

Navigating Financial Uncertainty:

Implications, Tactics and Survival Strategies for the Health Care Sector

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Where Have We Been?

Where Are We Today?

What Can We Do?

Next Steps

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Looking At History

“

While the crash only took place six months ago, I am

”

convinced we have now passed through the worst.

Wall Street's Correction



Four Sources of General Income for Health Plans and Providers

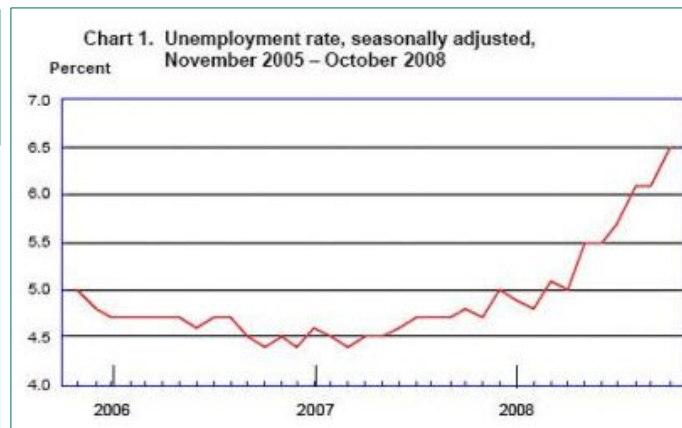
- Employers
- Consumers
- Medicare
- Medicaid

Employer Outlook Not Good

The Numbers:

Unemployment rates rose to 8.1% in February 2009

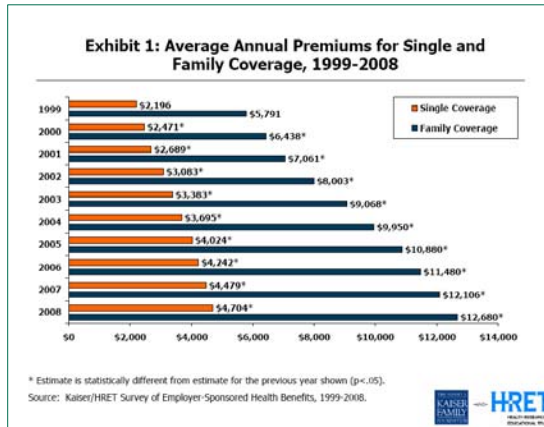
Highest unemployment rate in 25 years.



Consumers Paying More for Health

The Numbers:

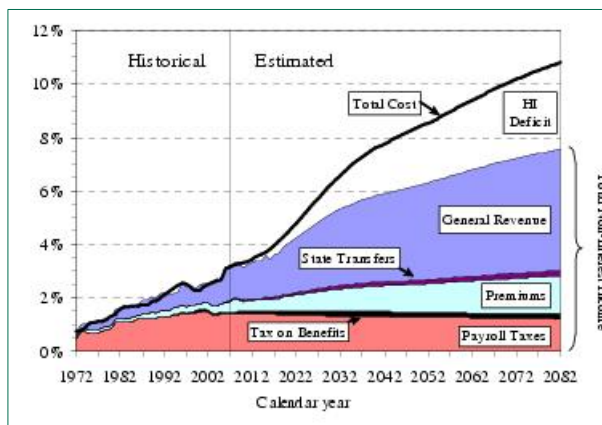
Percent of small firms with a deductible of \$1000 or more increased from 16% to 35% in 2008.



Medicare Deficit Looming

The Numbers:

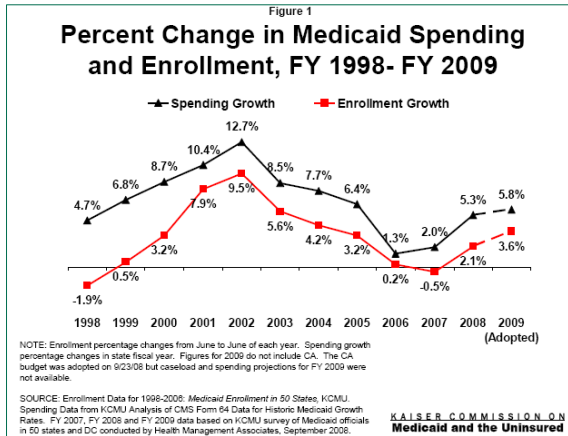
The Medicare Part A Hospital Insurance Fund will have insufficient funds to pay for full benefits beginning in 2019



Medicaid Expanded Before the Crisis

The Numbers:

In both FY 2008 and FY 2009, states made more Medicaid restorations, enhancements and expansions than cuts despite the change in the economy;



