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The Financial Impact of Readmissions
Part 2: Lessons from the Field

A STAAR Initiative Webinar

May 24, 2010

Agenda

- Brief review of the previous webinar — Amy Boutwell
- Mercy HealthPartners — Margie Namie
- University of Massachusetts Memorial Hospital — Rose Rotty
- Lessons from other hospitals — Marian Johnson
  - Integrated Delivery System
  - Community Hospital
- Lessons from other hospitals — Barbara Balik
  - Large Academic Medical Center
- Open Discussion — Barbara Balik

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Why do this analysis?

- Myths and back of the envelope calculations
  - "We stand to lose millions…" when Medicare stops paying….
  - "Readmissions are already a financial loser for hospitals…"
  - "Medicare doesn't pay for readmissions…"
  - "Hospitals will be able to replace low acuity readmissions with higher acuity admissions…"

Add data and dollar signs to conventional wisdom

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Why do this analysis?

- Cautionary tales from successful efforts in the past
  - Research efforts stopped after grant funding expired
  - Pilot programs ceased after start up funds spent
  - Cost-effective hospital based programs discontinued due to financial impact on hospital bottom-line
    - Both the invested human resources invested to provide better service AND
    - Reduced volume
- We work in an uncertain economic climate
  - A CFO noted that "when we hit our next financial rough spot, I know what FTEs I'll be looking to reduce."

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Approach

1. Asked voluntary hospital finance leaders if they had performed this analysis and if it would be informative for them
2. Hospital finance leader partnered with a clinical leader to look at one patient's story in detail
   Personal, clinical and financial story
3. Financial leader analyzed revenue, expenses, and margin associated with the entire experience
   Identified unique factors for the hospital – payment types, capacity constraints, allocation of overhead, efforts to lower overhead, readmissions initiatives, etc.
4. Conducted1 -2 interviews to:
   1. Understand the process used
   2. Hear the lessons learned
   3. Test questions and challenges to the analysis until participants were confident in their process and findings; use it with their colleagues
5. STAAR faculty compiled lessons into case studies and drafted the roadmap tool

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Interview Questions

- What percentage of your daily inpatient census is 30 day all cause readmissions?
- What types of patients are in observation status?
- What financial variables do you look at when examining the impact of readmissions?
  - Revenue, expenses, direct and indirect costs, variable and fixed costs, etc?
- What is the average **direct** and **total** margin per patient?
- How does your organization allocate indirect costs?
- If your hospital were to reduce readmissions (30%, 50%), which costs could be influenced and which would remain fixed?
- Is there excess demand in your hospital service area? Would your organization be able to backfill these beds if readmits were reduced?

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STAAR Financial Impact Analysis Roadmap

1. Calculate the all-cause 30 day readmission rate for the hospital and the percentage of the average daily census due to readmitted patients.
2. Partner Financial Lead with Clinical Lead and review the personal, clinical, and financial story of one (or more) recently readmitted patient(s).
   - Calculate revenue, expenses, and margin.
   - Analyze clinical/operational insights from this story.
3. Conduct a financial analysis on a sample set of readmissions for a select time period (1 month, 12 months, etc).
   - Analyze characteristics of this sample set (payer mix, LOS, conditions, outliers, etc)
   - What is the average direct and total margin per readmitted patient in this sample?
4. What financial variables does your hospital consider when examining the impact of readmissions?
   - Revenue, expenses, direct costs, indirect costs, variable costs, fixed costs, etc.
   - How does your organization define direct, indirect, fixed and variable costs?
   - How does your organization allocate indirect costs?
5. How do readmissions to your hospital, *today,* influence your hospital's bottom line?
6. If you were to successfully reduce readmissions by 10%, 30%, 50%, which costs would be influenced and which costs would remain fixed?
7. What is your hospital's ability to influence (reduce) fixed costs? In the near and long term?
8. Is there latent demand in your hospital service area? Would you expect to keep volume stable if readmissions decreased? What would happen to ED visits? Observation stays?
9. What there anything that surprised you about this analysis?
10. Is there anything that your hospital will do differently as a result of this analysis?

- Marian, add Margie, Rose, Marian and Barbara slides here

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Key Observations

- Most costs associated with readmissions are fixed
- Hospitals have high fixed-cost structures
- Reducing readmissions require re-thinking fixed cost reductions
- Reducing readmissions requires incorporating this quality goal into longer term financial and strategic planning discussions
- This analysis can help inform payment and policy conversations

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Framing the issue

- Most rehospitalizations are defects in care
- Reducing readmissions is possible
- Better care transitions is the right thing to do
- We need to understand the short-and-long term financial implications of reducing readmissions to support planning for success and avoid clashing priorities
- These insights can stimulate innovation in building the bridge to the future of high value, coordinated healthcare

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STate Action on
Avoidable
Rehospitalizations
An initiative of The Commonwealth Fund & the Institute for Healthcare Improvement

Discussion