Healthcare

# Revenue Cycle Management: Market Dynamics & Opportunities in a Changing Healthcare Ecosystem

Sourcing revenue cycle management can help healthcare insurers overcome growing reimbursement complexities. Yet providers say managing dozens of RCM vendors comes with its own complications. That's why they're increasingly sourcing comprehensive RCM solutions with a single vendor to generate greater efficiencies, reduce costs and improve patient satisfaction.

## Executive Summary

Hospital and health system chief financial officers (CFOs) are responsible for maintaining the financial well-being of their organizations in a constantly evolving healthcare ecosystem. Effective revenue cycle management (RCM) is a core component of that fiscal responsibility.

To identify and understand trends, obstacles and opportunities within RCM, Leavitt Partners interviewed CFOs and fiduciaries across the U.S. about their RCM processes, challenges and best practices.

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The findings suggest the changing healthcare landscape presents financial difficulties to those responsible for the revenue cycle (see Methodology on page 9). This has driven many industry stakeholders to adapt by sourcing a growing portion of the revenue cycle to third-party vendors, which presents both challenges and opportunities.

Among the most significant hurdles of this approach is working with multiple third-party vendors. Managing multiple vendors introduces a heavier administrative burden, the potential for diminished control over the quality of customer services and, in some cases, reduced collection rates. Consolidating these third-party vendor relationships presents several opportunities, such as reducing administrative overhead, improving patient satisfaction and increasing collection rates.

As more hospitals and health systems seek to consolidate RCM vendors, end-to-end, one-stop-shop RCM solutions are becoming more prevalent and attractive to many revenue cycle managers.

## Market forces & RCM obstacles

Rising U.S. healthcare costs are pushing industry stakeholders, including payers and providers, to adapt by embracing value-based reimbursement structures, increasing-risk sharing and implementing cost controls. These moves, among other market dynamics, pose significant difficulties to hospitals' and health systems' revenue cycles.

Market forces are shrinking already slim provider profit margins, driving provider consolidation and forcing organizations to move some revenue cycle functions to third-party partners. CFOs and other RCM managers are seeking additional avenues for increased efficiency within the revenue cycle amid the increased prevalence of high-deductible health plans, declining reimbursement, a demand for greater price transparency and payer consolidation.

In 2017, more than 40% of Americans with private health insurance coverage had high-deductible health plans (HDHPs), an increase from 26% in 2011.[1] To contain costs, many employers have turned to HDHPs, requiring members to pay higher deductibles up front before the plan begins to reimburse for non-preventive services.[2]

HDHPs, however, present challenges to healthcare administrators. Interviews with hospital and health system CFOs revealed that as more and more patients are less able to afford these higher out-of-pocket health care expenses, the "odds of collecting [payment] drop significantly."[3] This is a concern to many hospital system CFOs. One told us: "A few years ago, almost all write-offs were because of patients with no insurance; that is not the case now."

### The rise of HDHP

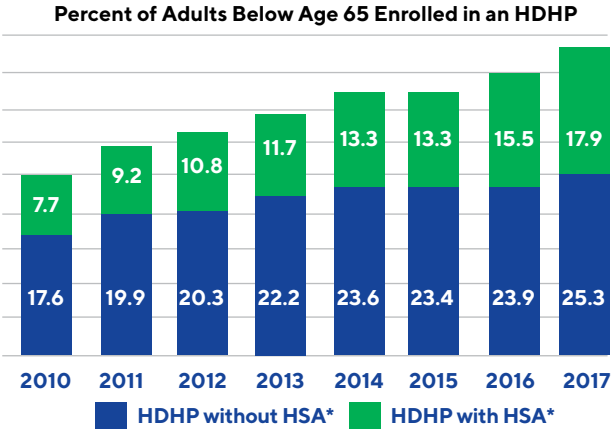


Figure 1

One of the main purposes of HDHPs is to increase an enrollee's "skin in the game" – ideally, incentivizing them to be better-informed consumers and make more cost-conscious choices. HDHPs are attractive to certain enrollees because of the lower premium contributions that typically accompany these plans. But what is saved in premium contributions is lost when care is sought. As a result, these members are often unable to afford the higher out-of-pocket cost of services, resulting in unpaid provider bills. In fact, a recent Federal Reserve Board survey reported that 44% of adult Americans are "unable to come up with $400 in an emergency without turning to credit cards, family and friends, or selling off possessions."[4]

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As payment becomes more difficult to collect, both from patients and insurers, the likelihood of care being uncompensated (or needing to be written off) increases, which was a major concern voiced by CFO interviewees.

