

Leadership
Excellence Series
October 28, 2019

Building Financial IQ

*A Conversation with DoP
and CHP Finance Leaders*

Department of Pediatrics
Office of Faculty Development

Building an FIQ

Interviews with DDs, CDs and DAs revealed three core themes of “need to know more”

1

The revenue cycle

- How do we make revenue?

2

The P&L

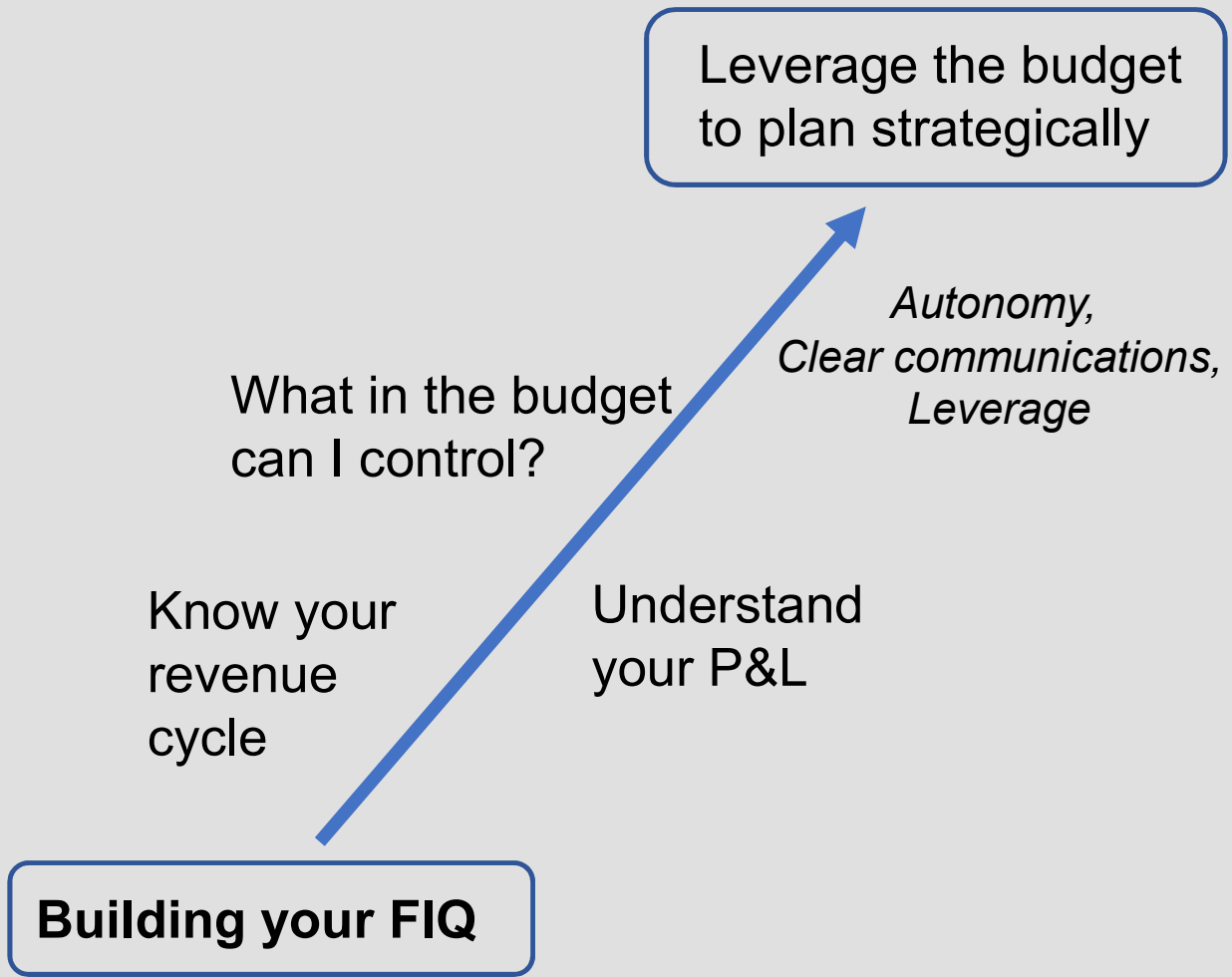
- Costs and expenses
- Buckets and line items

3

Controllable budget items

Building Financial IQ

*Road map for
our
conversation*



Format and our Finance Panel

- Nick Barcellona
- Hank Churilla
- Neil Karls

- Mario Wilfong
- Mike Comunale

Ground Rules

- Respectful listening
 - We all have different levels of FIQ
 - No question is too basic or simple
 - Parking lot
-
- We want you to share your experiences!

