The Power of Experience®

Healthcare Treasury:
Strategies That Add to the Bottom Line

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Treasury Strategies®

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Introduction

From regulatory change, to the uncertain economy, to industry events, the healthcare industry in the United States has faced tremendous challenges over the last few years. In reaction, many systems have pursued strategies to consolidate and improve operational efficiency. In doing so, they have realized some benefits, but from a treasury perspective, significant money has been left on the table. Through our consulting with numerous health systems, we have determined that treasury departments still have sizable financial savings opportunities within reach, especially in G&A expense.

The Affordable Care Act (The Act or ACA) is transformational legislation changing many aspects of healthcare in the U.S. The Act establishes new operating rules for healthcare providers and payors, which will have an immediate and direct impact on their profitability. It places new demands on healthcare providers that will affect their processes for managing revenue, expenses, payments, banking and liquidity. As a result, effective management of G&A expense has become increasingly critical for organizations wishing to achieve or preserve profitability targets.

In addition to ACA, the healthcare industry, like most, has had to grapple with the uncertainties of a distressed global economy. To stay afloat, many healthcare systems have pursued a consolidation strategy – most often through merger and acquisition (M&A) and/or the establishment of Accountable Care Organizations – as a growth strategy to build system scale and improve financial returns.

Throughout 2011, there were approximately 980 mergers and acquisitions in the healthcare industry with a total value of $227 billion. These figures represent a nine percent annual increase in M&A activity according to an Irving Levin Associates report. Despite this increase, the healthcare delivery system remains fragmented.

Thus, M&A activities are expected to continue throughout 2012 and into 2013, as healthcare systems seek to achieve economies of scale.

While consolidation efforts have yielded many benefits in the management and delivery of care, these organizational changes have also led to many redundancies and operational inefficiencies within treasury and financial processes.

This confluence of events has caused many organizations to take actions to tighten their belts and examine ways to add to their bottom line. Through our work with the leading healthcare organizations throughout the country, Treasury Strategies has identified numerous opportunities for treasury departments to lower G&A expenses, while pursuing efficient processes for improving treasury operations.

Treasury Strategies has routinely found the best opportunities to increase efficiency and savings are in five key areas:

1. Collection & Disbursement Optimization
2. Banking Service Improvements
3. Technology Enhancement
4. Short-term Investment Management
5. Policy Improvements

Collection & Disbursement Process Optimization

Many of the largest healthcare systems lack basic information, tools and technology to accelerate collections and lower the cost of disbursements. In fact, fewer than 25% of treasury departments know the true costs of their multiple payment and collection channels. Without understanding these costs, it's difficult to make informed decisions, or apply cost-effective strategies to accelerate collections, more effectively manage disbursements, improve cash flow, reduce bank fees, and increase patient satisfaction.

Collections

The process of collecting from insurance companies (payers) continues to be a major sore spot and source of inefficiency for most health systems. Some organizations have had limited success in migrating from paper EOBs and check payments, to an EDI 835 format with an associated ACH payment in place of a check. However, for many, the process remains manual and highly paper-intensive. On the patient side, collecting co-payments and deductibles for service continues to challenge many healthcare systems.

Disjointed technology, processes and practices further challenge the efficiency of organizations. Acquisitive health systems often end up managing collections through a patchwork of multiple revenue systems, departments and processes.

While Revenue Management is usually the driver in moving payers to an electronic remittance process, Treasury can be instrumental in reviewing banking options that support conversion of paper EOBs to electronic files. Treasury can help accelerate collections by ensuring that patient billing systems are supported by the proper banking services and that they integrate well to enhance straight-through processing. Working together, both groups can push for well-integrated, single-instance financial platforms.

Treasury can also create value around the patient refund process, where weak procedures often exist. Ineffective procedures relating to the patient refund process, collection of copayments, coding of service descriptions, and verification of patient insurance eligibility each have an impact on the refund process. Many health systems have the potential to make improvements in this area, with opportunities for ongoing savings in excess of $250K per year.

Many health systems have the opportunity to achieve ongoing savings of $250,000 per year in Collections.

