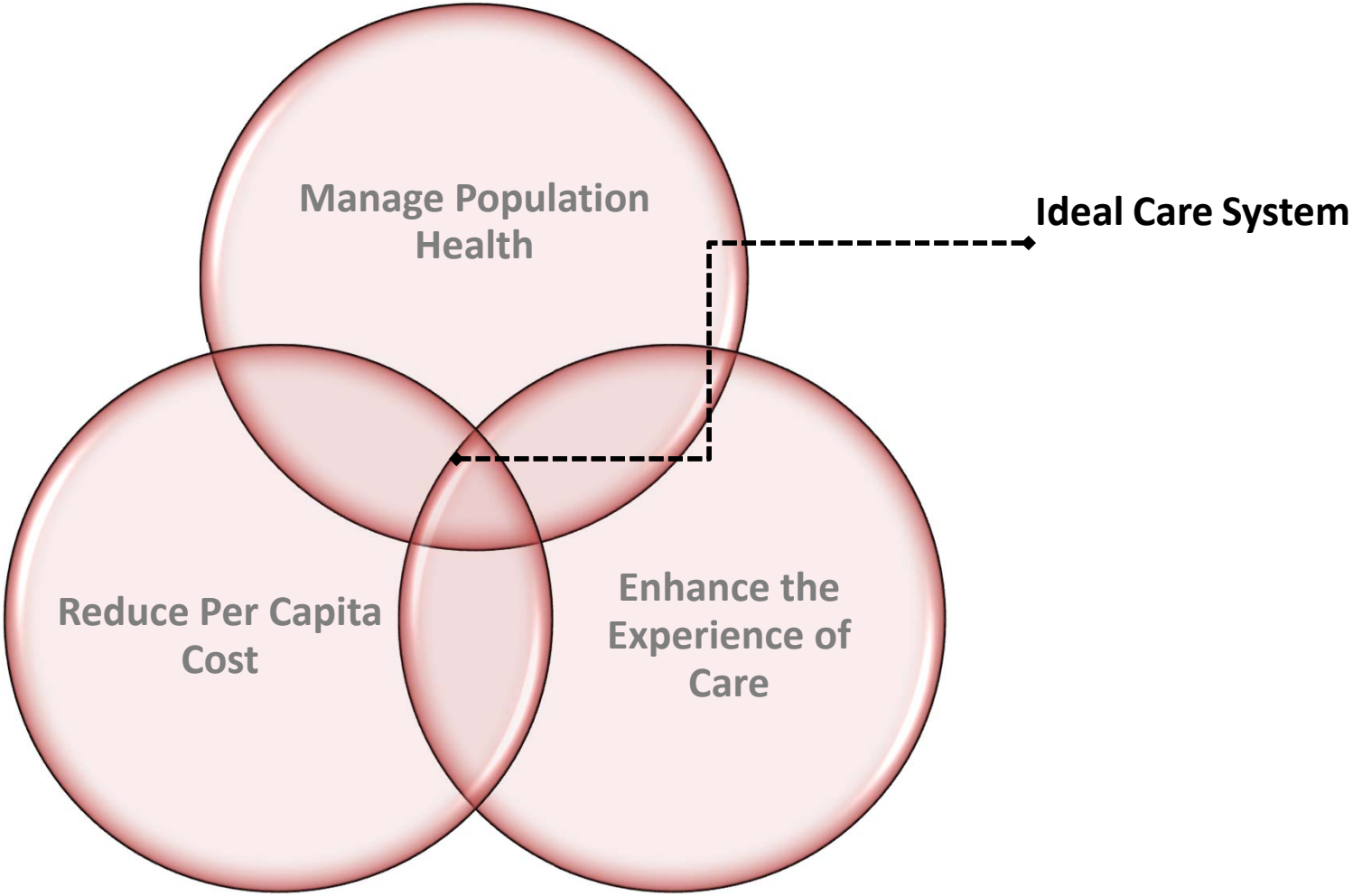
CLINICAL ENTERPRISE MATURITY (CEM): A concept unique to DHG Healthcare, the CEM is a qualitative evaluation that measures numerous characteristics associated (among other things) with the state of an organization's physician enterprise in combination with its overall clinical integration accomplishments and planning.

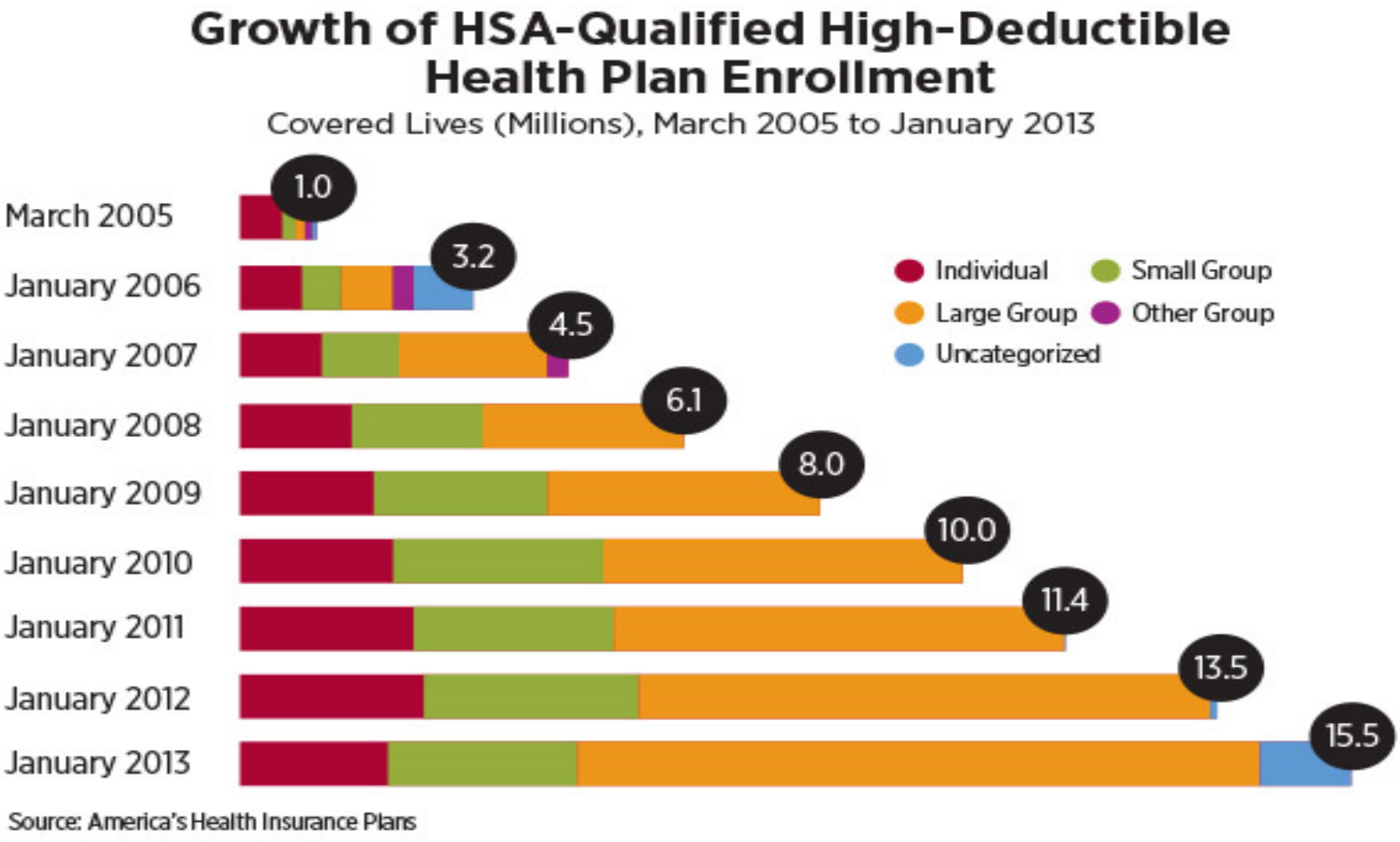
MARKET STAGING: An evaluation of an individual market's level of evolution with respect to resident payment models. This concept, which DHG Healthcare has developed and applies in our business planning practice, considers evolutionary facts such as depth of non-FFS transition, level of consolidation, employer base, and similar characteristics.

Triple Aim



Source: Don Berwick 2008

Cost Share Implications



http://insurancenewsnetmagazine.com/article/a-rough-entry-into-the-world-of-high-deductible-plans-2859#.VYlo_flVhHw