Finance IQ System relationships

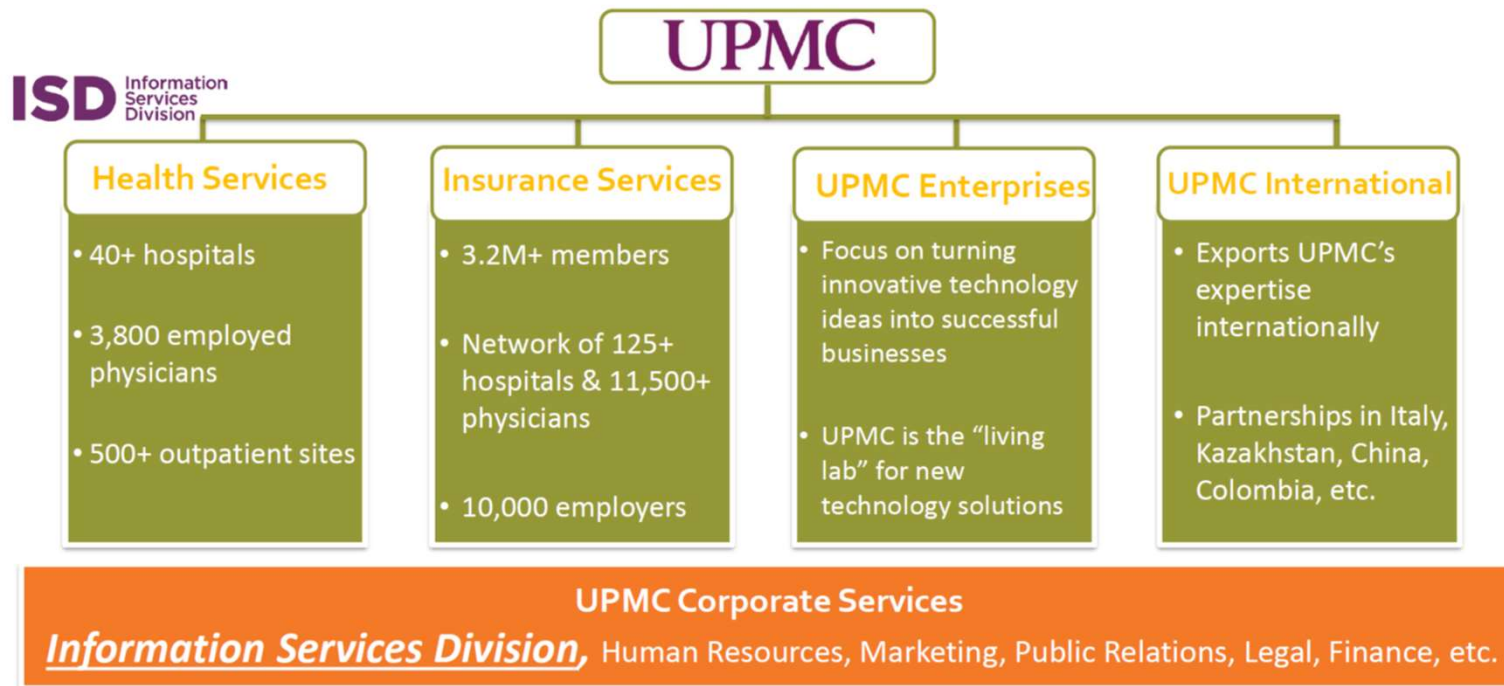
Nick Barcellona

- *Vice President of Operations*
- *Vice President of Pediatric and Academic Affairs*
- *Executive Administrator, DoP*

DoP, CHP, CHP Foundation, UPP, UPMC, UPSOM...

- How are these business entities related?
- How does the money flow?

Building Finance IQ – System interrelationships



Global Academic Integrated Delivery and Finance System

~80,000+ employees and \$15B+ Revenue

UPMC LIFE CHANGING MEDICINE

Building Finance IQ – System interrelationships

UPMC – Health Services Division

University of Pittsburgh – School of Medicine

Children’s Hospital of Pittsburgh Foundation

UPMC Pediatric Service Line

UPMC Children’s Hospital of Pittsburgh

Children’s Community Pediatrics

UPP Department of Pediatrics

Pennsylvania Pediatric Health Network (PPHN)

All Other UPP Subspecialty Departments (15)

Building Finance IQ – System interrelationships

All Other UPP Subspecialty Departments (15)