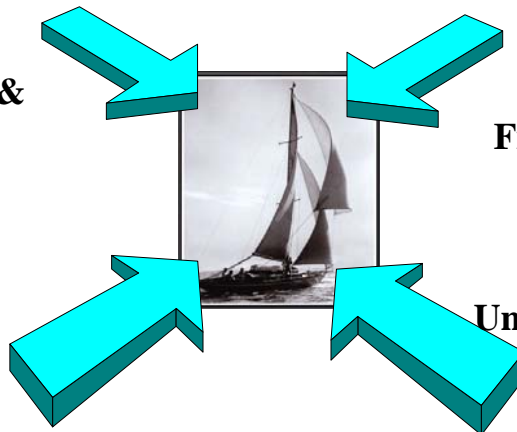
The Perfect Storm

**Less
3rd Party
Coverage &
Payment**

**Reduced
Patient
Ability to
Finance Their
Portion**

**Building
Economic
Pressures**

**Increased
Unemployment**



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Current Impact on Economy

1. Increasing unemployment
2. Fiscal squeeze for government
3. Continued credit crunch
4. Weakened business performance

Financial Impact on Providers and Payors

1. Investments have vaporized
2. Loans and lines of credit imperiled
3. Access to new capital challenging
4. Expect continued moderating financial performance for organization

Payor Impact of Wall Street's Wake

1. Publically traded health plans
2. Smaller plans
3. New plans
4. Self insured plans
5. Public payors
6. All payors

Provider Impact of Wall Street's Wake

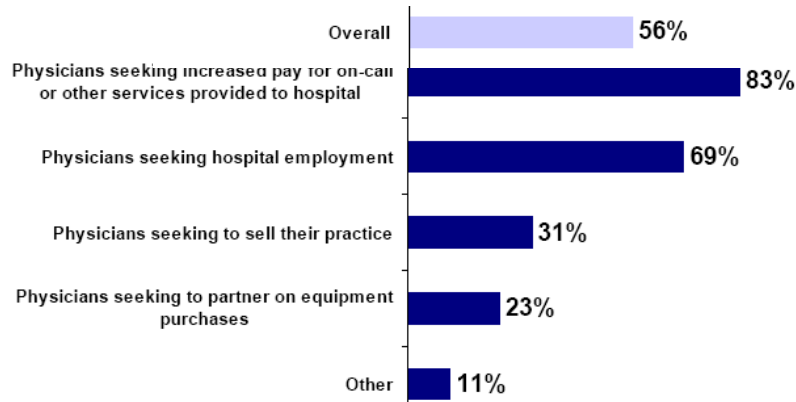
1. Cash flow affect
2. Income statement impact
 - a. Gross revenue
 - b. Net revenue
 - c. Expenses
3. Balance sheet

Physician Responses to Their Own Financial Uncertainties..

2007 Merritt Hawkins Survey:

49% of MDs age 51+ plan to make a change in their practice in the next 1-3 years:

More MDs Seeking Hospital Financial Support...



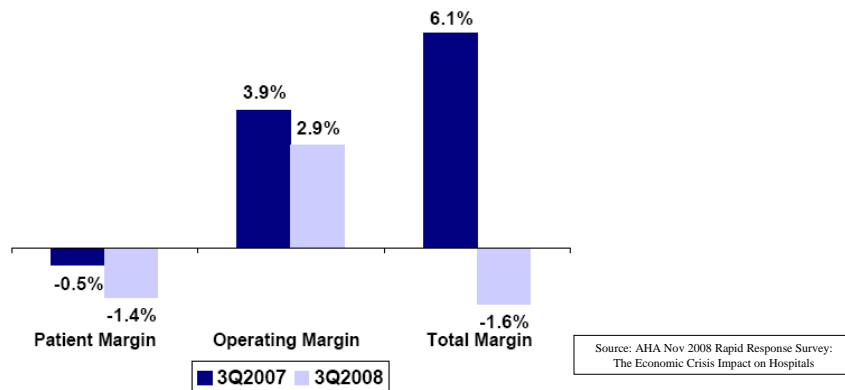
Source: The Economic Crisis: Initial Impact on Hospitals, AHA survey Nov 2008

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Hospital Operating Margins Were Falling Before this Fall's Economic Meltdown