Narrow Networks

High Performing Networks

Employers Specific Networks

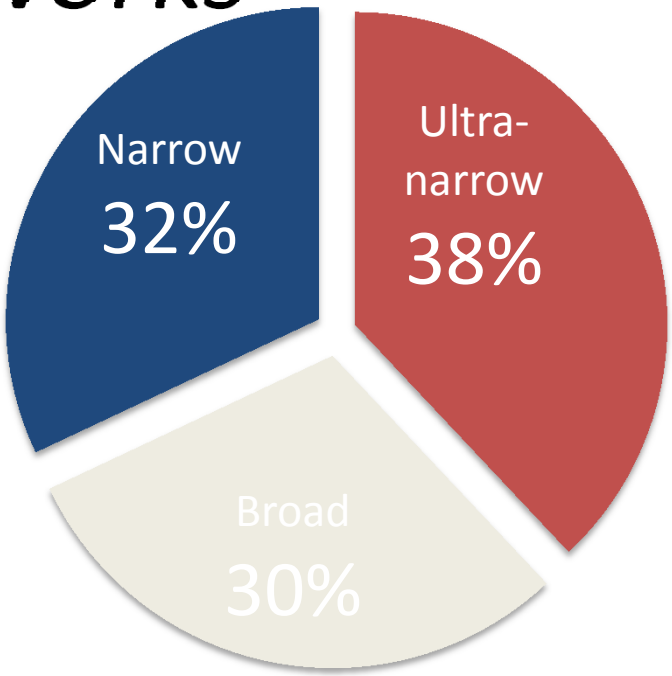
Tailored Networks

Tiers

Products

Sub Networks

High Value Networks



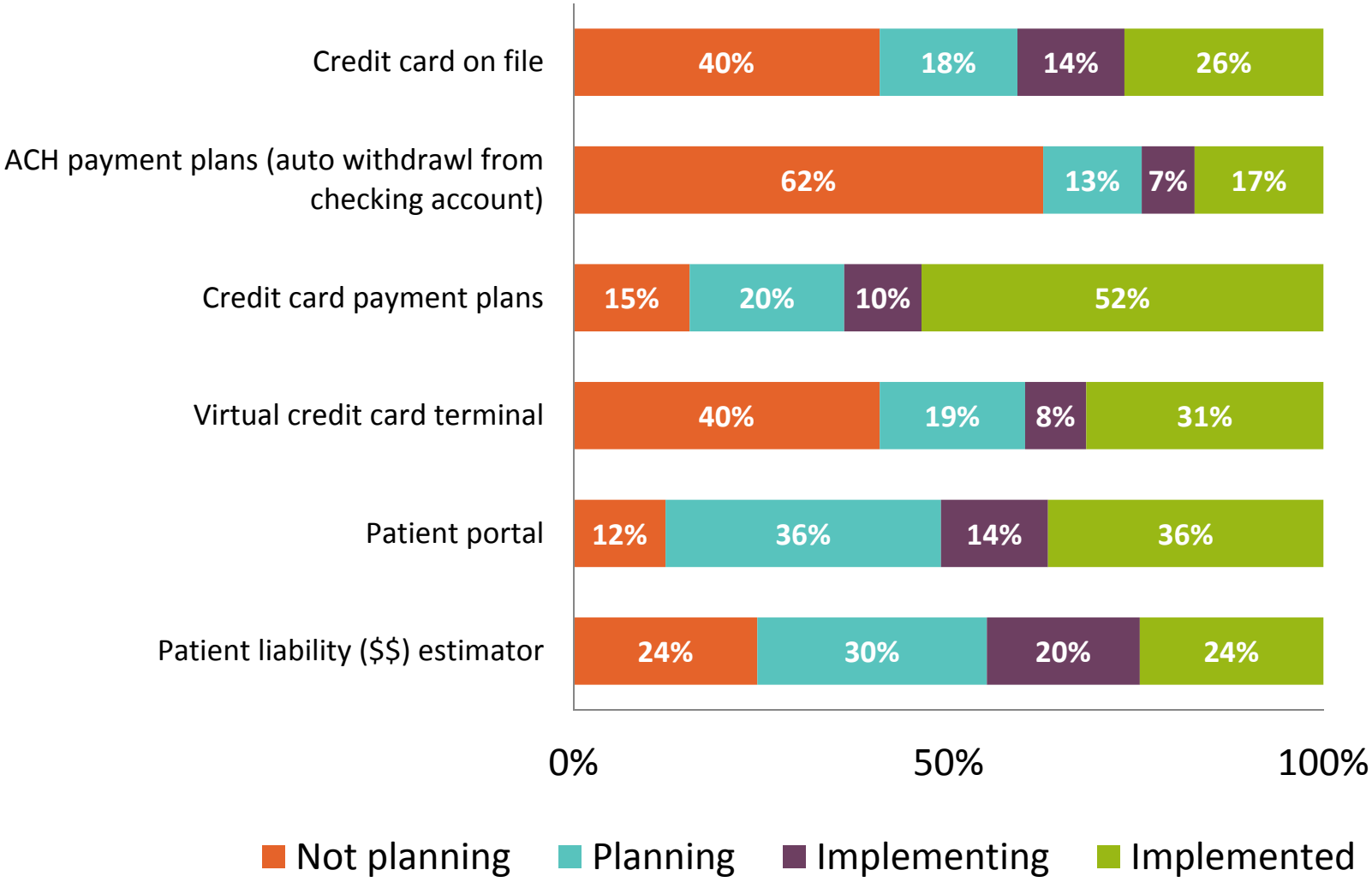
Narrow and ultra-narrow network plans are prevalent in the public marketplace. Chart shows Distribution of Individual Exchange Narrow Networks by Network Breadth, 2014 (from the AHA Trendwatch Report, June 2014).

Patient Costs

$1 out of every $4 comes directly from patients

http://www.mgma.com/Libraries/Assets/Practice%20Resources/Publications/MGMA%20Connexion/2010/Perspective-on-patient-payments-MGMA-Connexion-April-2010.pdf

Who's doing what?



Source: MGMA Member Community research.

Cost Estimators - Availity

Guarantor:
John A Doe
123 Sesame Street
Somewhere, TN
(615) 321 - 4321

Patient:
Johnny L Doe
Male
Born 12/12/2000

Note:

Save Note

Insurance Eligibility

Encounter Type: OPS

United Healthcare
CoPay: $100
View Medical Necessity

Blue Cross Blue Shield of TN
CoPay: $25
Additional Info Needed

Add Insurance

Estimated Charge: $300 (Max Allowed Reached)

Qty	Code	Description	Charge	Allowed	Amount
1	85025	Complete Blood Count (CBC)	$1000.00	$250.00	$250.00
1	12001	Simple repair of superficial wounds	$500.00	$100.00	$100.00

Add Charge Item

Estimated Patient Portion: $20.00

Total Before Discounts:	$25.00
Auto-Discount:	NA
Other Discount: 20%	-$5.00
Total Payments:	-$0.00

Enter a Payment | Print Estimate | Printable Forms

Status: Prompt Payment Collected

Script - Category A

View Demographics

Prompt Payment | Terms | Referral | Closing

Your estimated cost of service today is $25. I can offer you a 20% prompt pay savings if you would like to pay that in full today. The amount you will owe is $20. Will that be cash, check, or credit?

Did patient agree? ◉ Yes ○ No

Profiling

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NEW MATH → VALUE = QUALITY/COST

Quality = Evidence Based Metrics

How many times did ***you*** meet the measure? **100%** ÷ How many times did ***your peers*** meet the measure? **94%** = **107%**

Cost = Episode of Care

100% ÷ **97%** = **103%**

	You	Peers	Variance	Index
Professional	$100	$95	5	105%
Surgery	$95	$100	-5	95%
Facility	$200	$185	10	108%
Pharmacy	$25	$28	-3	89%
Total	**$420**	**$408**	**12**	**103%**

107% / 103% = 104% Your Practice performs 4% better than peers.

MACRA

Ensures a 5-year period of stable, annual updates of 0.5% in order to transition to new payment system in 2019

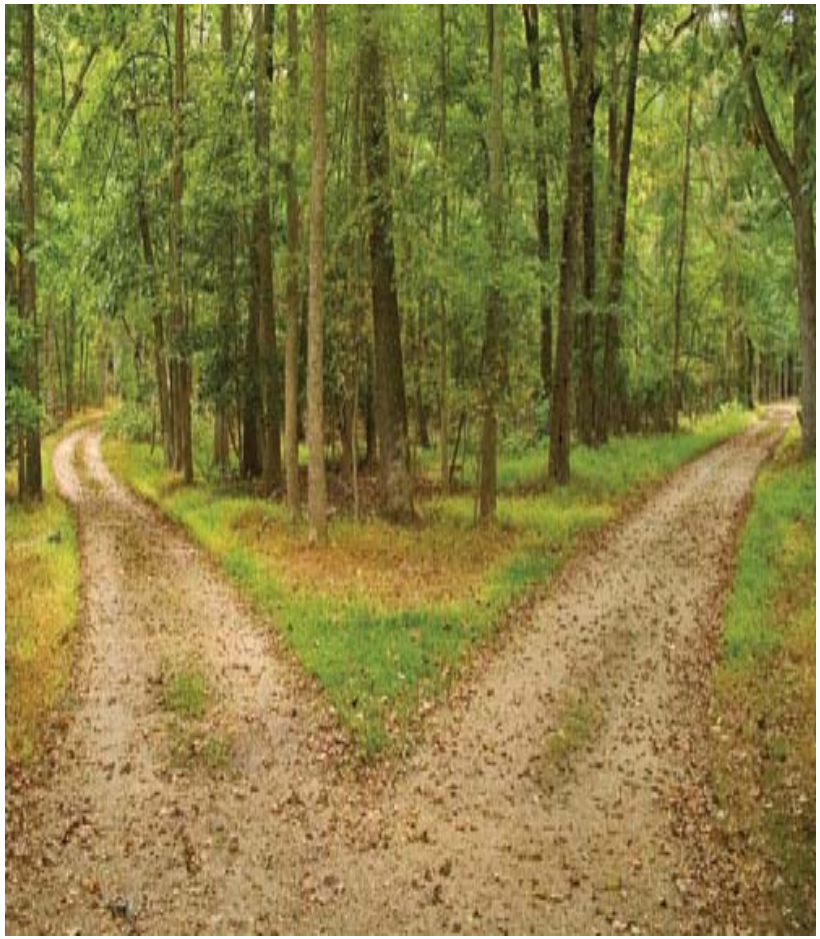
MIPS

Maximum adjustment
+/- 4% in 2019 up to
+/- 9% in 2022*

Composite Score
30% Quality (e.g. PQRS)
30% Resource Use
15% Clinical Practice Improvement Activities
25% Meaningful Use

Additional bonuses up to 10% for exceptional performance

* Sliding Scale assessment



APM

Annual 5% Lump Sum Bonus 2019-2024

Qualifying APM
Certified EHR
Payment based on quality measures
Financial risk
Medical Home*
Percentage of payments