## Shrinking reimbursement rates & increased denials

Declining reimbursement for hospital services and payers denying an increased portion of submitted claims are also significant challenges for provider systems. As payers construct stricter criteria for claims submission and payment processes, providers face more imposing obstacles to receiving reimbursement for delivered services.[5] In 2017, hospitals wrote off 90% more denials than in 2011.[6] Interviews revealed that while some provider systems may feel they are performing well time-wise (e.g., by monitoring accounts receivable days), they "struggle collecting everything they should be."[7]

## Reimbursement tied to patient satisfaction

Reimbursement is increasingly tied to patient satisfaction. For example, the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey score is directly tied to Medicare reimbursement adjustments, with 50% of the survey score based on the level of patient satisfaction.[8] As such, the ability of revenue cycle management to provide accurate and timely pricing estimates to patients, or to design patient-friendly billing, on-line bill-pay, etc., could affect how much hospitals are able to collect.

Patient satisfaction directly affects the revenue cycle, both through an improved patient-provider system interface facilitating the ease of billing and collection, and through HCAHPS scores tied to reimbursement.[9]

## Growing payer consolidation

As payer organizations consolidate, patients and employers may face higher premiums and an increased financial burden, respectively, causing providers to face added complexity and difficulty managing the revenue cycle.[10] For example, in recent years the combined market share of the four largest payers, Aetna, Blue Cross Blue Shield (BCBS), Cigna and United HealthCare, has grown from 74% to 83%.[11]

This diminishes provider systems' negotiating leverage to address claims denials, shrinks reimbursement and expands the portion of the revenue cycle that faces patients. As payment becomes more difficult to collect, both from patients and insurers, the likelihood of care being uncompensated (or needing to be written off) increases, which was a major concern voiced by CFO interviewees.[12]

## Consolidating legacy systems

Recent merger and acquisition activity in the provider space has featured the consolidation of major legacy health systems, such as the Denver-based Catholic Health Initiatives (CHI) and San Francisco-based Dignity Health, among many others.[13] In health system mergers, both provider entities have likely invested time and capital into bolstering their RCM. The merger forces the entities to explore how best to combine their RCM resources into a more efficient model, which can prove difficult.[14]

## Provider revenue cycle sourcing

| Pre-claim | Patient access | Pre-billing | Claims | Account resolution | Financial management |
|---|---|---|---|---|---|
| • EDI enrollment<br>• Banking setup<br>• Fee schedule<br>• Provider credentialling<br>• Charge description master setup<br>• Physician startup | • Scheduling/Pre-registration<br>• Eligibility/Benefit verification<br>• Referral/Author-ization verification<br>• Financial clearance | • Clinical documentation improvement<br>• Coding and charge capture<br>• Charge audit/ Compliance<br>• Claim scrubbing<br>• Pre-adjudication | • EDI management<br>• Claim submission<br>• Workers' compensation<br>• Third party liability<br>• Mail processing<br>• Payment posting | • Claim status<br>• Payer follow-up<br>• Self-pay follow-up<br>• Denials management<br>• Appeals and resolutions | • AR performance/ Cash collections<br>• Denials analysis<br>• Charge description<br>• Audit/Recovery |

Figure 2

### Prevalence of sourced solutions

Interviews confirmed the decision to outsource RCM is widespread among hospital systems, with one interviewee describing sourced RCM as a "fait accompli." If the decision to source segments of the revenue cycle has not already been made by health systems, it must be made soon for healthcare organizations to remain financially viable, interviewees told us.[15]

Today, a majority of provider systems source segments of their revenue cycle and are seeking full revenue management sourcing. Figure 2 lists examples of where providers source entire segments of their revenue cycle.