Anesthesiology	UPP05
Critical Care	UPP06
Neurosurgery	UPP11
Women's Health	UPP13
Ophthalmology	UPP14
Orthopaedics	UPP15
Otolaryngology	UPP16
Pathology	UPP17
PM&R	UPP19
Radiology	UPP21
Plastic Surgery	UPP24
Transplant	UPP23
General Surgery	UPP23
HVI	UPP35
Urology	UPP27
Pediatrics	UPP18

UPP Department of Pediatrics

Adolescent Medicine
Allergy
BMT
Cardiology
Child Advocacy
ED
Endocrinology/WMW
GAP / Turtle Creek
Gastroenterology
Genetics
Hem / Onc
ID
Neonatology
Nephrology
Neurology
Ped Hosp. Medicine
Pulmonology
Rheumatology

Building a Finance IQ:

Getting to strategic planning

#1 Know your revenue cycle

#2 Know your P&L

#3 Control what you can control

-> Plan strategically for your Division or Center

Finance IQ
Core theme 1:
*Revenue
cycle*

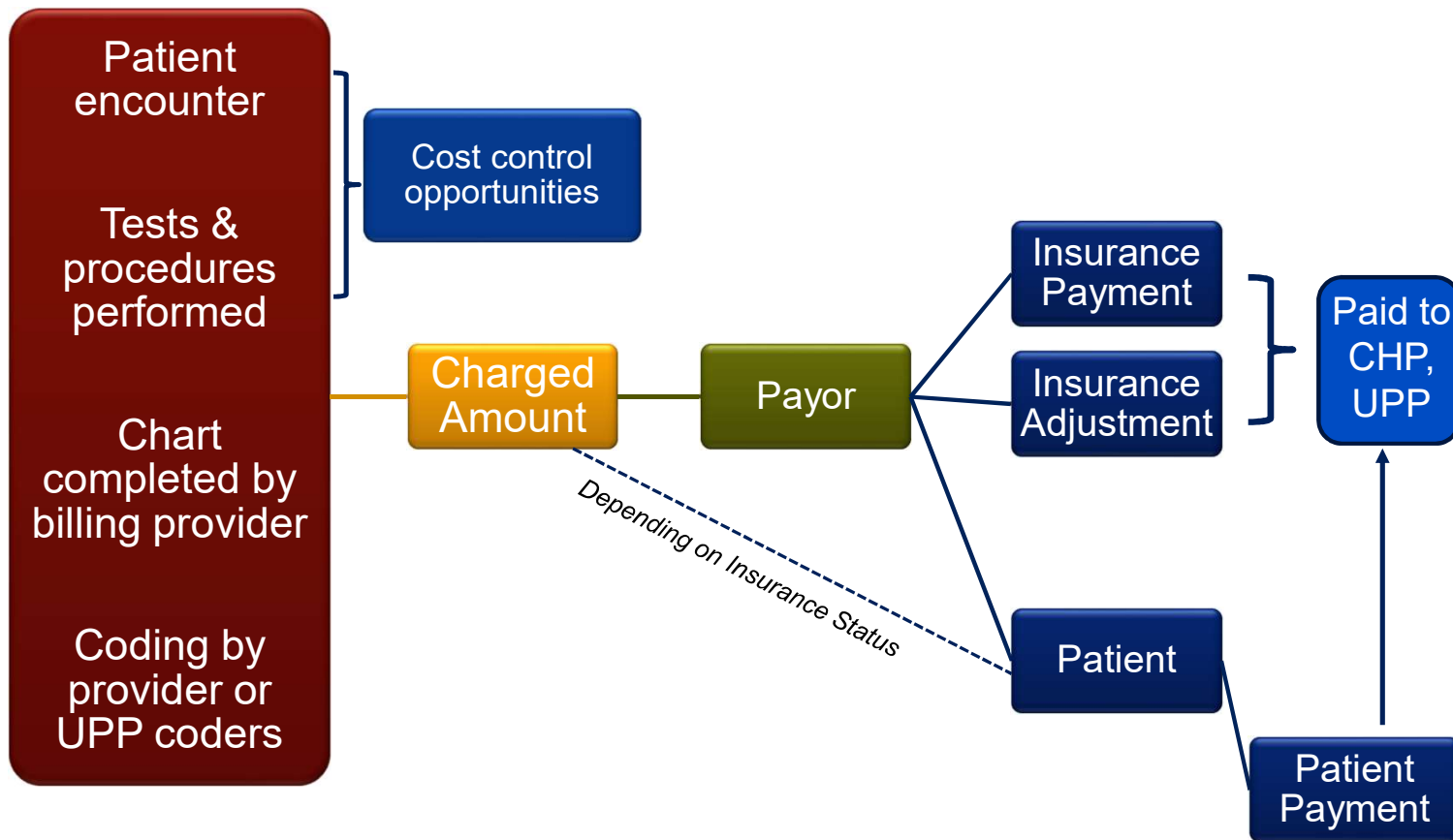
What is the “revenue cycle?”