*PCMH exempted from downside risk requirement

Alternative Quality Contract-BCBS Massachusetts

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1. Global Budget

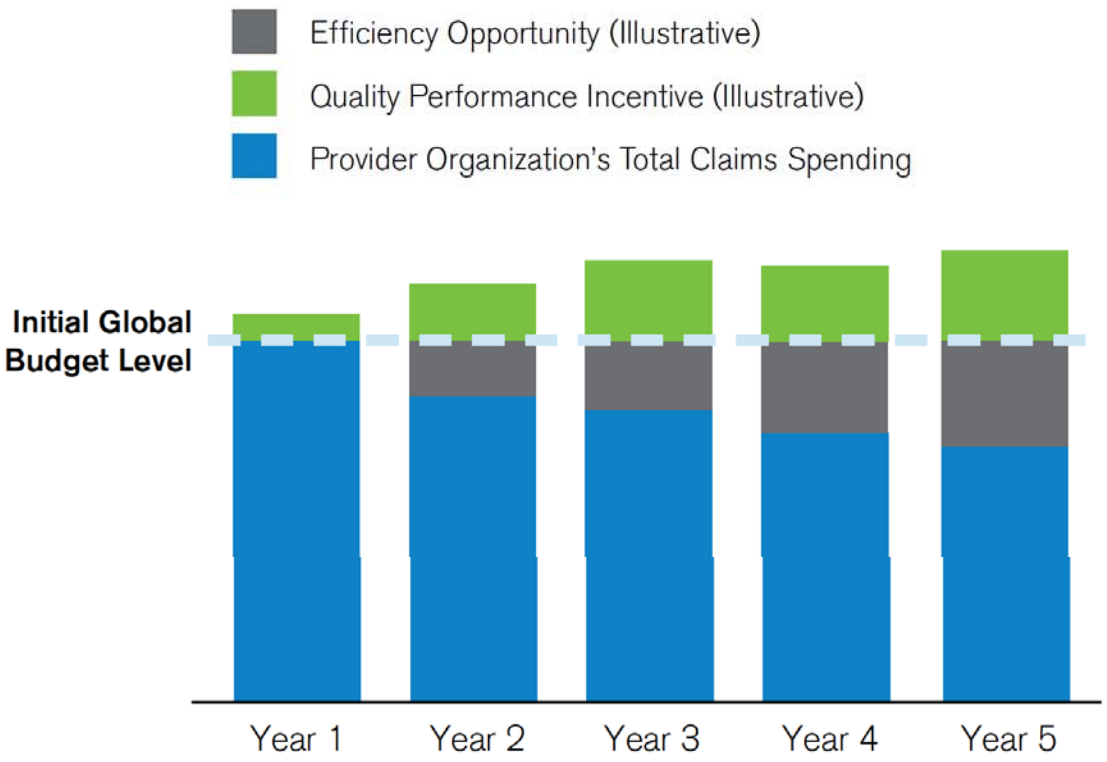
- Based on historical total medical expenses
- Annual inflation for each year of the five-year contract period is defined up front and designed to continually moderate spending growth

2. Efficiency Opportunity

- Budget constraint creates incentive to carefully steward resource use
- Provider organizations share in budget savings and share risk for budget deficits

3. Quality Performance Incentive

- Based on a broad set of nationally accepted, validated measures of ambulatory and hospital care
- Range of performance targets on each measure reward "good to great" performance



Source: http://www.bluecrossma.com/visitor/about-us/affordability-quality/aqc.html

Alternative Quality Contract-BCBS Massachusetts

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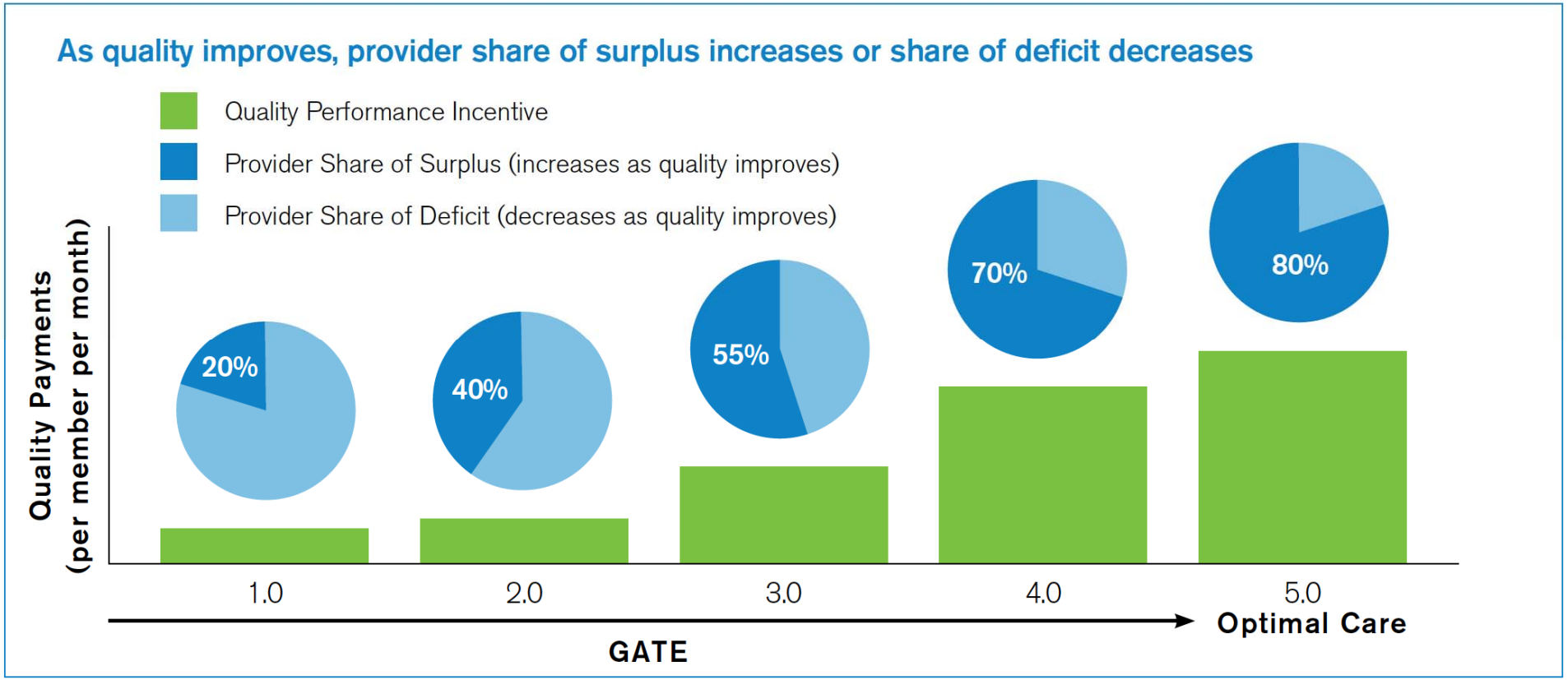


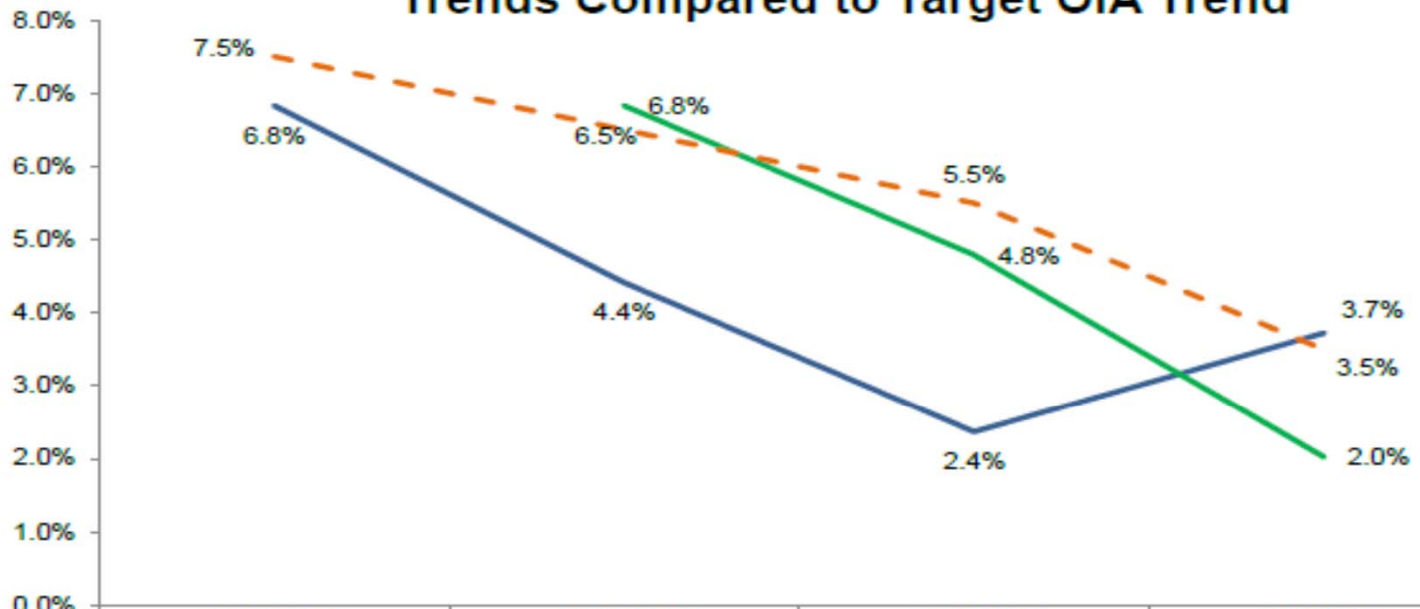
Source: http://www.bluecrossma.com/visitor/about-us/affordability-quality/aqc.html

Cost Avoided by "Bending the Curve"

CareFirst

- PCMH trend has continued to sharply decline while there is early evidence of a modest rebound in trend in the overall book

CareFirst Book of Business and PCMH Trends Compared to Target OIA Trend



	2010/2011	2011/2012	2012/2013	2013/2014
CareFirst Book of Business Trend	6.8%	4.4%	2.4%	3.7%
PCMH Trend		6.8%	4.8%	2.0%
PCMH OIA Targeted Trend	7.5%	6.5%	5.5%	3.5%

Source: CareFirst HealthCare Analytics - Updated May 2014 – 2014 Projected based on claims run out through December 2015

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Panels Make "Buying" and Arranging Decisions Specialists and Hospitals Referrals