### Status of current hospital-vendor relationships

With the trending prevalence of outsourced RCM, frequently a single hospital or health system will work with many third-party vendors to manage front-, middle- and back-office tasks of the revenue cycle. One health system in the southwestern U.S. indicated it currently works with nine or 10 vendors and is considering six to seven more. In many instances, interviewees admitted that working with fewer vendors would be preferable.[16]

## Growing RCM opportunities

As the healthcare ecosystem continues to evolve, hospital and health system revenue cycle managers need to quickly adapt to market trends and obstacles by recognizing opportunities to improve efficiency, patient satisfaction and the overall financial health of their organizations. To address these issues, we sought input on how vendor consolidation provides opportunities for potential cost savings, greater patient satisfaction and improved efficiency.

## Provider demand for RCM vendor consolidation

| Recent RCM M&A Activity | | |
|---|---|---|
| Medfusion | NexSched | February 2017 |
| HCI Group | Tech Mahindra | March 2017 |
| McKesson | CoverMyMeds | April 2017 |
| Athenahealth | Praxify | June 2017 |
| eSolutions | RemitDATA | August 2017 |
| Allscripts | NantHealth | August 2017 |
| Allscripts | McKesson | August 2017 |
| ZireMed | Navicure | November 2017 |
| Optum360 | The Advisory Board | November 2017 |
| R1 RCM | Intermedix | February 2018 |
| Cognizant | Bolder Healthcare Solutions | April 2018 |

Figure 3

Source: HealthcareITNews 2017

Managing multiple RCM vendor relationships can be inefficient, time-consuming and difficult. A 2018-Dimensional Insight and Healthcare Information and Management Systems Society (HIMSS) Analytics survey indicated that 69% of healthcare organizations use more than one vendor solution for revenue cycle management. The survey also indicated that health systems that use multiple RCM solutions were more likely to report larger claim denials management problems due to lack of coordination.[17]

Most respondents confirmed the difficulty associated with dealing with multiple vendors. Those managing a greater number of vendors described the process, which includes scouting, maintaining relationships and reporting with multiple vendors, as "exhausting."[18] The inefficiencies and administrative burden of managing multiple vendors have motivated many hospitals and health systems to consolidate the number of RCM vendors with whom they contract.

In some interviews, however, CFOs expressed a reluctance to source segments of their RCM due to the potential for misaligned interests between the vendor and the hospital system, as well as concern for how well the vendor would represent the hospital's brand. One interviewee stated: "Data access and information around performance is not up to standard when we outsource. The accounts that are hard to collect don't get nearly the attention that they deserve. They kind of focus on the low hanging fruit, the harder dollars get left behind. And frankly the cost is higher for us."[19] These sentiments suggest that thorough due diligence during vendor selection and ongoing stages of implementation should be given priority to ensure aligned expectations and performance.

In some cases, hospitals and health systems already work with fewer vendors and only source select parts of RCM. Such providers are less interested in sourcing their entire revenue cycle to a single vendor and have less of a compelling business case to do so. One CFO interviewee suggested that in their conversations with the system's central budget office on ways to balance in-house versus sourced revenue cycle functions, they "can get a better performance [from their own] employees."[20]

While some interviews expressed similar sentiments, other feedback suggests a majority of providers are seeking ways to outsource the entirety of their revenue cycle management process to focus on the core business of providing health care services.[21] Furthermore, the widespread push to consolidate RCM vendors suggests that health systems are beginning to become aware of the potential for increased efficiency through an "end-to-end" RCM platform.

Like the provider market environment, the RCM vendor industry is consolidating. In January 2018, R1 acquired Intermedix for $460 million to round out its RCM capabilities. Figure 3, previous page, lists major RCM mergers and acquisitions from 2017-2018.

Many of these mergers and acquisitions are motivated by a desire to enhance the menu of RCM capabilities offered on a single platform, with the goal to become a single solution for all RCM needs, though not necessarily running the entire business office.