Hank Churilla

- *Director, Payor Contracting and Revenue Analysis*

- How do we make revenue?

Revenue cycle: *Charge - Reimbursement Flow*



Charges \neq Cost \neq Payments

Provider

- Cumulative Expense for Patient Care

Insurer

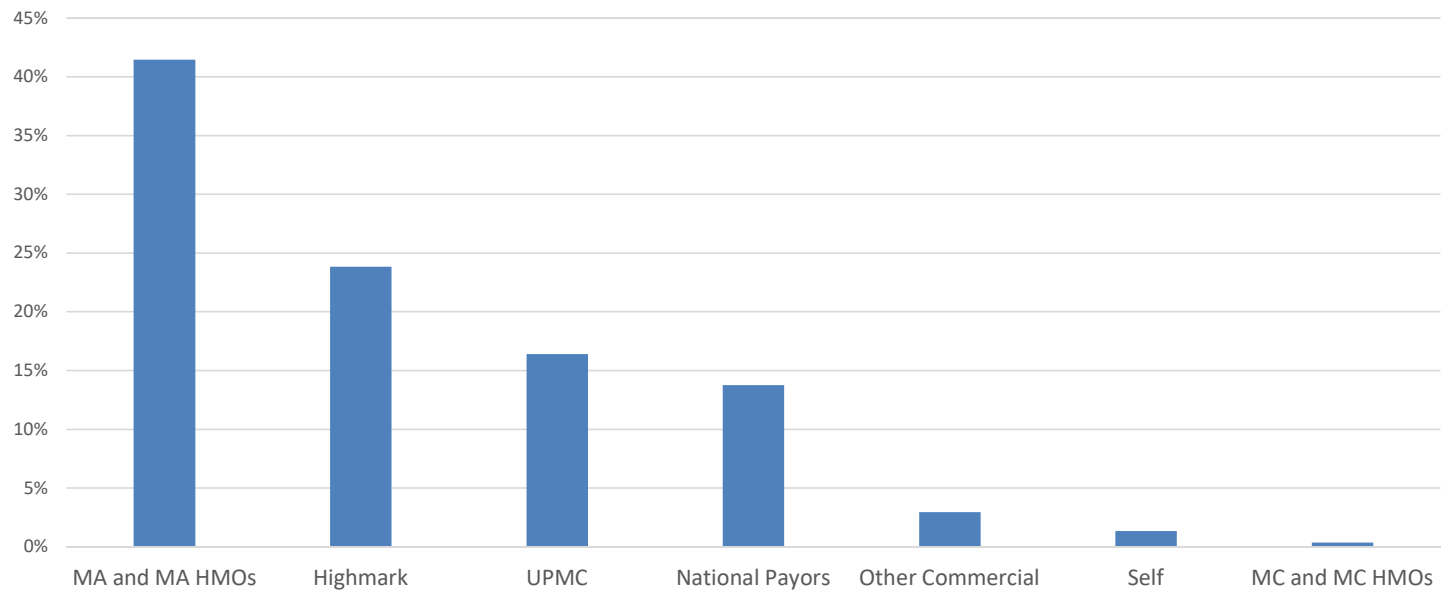
- What is paid in actual claims

Patient

- Out-of-pocket payments

Challenges We Face #1a: *Hospital Payor Mix*

CY2018 Total Payor Mix
Encounter Pct. of Total

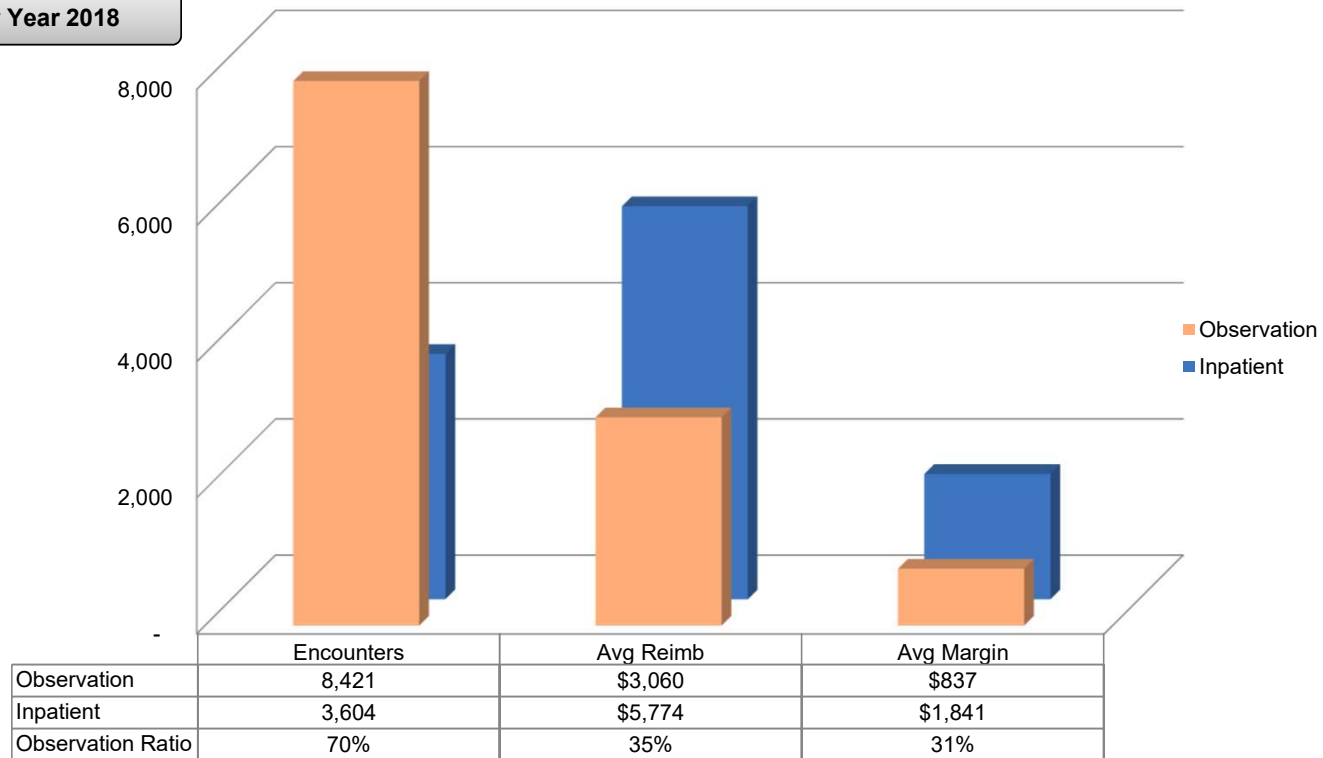


Challenges We Face #1b: *Reimbursement From Charges*

Payor Type	Encounter Pct. of Total (from Graph 1a)	Payment to Charge Pct. (Reimbursement rate)
MA and MA HMOs	41%	19%
Highmark	24%	22%
UPMC	16%	22%
National Payors	14%	45%
Other Commercial	3%	28%
Self	1%	20%
MC and MC HMOs	0%	12%

Challenges We Face #2: Payor Directed Shifts Hospital Inpatient Admission to Observation Category

Calendar Year 2018



- Data: Observations and Inpatients with Lengths of Stay 0 - 2 Days. Inpatients with APR DRG Severity of Illness 1 and 2.
- Impact on the UPP side will be similar. Level Charging impact.

It's a New Revenue World

- Increased Patient Responsibility
- Payor Trends
 - Inpatient to Observation shift
 - Medical Policy Bulletins for Medication Administration:
 - Authorizations
 - Medical Necessity
- MA Border Wars: Access restrictions among states
- Affordable Care Act: Changing insurance landscape

Finance IQ
Core theme 1:
*Revenue
cycle*

Group discussion

- What role have you played in the revenue cycle for your division or center?
- How have you influenced reimbursement for the work your division does?
- Other...

Finance IQ
Core theme 2:
The P&L

Understanding the P&L

Mario Wilfong

Chief Financial Officer, CHP

Neil Karls

Department Manager of Finance/Revenue Cycle

- How do I “read” my P&L?
- Revenues versus expenses
- What are the different “buckets” and “line items” in a P&L?