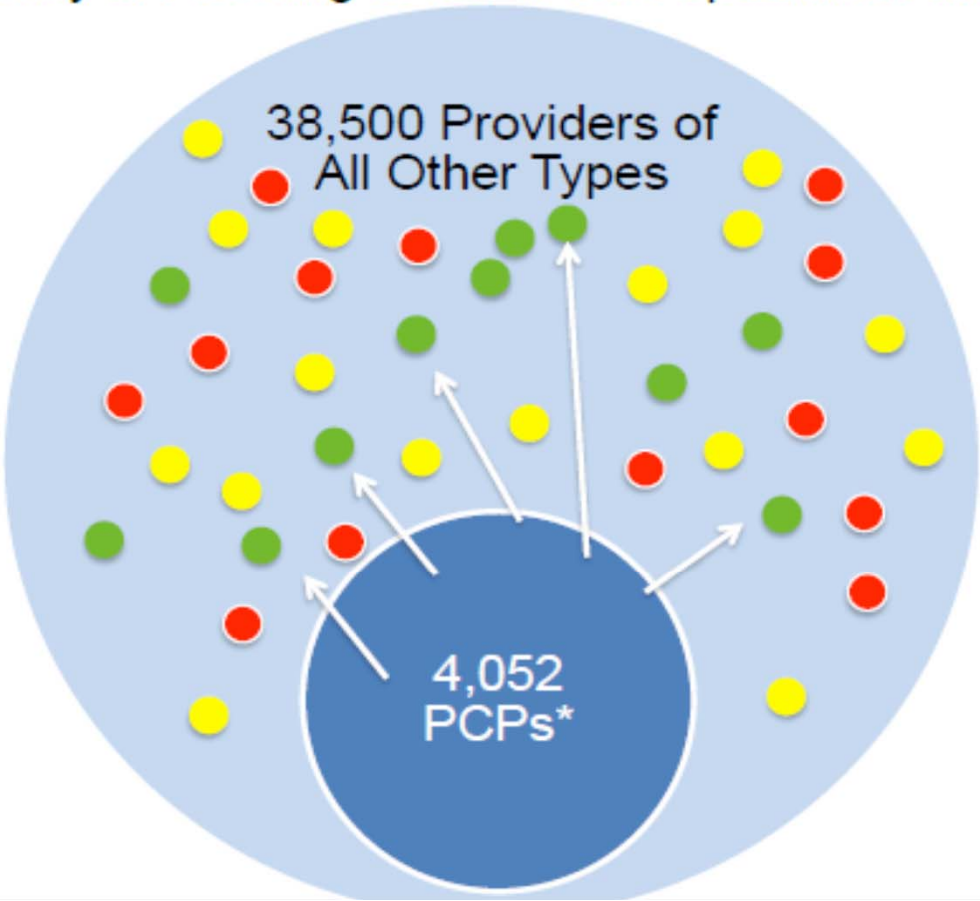
CareFirst

- No narrow networks are used
- PCPs refer where they believe they will get the best result
- Given the high percentage of admissions for common illnesses, many have become convinced of the efficacy of referring to lower cost Specialists and Hospitals

High Cost Providers

Medium Cost Providers

Low Cost Providers



5 Focus Areas for Panels

CareFirst

- We have found 5 focal points of action – things a Panel can do as a practical matter to positively impact cost and quality outcomes
- These are weighted to show their relative importance
- The weight of the Referral Pattern area reflects the importance of the most value laden decision made by a PCP: when and where to refer
- The extent of engagement with the Program drives all behavior change, causing it to be heavily weighted as well

HealthCheck Profile:
5 Focus Areas for Panels that Most Influence Cost and Quality

5 Key Areas	Weight
Cost Effectiveness of Referral Patterns	35%
Extent of Engagement in Care Coordination Programs and with various TCCI programs	20%
Effectiveness of Medication Management	20%
Reduction in Gaps in Care and Quality Deficits	10%
Consistency of PCP Engagement and Performance within the Panel	15%

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Calculating Costs

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- **Traditional View**
  - Fixed Costs – constant regardless of the # patients seen
  - Variable Costs – fluctuate with # patients seen
  - Direct Costs – relates to patient specifically
  - Indirect Costs – necessary to support care delivery

2013	Practice	% of Med Rev	Per FTE MD
Income	3,500,000	100%	$ 700,000
Expenses			
Salaries - Support Staff	750,000	21%	$ 150,000
Information Technology	37,500	1%	$ 7,500
Professional Liability	52,000	1%	$ 10,400
Drugs	125,000	4%	$ 25,000
Medical Supplies	75,000	2%	$ 15,000
Rent	150,000	4%	$ 30,000
Physician	160,000	5%	$ 32,000
Total Expenses	2,449,500	70%	$ 489,900

28% BP Practices

Calculating Costs

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- **Transformed view looks at Costs by:**
  - Patient
  - Population
  - Bundle
  - Episode of Care

2013	Per FTE MD	Per Patient (2,000)	Per Visit (6,000)	Per wRVU - FTE MD (8,000)	PMPM (30,000)
Income	$ 700,000	$ 350	$ 117	$ 88	$ 23.33
Expenses					
Salaries – Sup. Staff	$ 150,000	$ 75	$ 25	$ 19	$ 5.00
Information Tech.	$ 7,500	$ 4	$ 1	$ 1	$ 0.25
Professional Lib.	$ 10,400	$ 5	$ 2	$ 1	$ 0.35
Drugs	$ 25,000	$ 13	$ 4	$ 3	$ 0.83
Medical Supplies	$ 15,000	$ 8	$ 3	$ 2	$ 0.50
Rent	$ 30,000	$ 15	$ 5	$ 4	$ 1.00
Midlevels	$ 32,000	$ 16	$ 5	$ 4	$ 1.07
Physician	$ 220,000	$ 110	$ 37	$ 28	$ 7.33
Total	$ 489,900	$ 245	$ 82	$ 61	$ 16.33

Calculating Costs

Revenue per Visit $117

Total Exp per MD $489,900

Exp per day (240) $2,041

Break Even # visits 17.5

Episode of Care Costs

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- What can glean from your data? How about talking to the payers?
- Paid to practice/facility/pharmacy/post-acute = cost to payer
- Total Episode Cost = est $25,000

CPT	Procedure Code Description	Patients	Paid	Paid per Episode - Ortho only
27447	Arthroplasty - knee	659	$ 1,500,000	$ 2,276
29824	Arthroscopy - shoulder	429	$ 1,000,000	$ 2,331
27130	Arthroplasty - total hip	365	$ 750,000	$ 2,055
63047	Laminectomy	150	$ 475,000	$ 3,167

Episode includes 30 days pre and 90 days post surgery

New Costs to Consider

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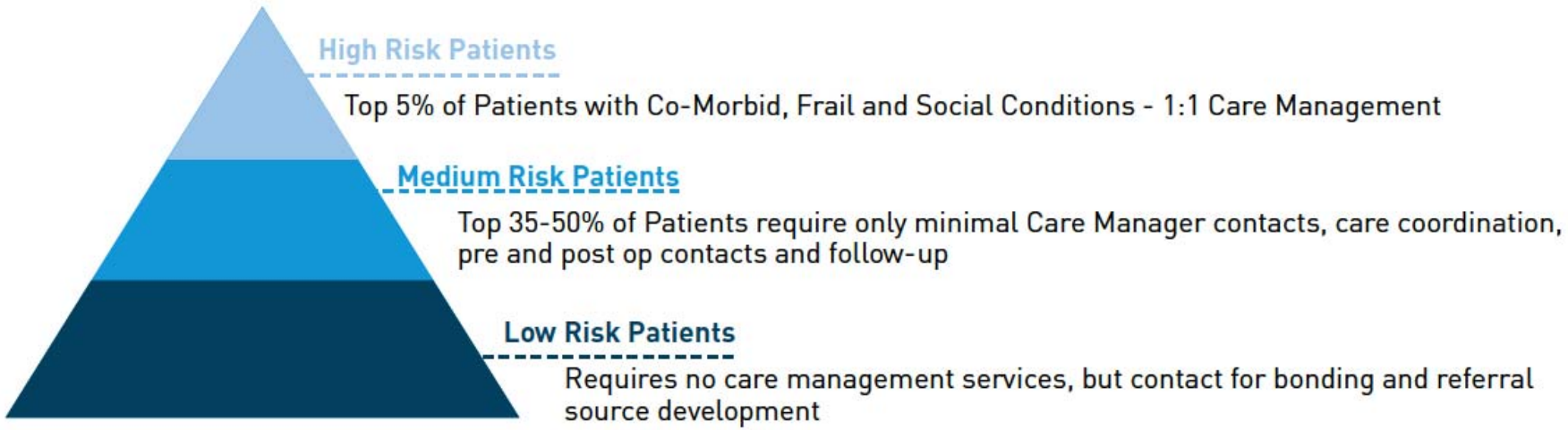
- **Population View**
  - Per Member Per Month
  - FFS Equivalency
  - Stop Loss
  - IBNR
  - Operational Considerations
  - Care Management



LEAN Costs

In every organization there are two types of cost:

1) **Costs that deliver value to customers or patients.** These costs are good and are to be encouraged. They result in the value that people pay for either directly or through their taxes.

2) **Costs that are incurred but don't end up delivering value to customers or patients.** These costs are waste. Lean is about eliminating the waste and improving flow, to improve the proportion of good costs to bad.

http://www.leanuk.org/downloads/health/lean_thinking_for_the_nhs_leaflet.pdf

Lean Background

Principles of LEAN

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"The core idea of Lean is to maximize customer value while minimizing waste. In other words, Lean means creating more value for customers (patients) with fewer resources."

James P Womack PhD

"Lead the organization as if you have no power."

Kan Higashi to Gary Convis…(NUMMI's senior Japanese and senior American leaders)

http://www.lean.org/WhatsLean/History.cfm

- **What does your customer value?**
  - They define value or value-added with the following three conditions:
    - It must transform the product or service.
    - The customer must be willing to “pay” for it.
    - It must be done correctly the first time.