An important aspect of improving patient satisfaction is found by empowering patients to view their bills and make payments online. However, approximately 25% of healthcare systems do not have a system-wide web portal for patients to access statements and make payments. As the population becomes more comfortable with web payments and as technology choices increase and improve, such as the use of smartphones and tablets, the demand for online services will increase.

Over time, the patient check payment/lockbox model will increasingly migrate to a card payment/web portal model. Systems that have not already taken steps in this direction need to revisit these tools and processes now.

Hand-in-hand with the growing emphasis on providing patients online bill payment options, nearly all hospitals are seeing an increase in the volume of credit and debit card payments received, and in the related fees. In the most effective health systems, Treasury and the Revenue Cycle Management functions work together to manage merchant card processor relationships, improve controls, drive efficiency and create cost savings.

Health systems can realize six-figure savings by partnering with the appropriate merchant card processor, applying best practices, and continually monitoring the full cost of their card processing.

However, card payments do present data and privacy concerns for healthcare systems. Effective controls need to be established to ensure proper compliance with PCI standards and HIPAA privacy rules. These controls must be built into systems and processes. Non-compliance can be extremely costly for an organization, in the form of penalties and additional security reviews (for organizations that have experienced security breaches).

Conducting regular procedural reviews can save an organization in excess of $250K and enhance efficiencies and controls.

Disbursements

Checks are the primary method of vendor payments in most healthcare systems. They are also typically more costly than purchasing card (P-Card) and ACH. Treasury can be instrumental in moving payments to these channels. The typical treasury department has access to financial, banking and vendor resources that offer experience, expertise and technology, and an understanding of how best to migrate vendors away from checks. Additionally, the rebates awarded for P-Card provide a compelling case to implement and promote an organization-wide program. On average, card rebates represent 1% of spend, which for example, translates into a $500K rebate on a $50M card program.

Banking Service Improvements

Complete visibility to cash is required to optimize management of system-wide, short-term cash balances. Many health systems lack this visibility, while others do not have immediate access to cash, due to inefficient and costly banking structures. These issues often compound as organizations ramp up their consolidation efforts.

We find that roughly 50% of health systems that have grown through acquisition fail to update their banking structures to leverage post-acquisition savings opportunities. This results in numerous challenges and inefficiencies, including:

- Ineffective system-wide cash concentration
- Redundant bank accounts
- Redundant banking services
- Underutilized excess cash
- Inefficient borrowing decisions

By consolidating account structures and rebidding banking services, Treasury Strategies' healthcare clients have achieved annual savings of $100K to $600K.

There are substantial opportunities associated with developing and implementing an efficient banking structure. Many of Treasury Strategies' healthcare clients have experienced savings of $100K to $600K annually by consolidating their account structures and rebidding banking services. The most significant driver of these savings is the improved pricing, gained through leveraging the higher post-acquisition transaction volumes.

Technology Enhancement

Too often, healthcare systems rely on spreadsheets to manage complex cash pools and liquidity. These organizations use a variety of bank platforms for payment execution. Financial risk management also relies heavily on spreadsheets as well as external investment and debt advisory firms. By automating manual processes, in-sourcing some financial risk management activities and controlling risks inherent to spreadsheets, treasury departments can create significant value and savings for their health systems.

Health system treasury functions no longer need a large capital expenditure budget to recognize this opportunity. Treasury technology vendors now offer subscription-based pricing with multiple deployment options, which greatly reduces the IT burden. Also, using sophisticated technology can operationalize these activities:

- Increase visibility to systemwide cash
- Automate short-term, in-house cash pools with interest expense and income allocations
- Analyze, benchmark and reduce bank fees
- Streamline bank connectivity and access to banking services across the system
- Improve organization integration through a central treasury system to distribute bank statements and internal cash and transaction reporting
- Generate valuations for financial derivatives
- Automate accounting for debt, investments and derivatives

Many clients are realizing hard dollar savings by implementing treasury technology. Often, these savings can offset a portion of the cost. In some cases, total labor benefits of $190k can be achieved – based upon a 30% improvement in process and efficiency from Treasury staff, and an assumption of 75% of treasury personnel time being spent on manual process tasks.

Treasury technology also offers additional qualitative benefits in the form of greater control, and time savings that enable treasury to focus on more strategic activities.