The P&L: Basic line items and buckets

	YTD		
	Actuals	Budget	Variance
Revenues			
Net Patient Care Revenue ¹	\$ 3,326,742	\$ 3,583,020	\$ (256,278)
Total Other Operating Revenue ²	49,785	29,568	20,216
Total Operating Revenues	3,376,526	3,612,588	(236,062)
Expenditures			
Physician Salaries	2,028,439	2,078,489	(50,050)
Physician Supplemental Salary	298,750	327,675	(28,925)
UOP Med Faculty Salaries-UPP	602,544	499,500	103,044
Physician Salaries - UPP Base	2,929,733	2,905,664	24,069
Physician Incentives	231,435	201,908	29,527
Physician Benefits	467,543	447,014	20,529
Total Physician Compensation & Benefits	3,628,711	3,554,586	74,125
Staff Salaries	348,487	309,364	39,123
Staff Benefits	97,576	87,392	10,185
Total Staff Compensation & Benefits	446,063	396,755	49,308
Supplies / Drugs	749	803	(54)
Purchased Services	274,879	278,510	(3,631)
Professional Liability (Malpractice)	89,503	90,011	(508)
Rent Expense	351,723	351,723	-
Other Expenses	85,668	123,938	(38,270)
Total General & Administrative Expenses	802,522	844,985	(42,463)
Total Operating Expenses	4,877,296	4,796,326	80,969
Contribution Margin	(1,500,769)	(1,183,738)	(317,031)
CM%	-44%	-33%	
Hospital Support - UPMCHS	1,052,929	996,006	56,923
Operating Income	\$ (447,840)	\$ (187,732)	\$ (260,108)
OI%	-13%	-5%	

• Revenues:

1. Net Patient Revenue: Cash collected from patient or insurance company based on billings.
2. Other Operating Revenue: non-patient revenue (external contracts/management agreements)
3. NOT included: clinical trial revenue, NIH/industry funding

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• Expenses:

- Physician Comp:
 - UPP Base
 - UPP Admin/Clinical Supplements
 - Pitt Salary charged to UPP
 - Incentives (if any)
- Staff Salaries: only UPP staff; APP's, nursing, etc.
- Supplies: only clinic supplies
- Purchased Svcs: UPP overhead
- Malpractice
- Rent (for clinic space – not research)
- Other (dues, travel, conference, etc)

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Hospital Support:

- Money received from CHP to offset costs of clinical operation (revenue)
- Does not cover full cost, usually

Other Key Items:

- No hospital impact
- No research (Pitt) impact
- Gross revenues – charges not shown

Takeaways

- Important to monitor/understand performance vs. budget
 - Understand why performance deviates and how to change going forward
- Many line items fixed – MD compensation, benefits, malpractice, etc.
- Departmental (Pediatrics) budget = all divisional budgets + various other items
- Departmental surpluses/deficits funded by CHP – not a bottomless source
 - Growth in losses year over year require analysis/changes

Total CHP & Dept of Peds P&L

(\$'s in millions)

Total Pediatric Revenue	\$ 854.0
Total Pediatric Expense *	\$ 789.0
Excess/(Deficit)	\$ 65.0

** Contained in this number is investment in physician practices*

Finance IQ
Core theme 2:
The P&L

Group discussion

- Which elements of the P&L are you comfortable with? Which are mysterious?

Finance IQ
Core theme 3:
*Controllable
budget items*

Which elements of the division budget are controllable?

Mario Wilfong & Neil Karls

What can I really control?

P&L Line	Controllable?	Comments
Net Patient Revenue	Partially	Payer Mix – No; Volume – Yes/No; Coding - Yes
Other Revenue	Yes	External contract revenue from outside entities – opportunities here
MD Salary/Benefits	Partially	Supplemental pay amounts (clinical); non-covered Pitt salary; general workforce assessments annually
Staff Salary/Benefits	Partially	APP utilization; clinic staffing
Malpractice	No	Rates set by corporate insurance
PSD Overhead	No	Set % of revenues
Rent Expense	No	Ensuring efficient use of clinical space
Supplies/Drugs	Yes	Although minimal, focus on utilization and cost differences
Other Expenses	Partially	Recruitment expense, catering, etc. generally have some discretion

Finance IQ
Core theme 3:
*Controllable
budget items*

Group discussion

- How have you increased revenues via documentation or coding?
- How have you negotiated for more faculty, staff, supplies, etc.?
- In what ways have you improved the bottom line for your division?