## Opportunities for cost saving & improved efficiencies under consolidated vendor model

A "one-stop-shop" vendor model has the potential to generate greater efficiency in the RCM process. Opportunities for greater efficiency include reduced administrative overhead and vendor management time, the creation and implementation of best practices, improved revenue collection rates, optimized accounts receivable days outstanding, and increased patient satisfaction leading to reductions in downside penalties, as well as rewards for achieving higher ratings.

### Reduced administrative overhead

While interviewees generally indicated that improving administrative efficiency is a priority, some expressed greater urgency than others to make administrative adjustments. In the words of one respondent, "[our] RCM [department] is more in the business of vendor management than it is in revenue cycle ... there are just so many players at the table and that's not sustainable ... and so there's going to be a change."[22] Another respondent compared managing multiple RCM vendors to the game "Whack-a-Mole" to illustrate the difficulty of keeping all RCM systems running simultaneously at "best practice" levels.[23]

Under a consolidated vendor model, hospital systems could streamline various processes throughout the revenue cycle, reducing handoffs of stale information, accelerating processes faster than a predefined milestone protocol or file schedule, and ultimately reducing accounts receivable days.

### Improved revenue collection rates

Provider systems are becoming aware that sourcing RCM functions to a single consolidated vendor can increase efficiency. Furthermore, RCM consolidation trends and the growing number of RCM vendors seeking to offer robust "end-to-end" RCM solutions suggest the potential for improved revenue collection rates.

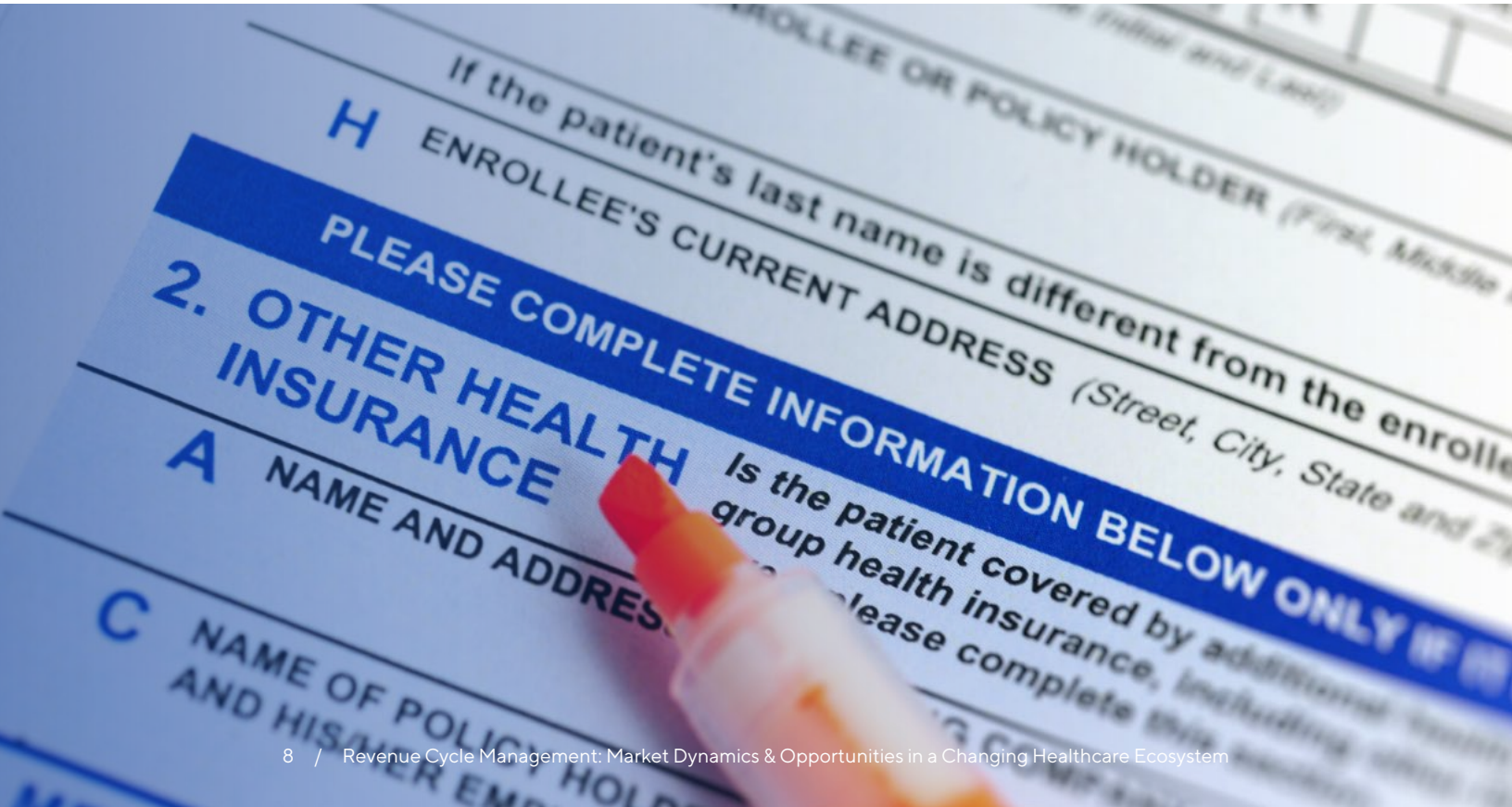
One intelligence interviewee estimated that if their health system consolidated from multiple vendors to a single vendor and was operating at best practice levels, "revenue could increase by 5% or more ... and [they] could easily cut 20% of [their] costs in the revenue cycle area."[24]