Short-term Investment Management

Short-term Cash Investment Practices

As a result of unlimited FDIC insurance and a near-zero interest rate environment, it's become common for organizations to hold excess cash in demand deposit accounts. However, the unlimited insurance is currently scheduled to expire on December 31, 2012. At that time, FDIC coverage may revert to a maximum of $250K for non-interest-bearing accounts.

Beginning in 2013, two questions will have to be answered before investing excess cash:

1. Is a bank the best choice for investing our excess cash?
2. What are the credit risk and counterparty risk implications for each financial institution where we might deposit excess cash?

Liquidity Management

Effective liquidity management is critical for healthcare organizations, especially those in acquisition mode. Treasury is responsible for ensuring that funds are available to support the organization's operations and objectives. This task requires treasury to consider many issues:

- Are the System's excess funds invested in safe and liquid securities?
- Do we have the right level of visibility into our future cash needs?
- Does the organization have adequate credit lines with viable counterparties?
- Do proper controls exist to safeguard the organization's financial assets?

Surprisingly, Treasury Strategies has found that many healthcare entities do not properly assess their liquidity management policies and controls. We have also observed:

- Approximately 25% of healthcare organizations do not have an investment policy that was approved by the Board of Directors
- Of those health systems with an investment policy, 70% have not updated that policy to reflect the post-financial crisis risk and investment environment.
- Many organizations have ineffective counterparty risk processes. This trend is especially alarming in light of recent regulatory changes, economic challenges, and credit rating downgrades in the banking sector.

Cash forecasting is the radar screen of the liquidity management process. Yet, over 70% of healthcare systems do not forecast operating cash levels. Among those that do forecast, a high percentage fail to perform effective variance analysis – a necessary task, essential for improving forecasting accuracy over time.

Policy Improvements

Like all organizations, it's crucial for the treasury departments of healthcare systems to adopt robust policies and maintain well-documented procedures. These policies and procedures define authority, set organizational direction and guide personnel on how to execute daily responsibilities.

While many healthcare treasury departments have treasury policies, often we find they are not current. In a stable business environment, this situation would be less troubling. However, in the present dynamic, risk, economic and regulatory environment, outdated policies can be a serious problem. Effective policies help to align the processes, practices and controls of all system entities. This is especially true in rapidly growing organizations. Inconsistent policies can produce confusion, conflict and may lead to decisions that are misaligned with management and organizational objectives.

Best-in-class organizations routinely examine policies and business procedures to ensure they are current and effective.

Action Plan for Healthcare Providers

Through our extensive work with healthcare providers, Treasury Strategies has developed strong tactics and strategies that have helped our clients realize material financial benefits – even in the currently challenging regulatory, economic and risk environment. **As an immediate *next step, we can help you*** achieve peak performance and take full advantage of financial opportunities in the following areas:

1. Conduct a full and comprehensive diagnostic review of the treasury function. This review identifies opportunities to improve and optimize performance within your treasury structure (organization and staffing), banking, liquidity management, revenue cycle management, payment processes, technology, controls and reporting. For organizations involved in M&A, a diagnostic review would also assess opportunities for integrating and consolidating.

   From this diagnostic review, Treasury Strategies will help you:

   - Create a detailed integration roadmap for treasury that addresses the specific steps and sequencing to implement enhancements.
   - Plan and implement the necessary steps to achieve your goals.

   Potential savings usually range between $500K and $1M

2. Determine the full financial costs of current collection and disbursement processes and payment channels.

   - Share the findings of this analysis with Revenue Cycle Management and disbursement personnel.
   - Develop a strategy and related policies to promote efficient, effective collection and disbursement activities. These should be the most cost-effective strategies that align with group objectives.

   Average savings between $50K and $800K

3. Evaluate current banking and merchant card structures, services and fees.

   - Determine whether the current banking structure is streamlined, efficient and cost-effective.
   - Determine whether banking and merchant fees are within market ranges.
   - Confirm that you have the right banks and services, and ensure access to:
     - The latest and most effective bank-related technology
     - The best services to improve and support efficient payment and collection activities
     - Proper access to bank-related control tools, services and support
     - Proper visibility of balances and transactions
     - Adequate technical and service support

   Potential savings between $200K and $500K.

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