Principles of LEAN

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- **LEAN is:**
  - Getting as close to the "ideal" from the customers perspective
    - Exactly what the customer needs
    - Precisely when they need it
    - Defect free
    - If problems occur – they are addressed in real time
    - Respect to all – staff and patients
    - Minimize wastes
    - Keep it simple
    - ***Kaizen*** = "good change"
- **LEAN is <u>Not:</u>**
  - about reducing headcount
  - necessarily increasing productivity
  - or cutting costs

http://www.leanuk.org/downloads/health/lean_thinking_for_the_nhs_leaflet.pdf

Seven Flows of Healthcare

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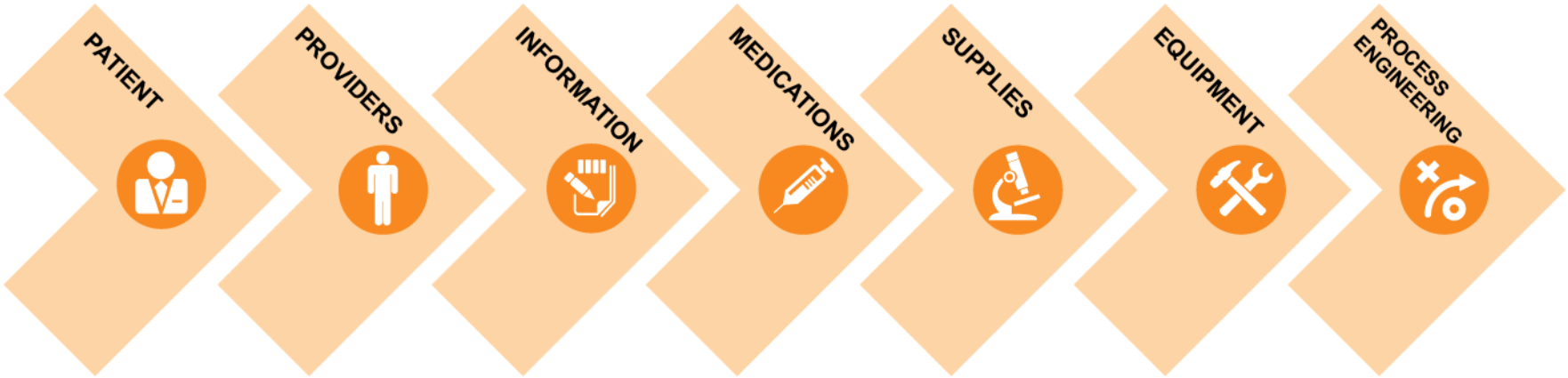
1. Patient
2. Providers
3. Information
4. Medications
5. Supplies
6. Equipment
7. Process Engineering



Principles of LEAN

- Going to the "GEMBA" – *where the work is done!*

"You cannot be sure you really understand any part of a problem unless you go and see for yourself first hand. Don't rely on reports of others."

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- **Team-Based Lean Improvements**
  - **RPIWs** Rapid Process Improvement Workshops
  - **Kaizen Events** Improvement projects with limited scope
  - **3P** Production Preparation Process
  - **Visual Daily** Dashboards
  - **Management** Teams being able to see, in one place, the status of key indicators and goals and take action
  - **5S** Organizing and making the workplace visual (wasted time)

Sorting **S**traightening **S**hining **S**tandardize **S**ustain

Principles of LEAN

- **Purpose – what customer problems are solved?**
- **Process – how will we assess value stream?**
  - Make sure each step is:
    - Valuable
    - Capable
    - Available
    - Adequate
    - Flexible
    - coordinated
- **People – who is responsible?**

http://www.lean.org/WhatsLean/

5 Principles in LEAN

5 Principles of LEAN Thinking

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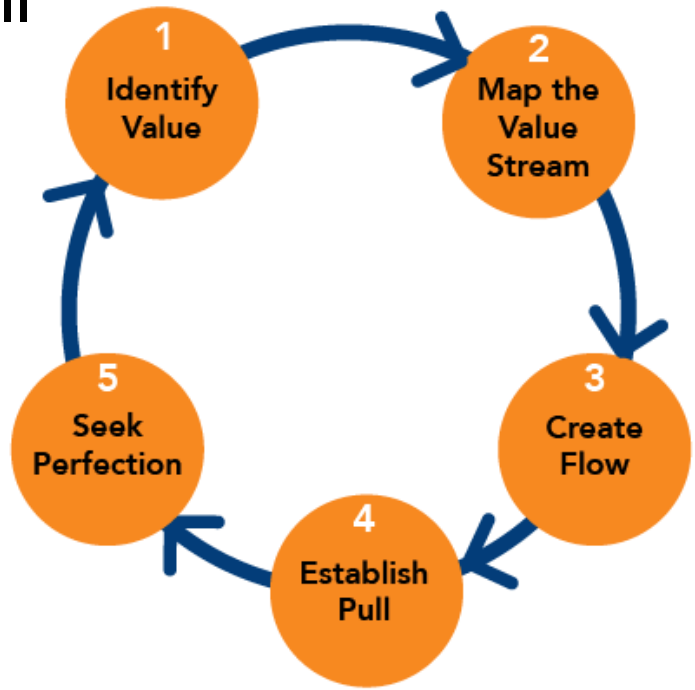
1) Identify Customers and Specify Value
2) Identify and Map the Value Stream
3) Create Flow by Eliminating Waste
4) Respond to Customer Pull
5) Pursue Perfection



5 Principles of LEAN Thinking

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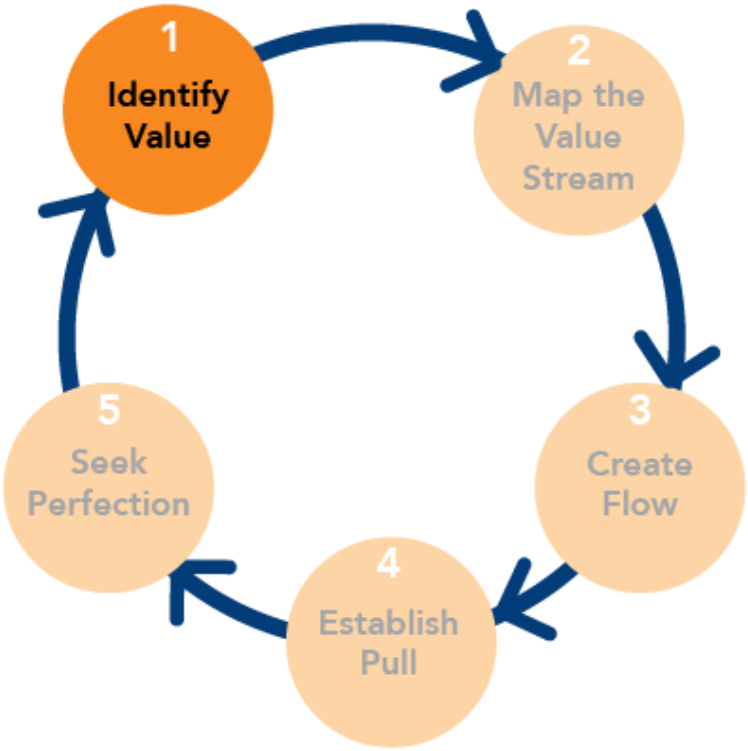
1) Identify Customers and Specify Value



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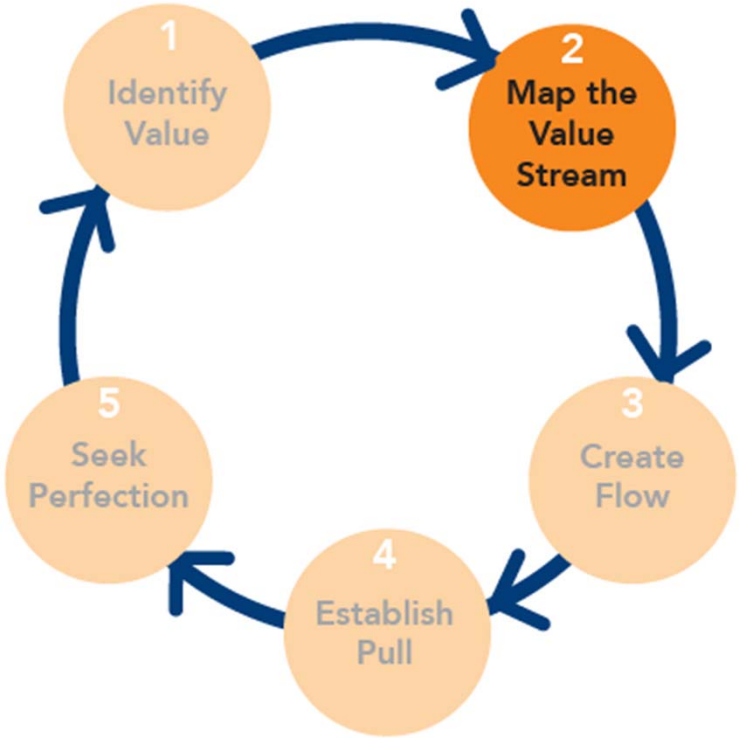
2. Identify & Map the Value Stream



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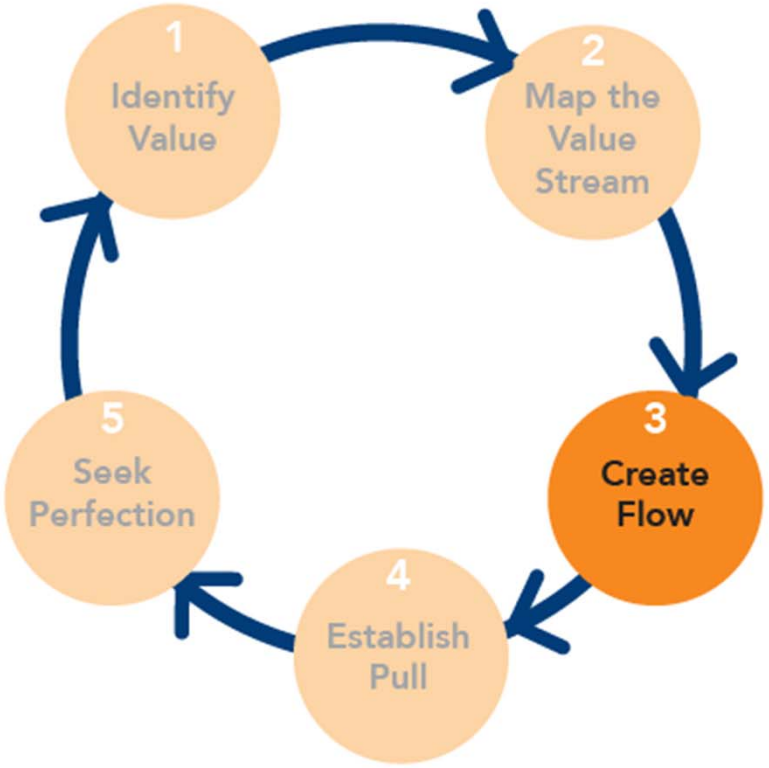
3. Create Flow by Eliminating Waste – 8 in every process