By using an integrated RCM solutions provider, the hospitals and health systems can provide patients with a single consistent touchpoint to help reduce errors, reduce the communication lag to payers and to patients, and ultimately accelerate cash flow.

## Enhanced Patient Satisfaction

In the RCM process, when patients are passed from one vendor to another, they are exposed to varying organizational cultures (e.g., call center priorities, business strategies, level of understanding, etc.), raising the potential for a less than ideal patient experience. Managing multiple vendor relationships can further complicate the RCM process by increasing the likelihood of data errors and overlap. Additionally, managing multiple vendors sometimes creates delays in some RCM functions, which can prevent timely financial interactions.[25]

By using an integrated RCM solutions provider, the hospitals and health systems can provide patients with a single consistent touchpoint to help reduce errors, reduce the communication lag to payers and to patients, and ultimately accelerate cash flow. These enhancements factor into improved patient satisfaction and can lead to potential reductions in downside penalties from HCAHPS score reimbursement adjustments.[26]



## Looking forward

The U.S. healthcare system will likely continue to evolve in ways that significantly affect the revenue cycle of hospitals and health systems. Several challenges have contributed to decreasing already slim provider system profit margins, including the prevalence of HDHPs, shrinking reimbursements, increased claim denials, reimbursement being increasingly tied to patient satisfaction, a demand for greater price transparency and payer consolidation.

As these market forces pressure provider systems' financial health, RCM managers have increasingly sought sourced revenue cycle solutions. In many instances, however, the abundance of revenue cycle vendor relationships creates undesired inefficiencies and administrative burden, which has caused CFOs to seek consolidated vendor solutions.

Interviews with hospital and health system CFOs and RCM managers found interest among provider systems for the simplicity and efficiency afforded by consolidated vendor models. Furthermore, provider systems have begun to contract with full, end-to-end RCM solutions due to their recognized potential to reduce administrative overhead, increase revenue collection rates and enhance patient satisfaction.

As a result, it seems reasonable that all provider organizations are looking at their RCM model with an eye toward greater efficiency. What's still to be determined is whether fully sourced RCM organizations will be more successful in the evolving healthcare ecosystem than their counterparts. What seems apparent is that a well-orchestrated RCM sourcing strategy could well give them a leg up.

### Methodology

The findings in this report are the culmination of both primary and secondary research carried out by Leavitt Partners, a health intelligence consulting firm founded by former Secretary of Health, Governor Mike Leavitt. Primary research featured a series of seven, 60-minute interviews with key executive decision-makers at influential hospitals and health systems throughout the U.S. in July and August 2018. Interviewees included chief financial officers, other fiduciaries, etc. Secondary sources informing issue brief findings have been cited throughout the document.