Total, Operating and Patient Margins, 3rd Quarter 2007 vs. 3rd Quarter 2008



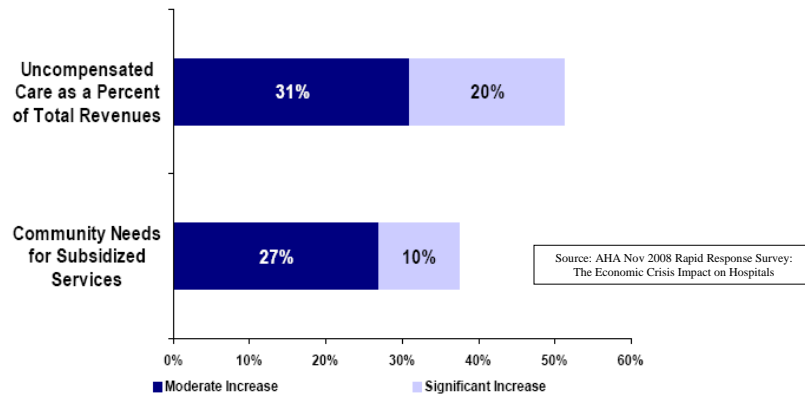
Source: AHA Nov 2008 Rapid Response Survey: The Economic Crisis Impact on Hospitals

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Hospitals Getting Squeezed

Percent of Hospitals Reporting a Moderate to Significant Increase in Uncompensated Care and Need for Subsidized Services in Past 3 Months Relative to Projected Levels, November 2008



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Four Key Financial Strategies: 1. Improve Your Balance Sheet Now

- Create Cash Reserves
- Improve Productivity
- Manage Receivables

Balance Sheet		
Assets		
Current assets:		
Cash and cash equivalents	\$	2,885
Accounts receivable—patients, net (note 2)		1,324
Accounts receivable—third party payors, net (note 2)		6,417
Inventories		1,330
Other assets		241
Assets classified as held for sale (note 3)		5,469
		17,666
Non-current assets:		
Investments		30
Goodwill, net		431
Other intangible assets		2,684
Investment property		-
Property, plant and equipment		9,088
		12,233
Total assets	\$	29,899

Four Key Financial Strategies: 2. Conduct Rolling Forecasts

- Reevaluate Utilization
- Anticipate Change In Mix Of Business
- Develop Several Scenarios

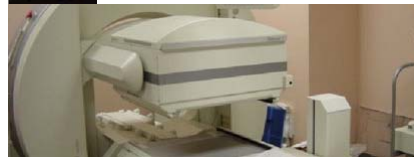
Bad..

Worse

Worst...

Four Key Financial Strategies: 3. Reevaluate Capital Projects

- Update The Business Case.
- Examine Alternative Funding Options



Four Key Financial Strategies: 4. Reassess Security Of Assets.

- Assure Credit Lines Not Vulnerable
- Review the Security of Investments
- Assure Internal Asset Control



Non-Financial Strategies for Payors and Providers

1. Go back to basics operationally
2. Don't forget the impact on your workforce
3. Diversify and consider new business opportunities

Payor Unique Opportunities

- Revisit ways to preserve cash
- Tighten up premium operations

Provider Unique Opportunities

- Accelerate collection at point of service
- Improve productivity
- Reevaluate utilization
- Monitor insurance payments

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The Perfect Storm: Plan Now for Your:



1. Banking Needs
2. Cash Requirements
3. Future Conditions
4. Operational Challenges

Ask Your Organization To Answer A Few Questions About Your Banks:

1. How much debt do we have and what are the financial requirements on us?
2. How secure is our bank and with it our operations with them (lock box, credit, access to funds...)?
3. What risk is there to our current investments and are we able to take the risk?

Ask Your Organization To Answer A Few Questions About Cash Position:

1. What assumptions should we make on volume and margin per case moving forward?
2. Will we have adequate cash from current sources to meet our expenses?
3. If we needed to payoff credit where would be able to wring out cash from the organization?

Ask Your Organization To Answer A Few Questions About Future Needs:

1. Are there capital projects we must stop or accelerate based on financial position?
2. How do changes in the market affect the business analysis conducted on future capital projects?
3. Are there diversification or consolidation opportunities to explore?

Ask Your Organization To Answer A Few Questions About Operations

1. What do we need to do to accelerate our revenue side of the operations?
2. What do we need to do to improve productivity? Is there an opportunity to increase throughput from existing limited resources?
3. If volume falls what options will we have to address this?

Some of the Lessons Learned for Times of Financial Uncertainty

1. Return= Risk
2. Cash matters
3. Diversification is important
4. Capital has a cost

The Perfect Storm: Get Ready Now



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1. Improve your balance sheet
2. Conduct rolling forecasts
3. Reevaluate capital projects
4. Reassess security of assets

Final Thought

“Strategies can be roughly right,
but execution must be perfect”

Anne Mulcahy,
CEO Xerox

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