1. *Over production*
2. *Waiting, both patients and staff*
3. *Unnecessary transport*
4. *Over processing*
5. *Excess inventory*
6. *Unnecessary movement*
7. *Defects*
8. *Human creativity*



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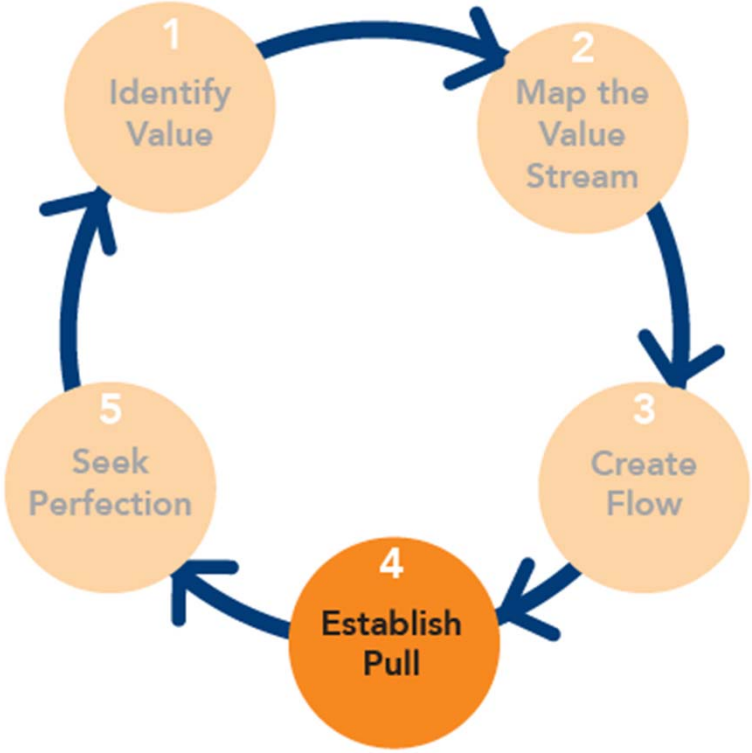
4. Respond to Customer Pull



5 Principles of LEAN Thinking

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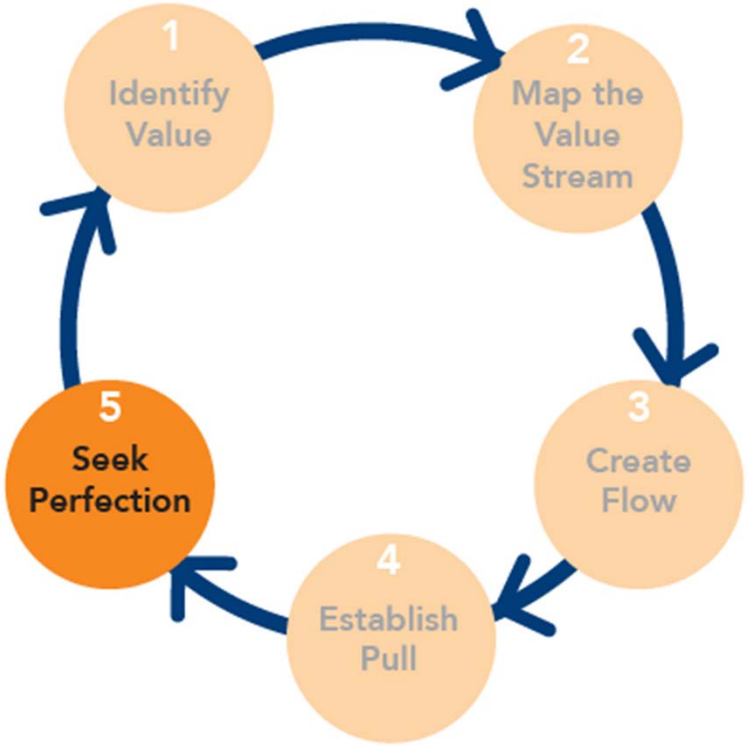
5. Pursue of Perfection



Value Stream Map Example

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Step 1: Define customer requirements

Who are our customers?
What do they want?
When do they want it?

Customer Requirements

Lab results to be accurate

Urgent need for results asap

Value Stream Map Example

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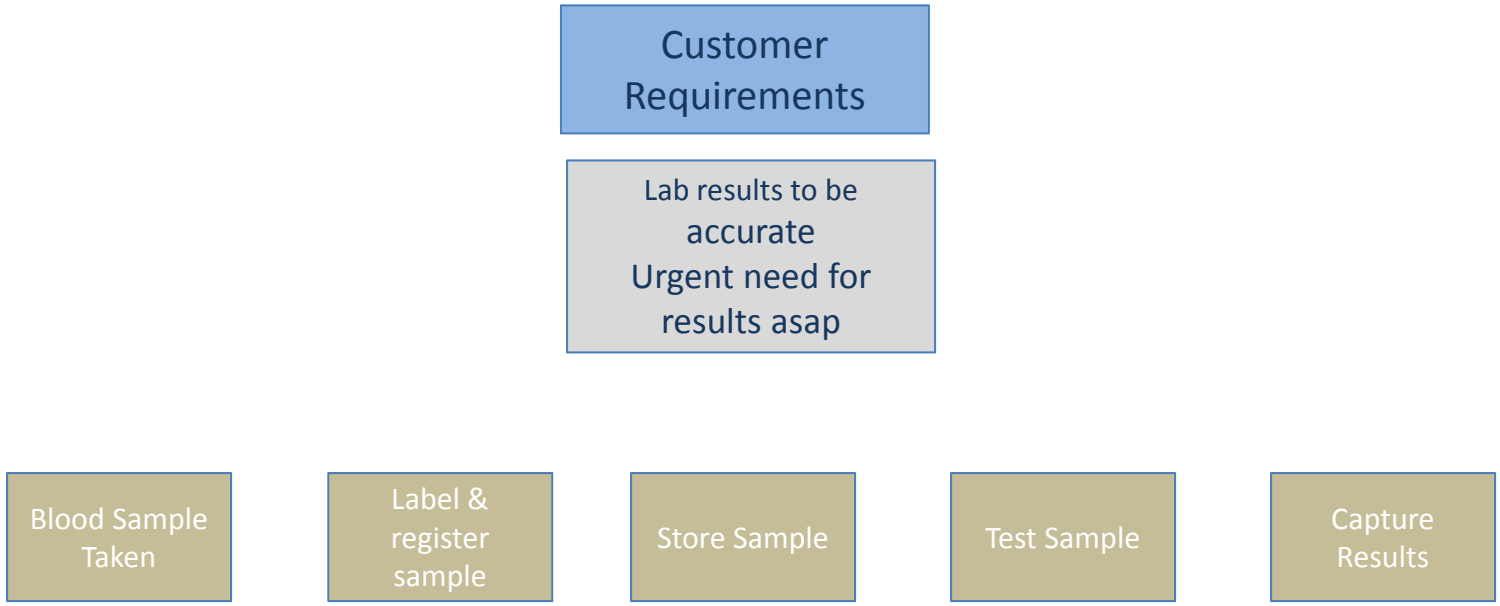
Step 2: Identify key steps in the process



Value Stream Map Example

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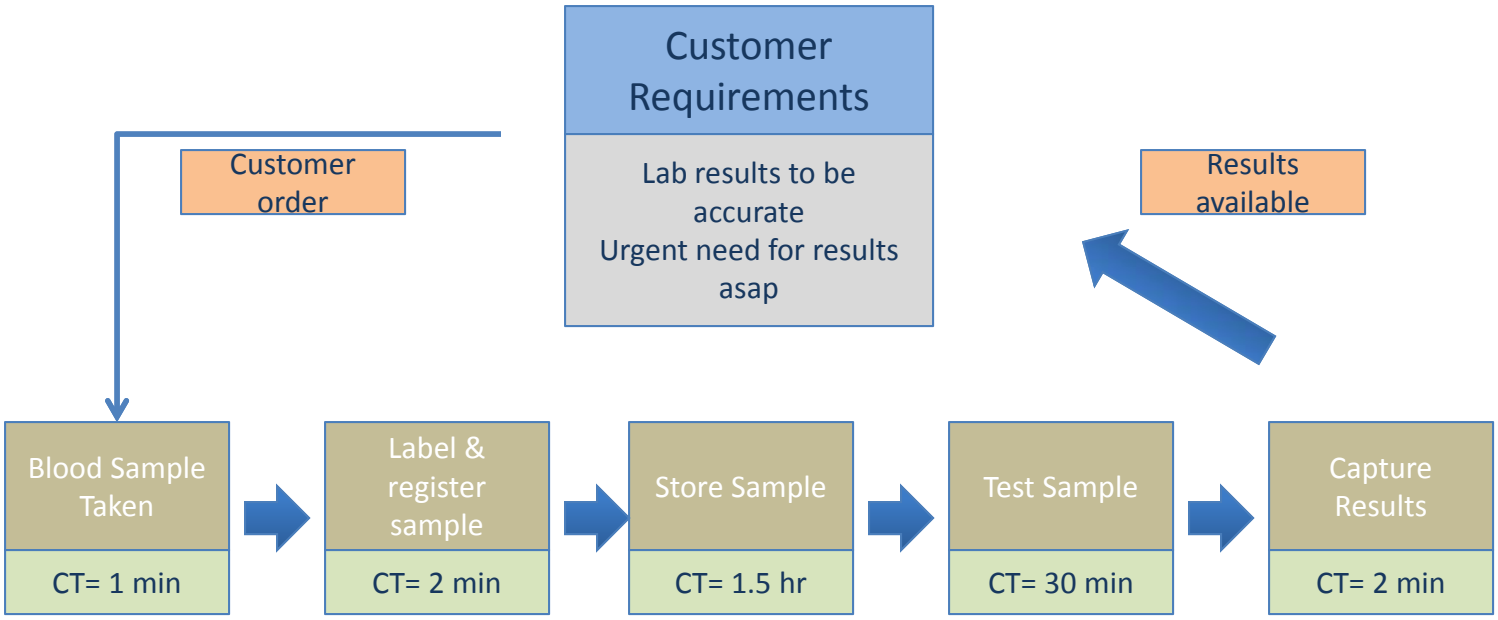
Step 3: Gather process data