# Endnotes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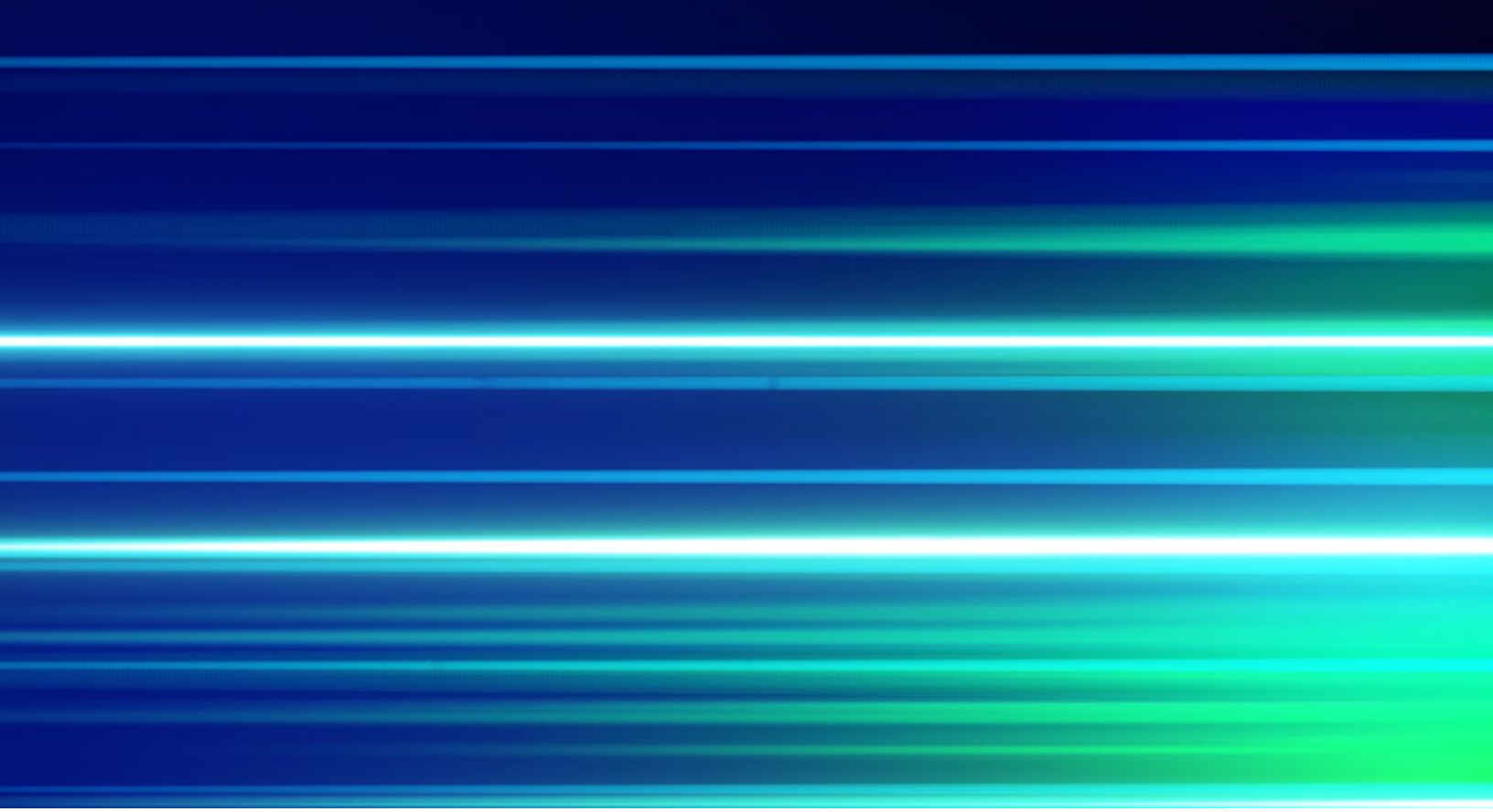

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