The Finance IQ Denouement – *Strategic planning*

Leveraging your financial knowledge to
optimize strategic planning

Nick Barcellona

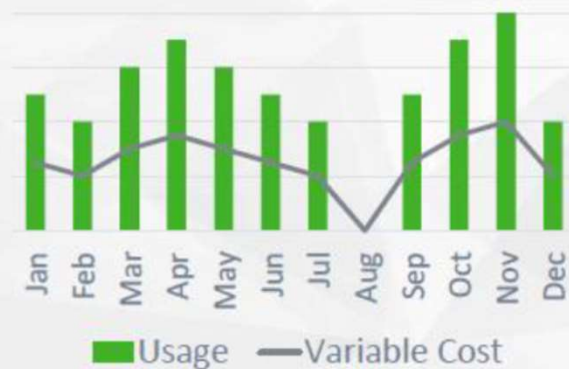
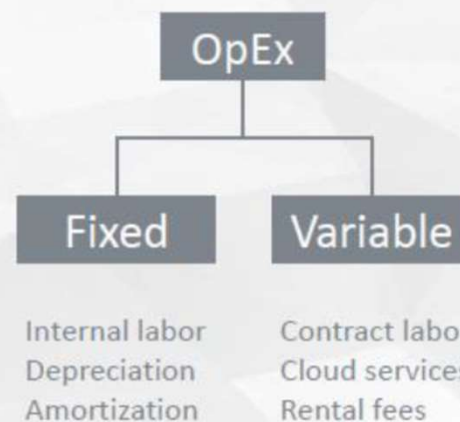
- What are the domains of autonomy for
DDs and CDs?

Building Finance IQ – Leveraging the budget to strengthen strategic planning

Fixed vs Variable Expenses

Fixed costs remain the same regardless of changes in consumption; e.g. internal labor.

Variable costs represent discretionary spend that rises and falls with business rhythms; e.g. cloud services.



Building Finance IQ – Leveraging the budget to strengthen strategic planning

How does strategic planning relate back to the P&L?

Salaries are by far the organization's largest expense...

...and that doesn't include money sent to the physician division to help cover their costs

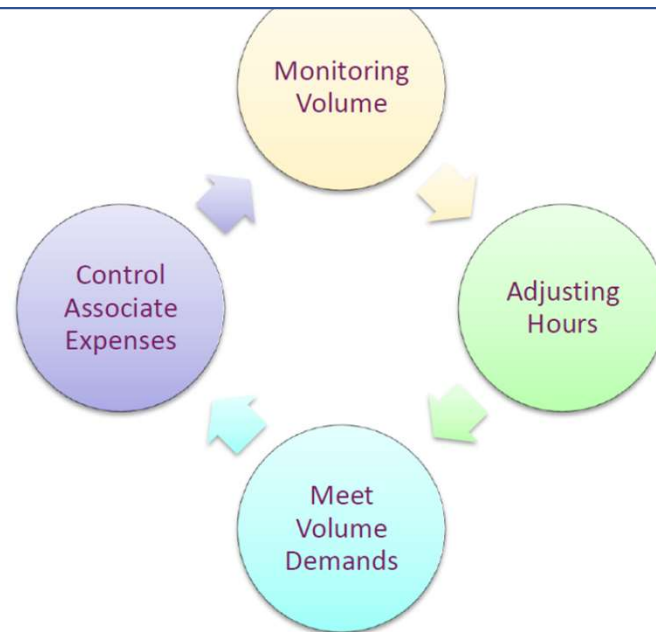
Supplies used to treat the patient – mainly a hospital expense.

	Hospital Operations	Physician Services	Insurance Services
Expenses			
Salaries	1,260,513	986,198	120,174
Professional Fees	537,028	(111,594)	282
Physician Investment	36,062	-	-
Benefits	311,480	149,554	28,839
Supplies	651,953	19,853	18,054
Drug Expense	325,598	95,363	75
Purchased Services	292,857	122,525	91,636
Utilities	72,172	6,035	2,266
Other Expenses	196,925	145,153	3,144,055
Total Expenses	3,684,588	1,413,087	3,405,381

This is claims expense for the Health Plan (much of this winds up as hospital/physician revenue).

Building Finance IQ – Leveraging the budget to strengthen strategic planning

Strategic planning with an eye towards productivity



*This philosophy drives our budget process!

