

Two Sides of the Coin: The Good and the Bad of Community Hospital Finances

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Anthelio Healthcare Solutions and Community Hospital 100 released a survey in October that broke down the financial health of community hospitals. Sixty community hospitals that have less than 300 beds responded, and the survey found several different results on their operating margins, days cash on hand and ICD-10 implementation.

So what does it all mean? Rick Kneipper, co-founder and chief strategy and innovation officer of Anthelio, says the survey is the quintessence of the phrase "two sides of a coin." Here, he interprets the good and the bad of the survey's results and what it means for the future health of community hospitals.

Operating margins

The good: Roughly 23 percent of respondents said they have an operating margin, excluding investment income, of 4 percent or higher. Mr. Kneipper says a 4 percent operating margin is very strong for any hospital in today's market, let alone for the community hospital genre that many figure could be in the red. "I was surprised how many were in the 4-percent-and-plus category, and that's a good thing," Mr. Kneipper says. "There are some [community hospitals] that have figured how to survive in a horribly adverse environment."

The bad: There are still quite a few community hospitals that said their operating margins are slim or nonexistent. About 49 percent of community hospitals reported they have an operating margin less than 2 percent, and 22 percent said they currently have negative operating margins. Mr. Kneipper notes that community hospitals running thin or negative profit margins may want to look at other colleagues in the field to see how they can improve their fiscal heartbeat.

Medicare and Medicaid reimbursement

The good: Medicare and Medicaid reimbursements have been trending downward for a long time now, so it may seem like a stretch to consider any decrease as a "good" thing. However, 50 percent of the community hospitals surveyed endured a decrease in revenues of less than \$3 million from federal and state cuts to Medicare and Medicaid.

The bad: On the flip side, 50 percent of community hospitals have endured a decrease in revenues of more than \$3 million, with 14 of that percent having reductions more than \$10 million. Mr. Kneipper notes that the size of the decrease in reimbursements was most likely due to the size of the hospital, but those are still major reductions for hospitals that impact a "significant" amount of care within the United States. "Community hospital operations have been based upon the assumed revenue structure that no longer exists," Mr. Kneipper says. "Hospitals need to restructure, reengineer and reconfigure what they're doing and change the business model."

Days cash on hand

The good: The large drop-offs in Medicare and Medicaid reimbursements might indicate fewer days cash on hand, but Mr. Kneipper was surprised to see some encouraging results. Approximately 67 percent of respondents said they have more than 80 days cash on hand. Community hospitals typically run closer to their margins, and for nearly two-thirds of respondents to indicate they have almost three months cash on hand is a positive sign. "To get an investment grade rating [from rating agencies], the ideal number is in the neighborhood of 160 days cash on hand for an A rating from Moody's, but most community hospitals aren't going to be investment grade," Mr. Kneipper says. "With 80 days, that is still enough you can survive some downturns and deal with the loss of reimbursement."

The bad: Community hospitals that dip below two months cash on hand are in a bigger predicament, though. Twelve percent of community hospitals surveyed have less than 30 days cash on hand, and that's a range that should cause hospitals serious concern. "If you're down to a month or two, you really have very little room for error," Mr. Kneipper says. "These are complex organizations that can't turn on a dime."

ICD-10 implementation

The good: When it comes to health IT, many hospitals are geared toward transitioning to electronic medical records. Roughly 92 percent of the community hospitals surveyed have at least started the acquisition and implementation of EMRs. However, ICD-10 is sometimes lost in the shuffle of health IT, which is now less than two years away from the Oct. 1, 2013, "go-live" date. Roughly 95 percent of community hospital respondents have at least started the process, which includes setting up a steering/planning committee or undergoing an ICD-10 readiness assessment.

The bad: Of that 95 percent that have started the ICD-10 journey, only 24 percent are undergoing remediation, and not one surveyed community hospital has completed the conversion. Mr. Kneipper says the assessment, remediation and testing aspects of ICD-10 take a lot of time, and a failure to remedy the situation in a timely manner is only going to hurt the community hospital's already fragile bottom line. "What I think a lot of CFOs are missing about ICD-10 — this is all about cash flow," he says. "If you aren't ready from day one, you're going to have a lag in reimbursements, and that's a little scarier."

"There's still time," Mr. Kneipper adds. "But most people are thinking [implementation] is a matter of months, and it's not."

The future

Mr. Kneipper, an inveterate optimist, thinks community hospitals are doing surprisingly well considering how badly they are getting hit with reimbursement reductions, cost increases and mandated changes such as meaningful use and ICD-10. However, he says community hospitals have been under financial pressures for a long time now, and now it appears there is little relief in sight. "Community and rural hospitals are the core of healthcare in this country," Mr. Kneipper says. "They must restructure themselves, or they [will] go out of business. Some can't be all things to all people anymore."