CT refers to "Cycled Time', the time to complete the step from start to finish

Value Stream Map Example

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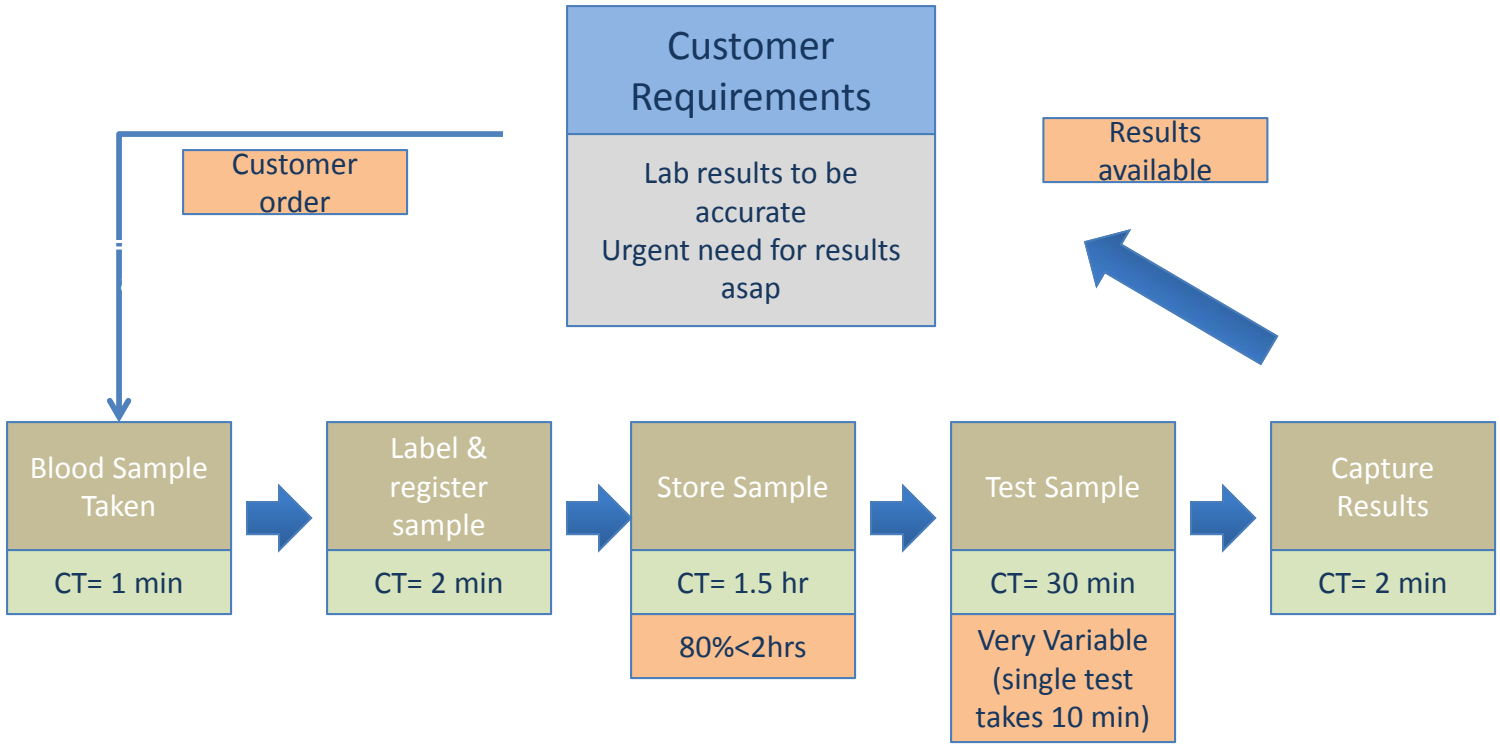
Step 4: Identify additional info



Value Stream Map Example

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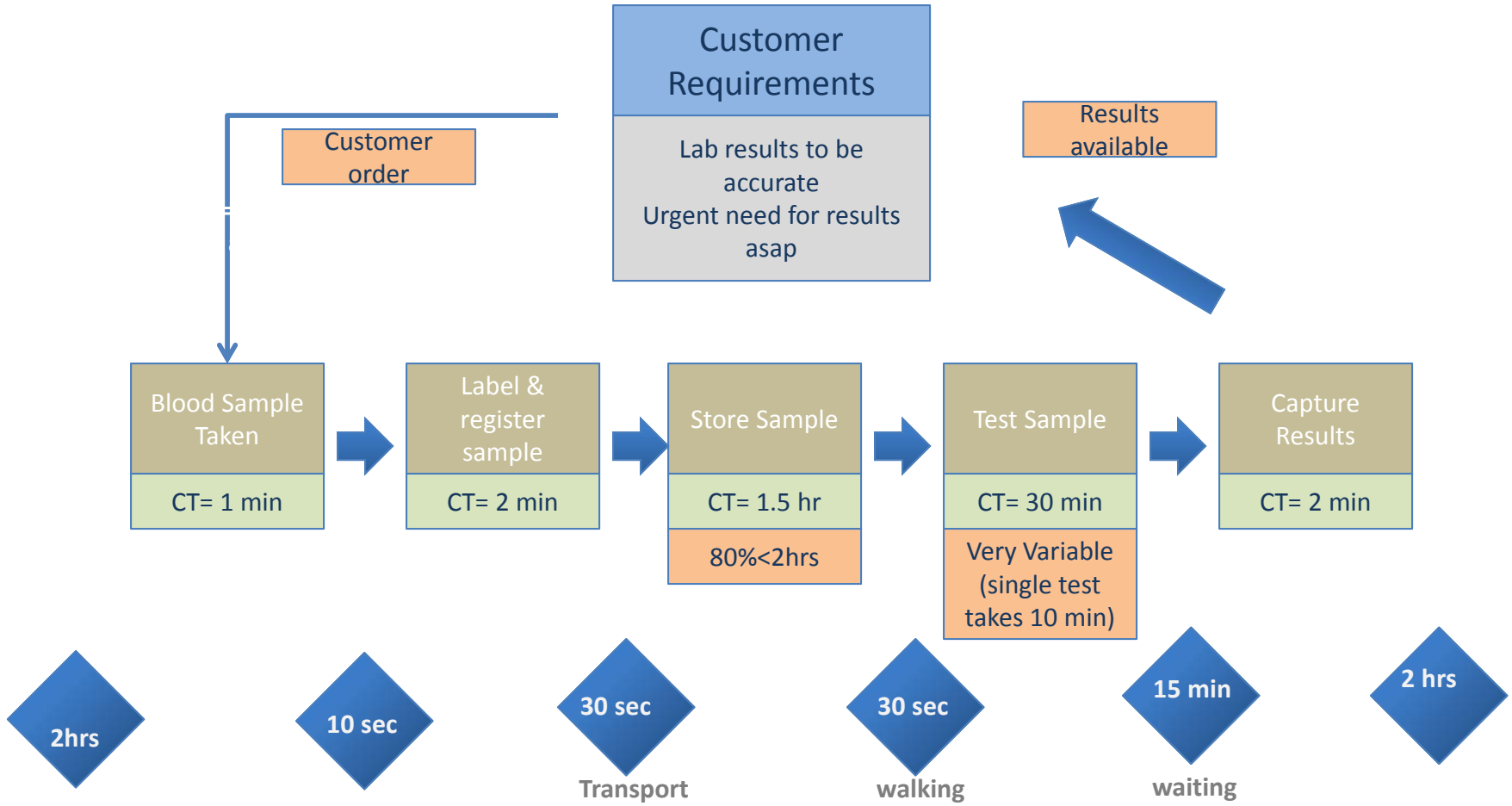
Step 5: Determine time between gaps



Value Stream Map Example

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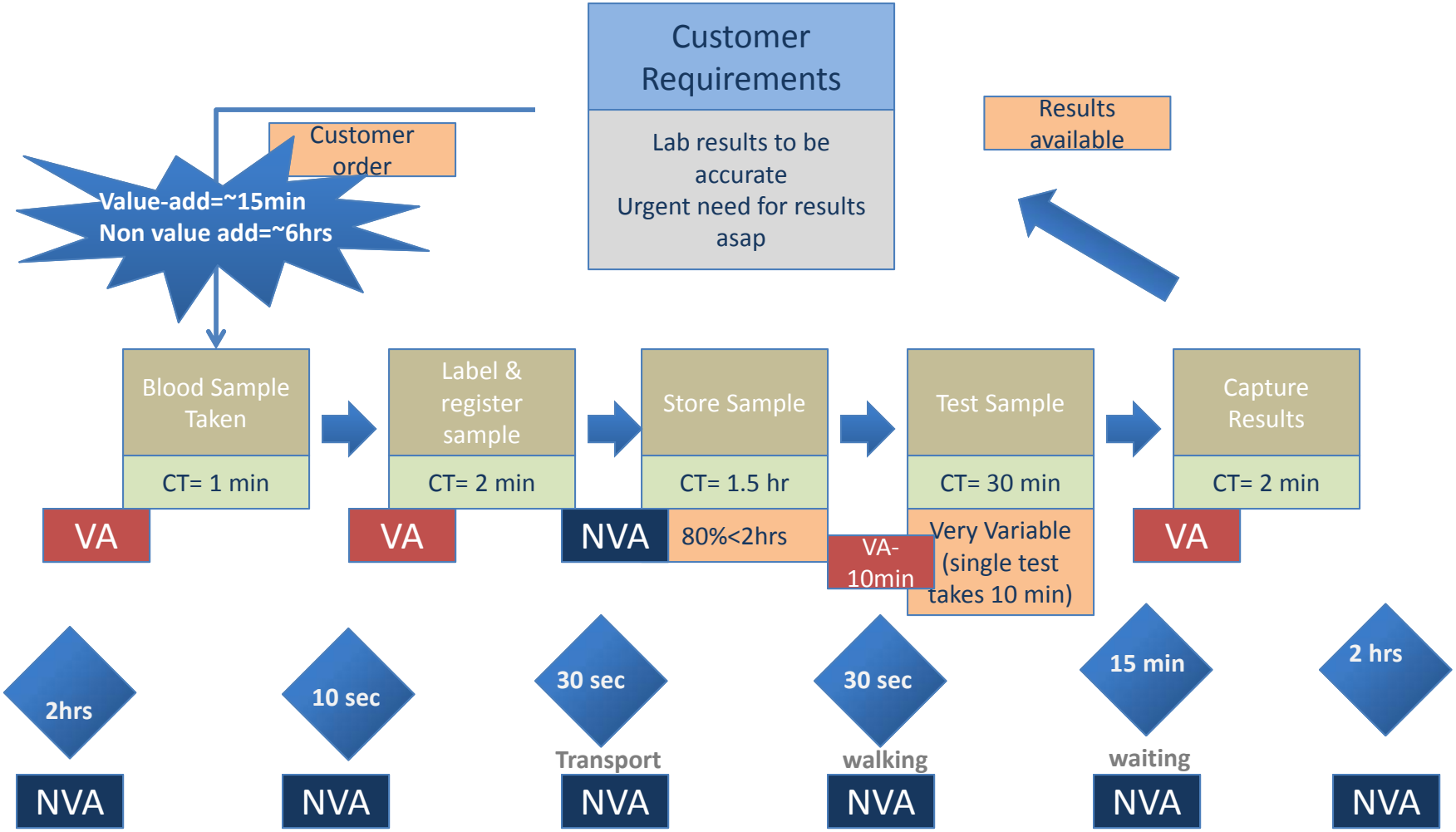
Step 6: Identify Value add & Non Value add times