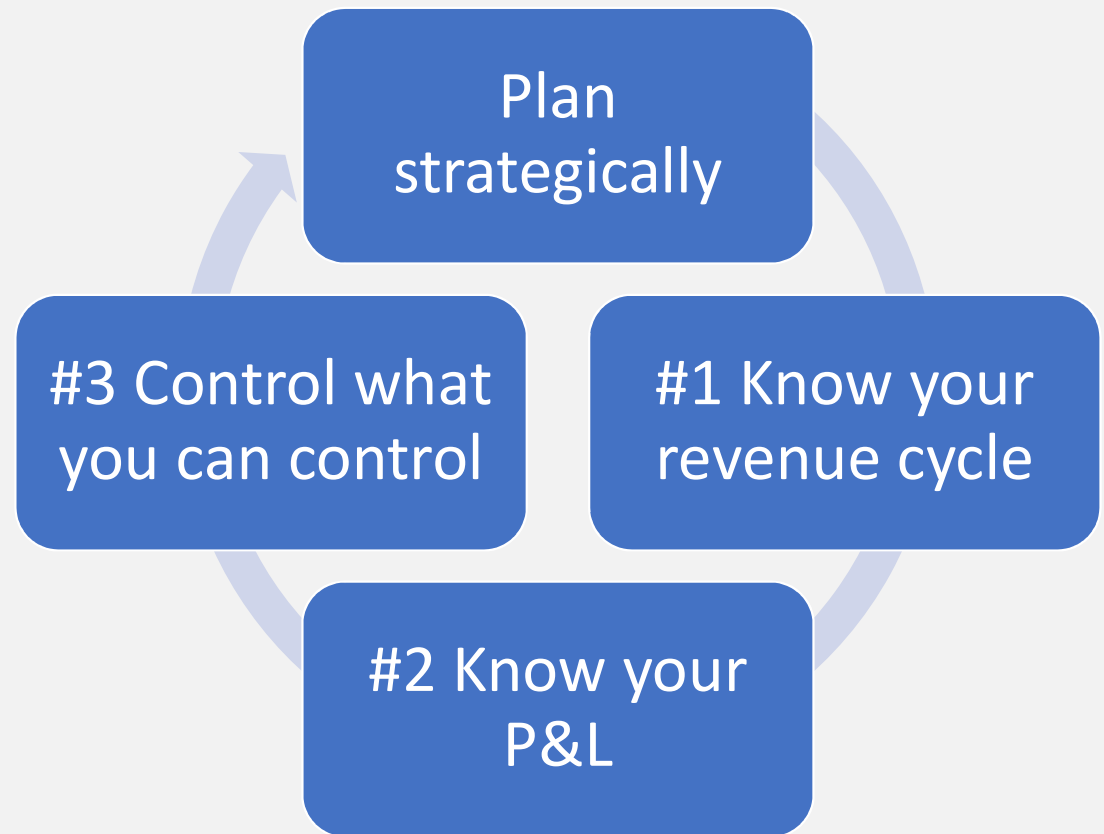
The Finance IQ Denouement – *Strategic planning*

Leveraging your financial knowledge to optimize strategic planning

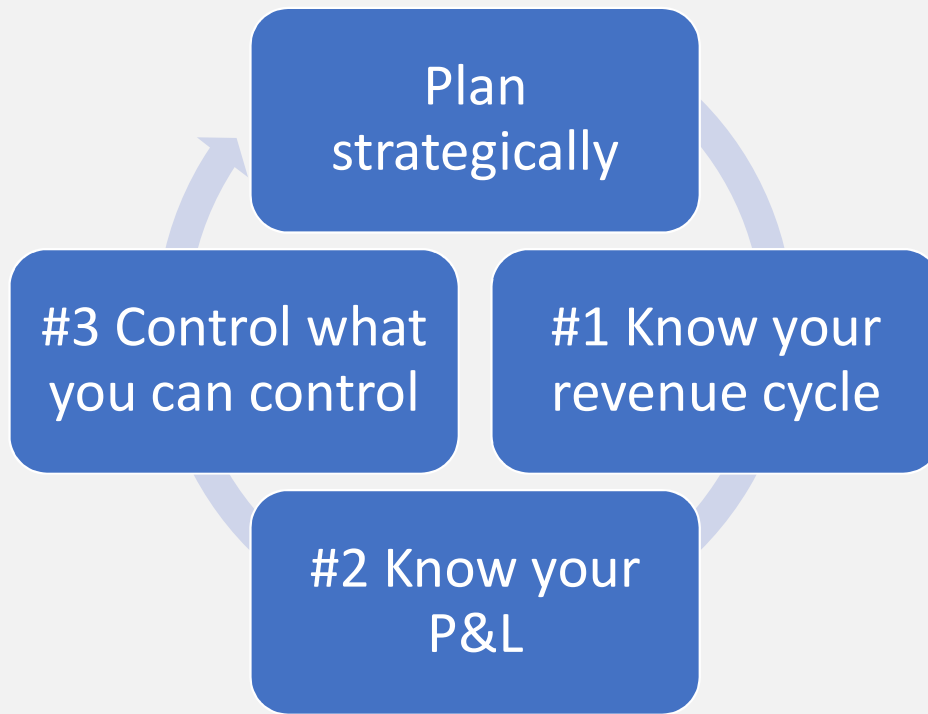
Group discussion

- How did you link budget planning and strategic planning?
- How has strategic planning worked for you? Examples?

Finance IQ
*Strategic
planning*



Building Finance IQ



Self-reflection:

What will I target in my budget or strategic plan...

I believe that I have opportunity to...

I need to know more about...

I need more support regarding...

Thank you!

Please complete an evaluation of this session!