Value Stream Map Example

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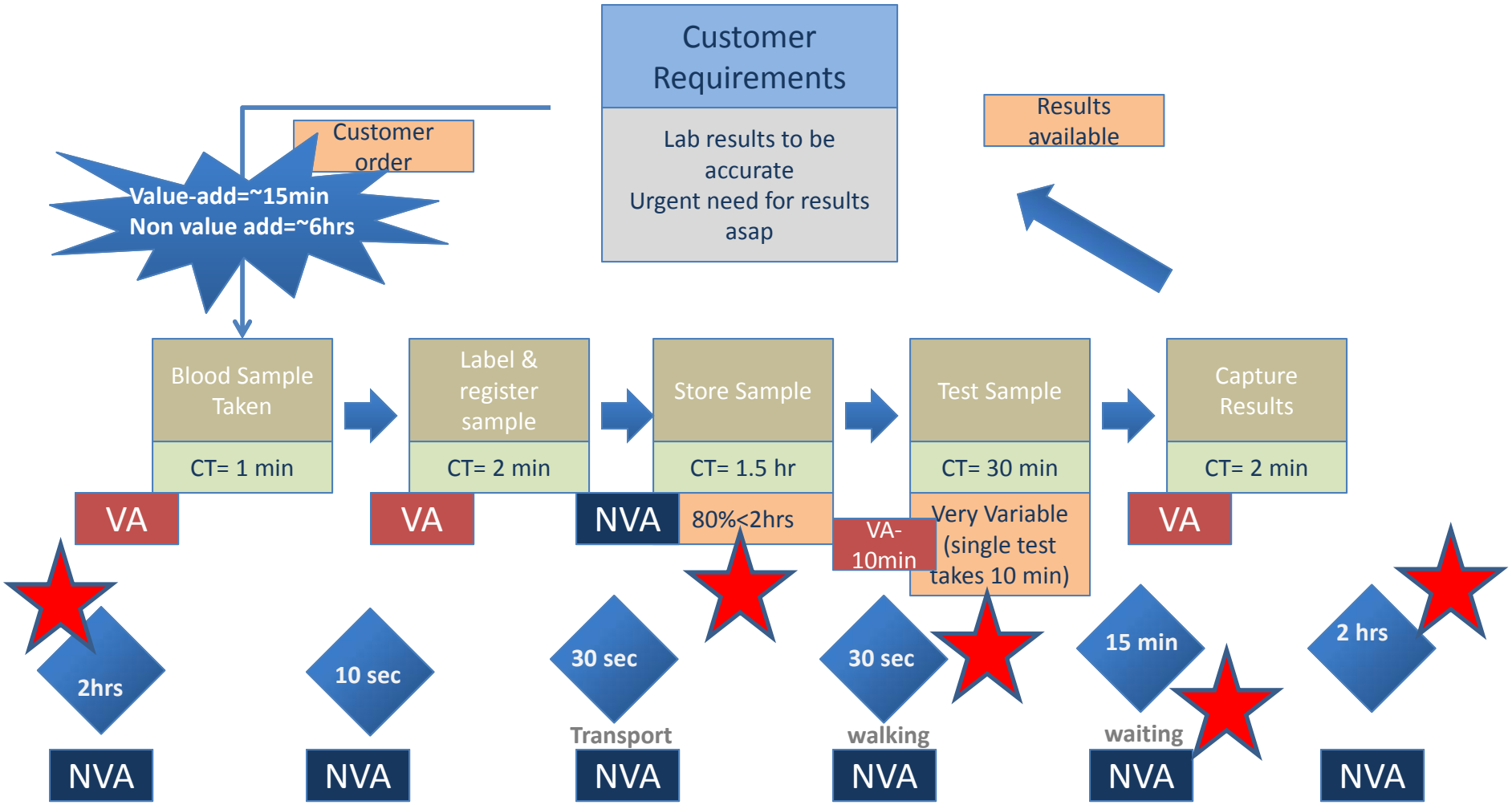
Step 7: Determine initial areas of opportunity



Value of a Par System

Value of a PAR System

- Inventory is pulled from Primary Bin
- Primary Bin Inventory is depleted
  - Begin Pulling from Secondary Bin
- Secondary Bin becomes Primary Bin
- Depleted Bin is scanned for re-ordering
- Order is filled for replenishment of empty bin and process starts over

Value of a PAR System

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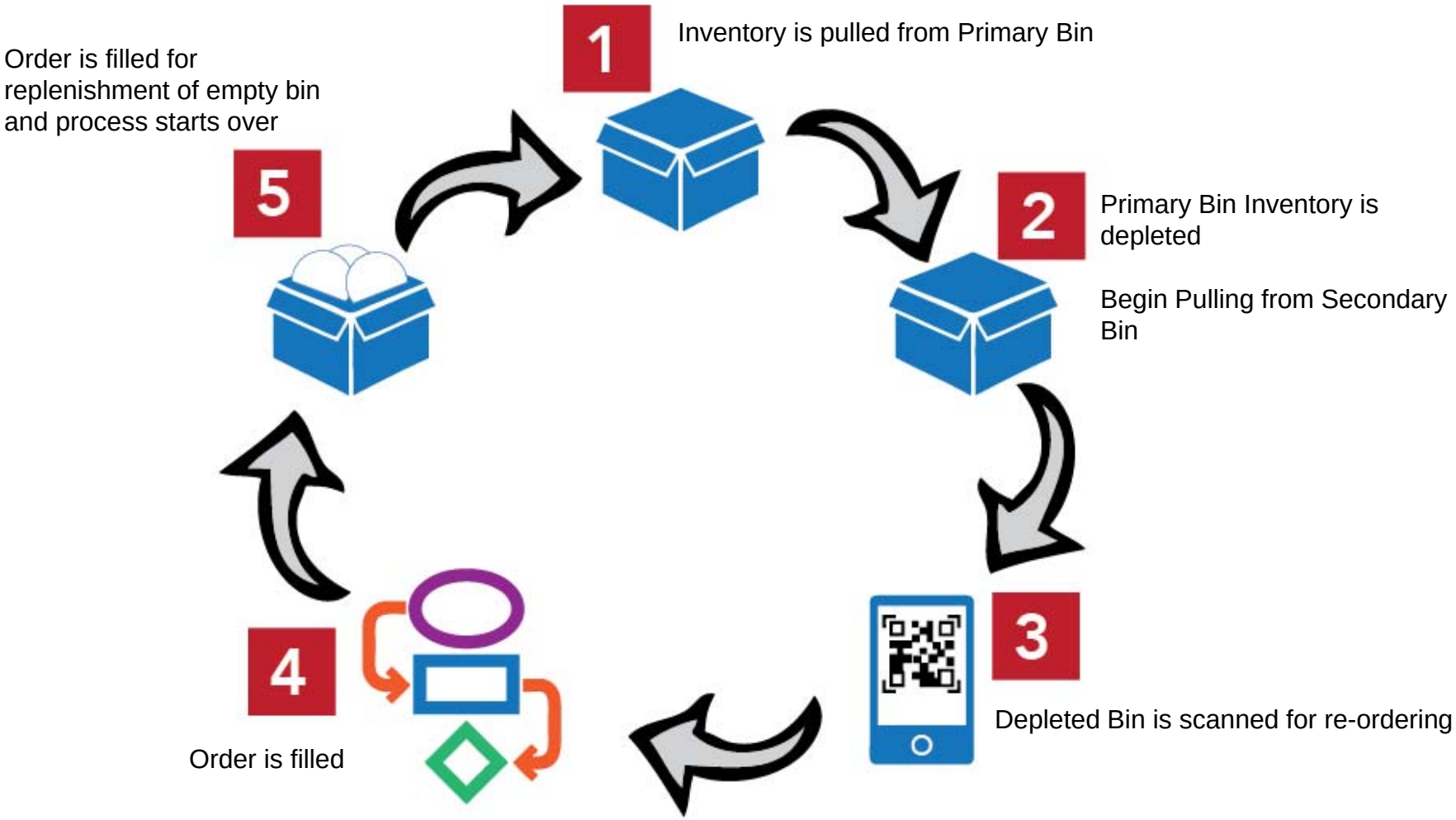

Value of a PAR System

- Kanban Two-Bin System affects Supply Chain costs
- Eliminates counting
- Minimizes wait times and logistics costs
- Continuous process improvement
- Prevents overstock/reduces holding costs
- Improves labor efficiency
- Reduces obsolescence

Value of a PAR System

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- I like the Kanban system because:
  - It works
  - It's simple
  - It doesn't require math
  - It doesn't require a computer

Next Steps

Next Steps to LEAN

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Find a change agent → Get the lean knowledge → Find a lever by seizing a crisis → Forget grand strategy

Map the value streams → Begin as soon as possible → Demand immediate results → As soon as you've got momentum, expand the scope

QUESTIONS

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