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Report Urges Providers to Go Beyond Cost Containment to Cost Reconfiguration

(Orlando, Fla.,—June 22, 2015)—Hospitals and health systems must shift resources away from established operations and services to enable investments in infrastructure for managing risk and population health, according to a new report released today by the Healthcare Financial Management Association (HFMA) at its annual conference in Orlando, Fla.

The report, *Strategies for Reconfiguring Cost Structure*, describes an imperative to develop the infrastructure and capabilities for the emerging value-based payment and care delivery environment. That infrastructure will necessitate investments in IT and analytics, primary care services, care coordination, and related technological capabilities.

“Health systems must take a strategic approach to cost reduction today,” said HFMA President and CEO Joseph J. Fifer, FHFMA, CPA. “The basic strategy is to reduce spending in established service areas to free up resources needed for new investments in value-based care. Those investments will deliver the most value to patients and other healthcare purchasers.”

A survey of senior financial executives conducted for this report found that 71 percent of respondents are planning to improve their population health management capabilities by increasing investment in IT, clinical data warehousing, and reporting. At the other end of the scale, just 8 percent of respondents expect to increase expenditures for administrative staff and services.

Many hospitals and health systems are differentiating between administrative and clinical staff when seeking to trim costs. For example, Banner Health (Phoenix, Ariz.) achieved nearly \$60 million in savings in 2012 and 2013 (including estimated efficiency gains) through corporate services optimization, an approach that focuses on general and administrative expenses. Overall, more than two-thirds of respondents to the HFMA survey expected to decrease administrative

staff and services over the next five years, while fewer than half expect to reduce the costs of clinical staff and services.

In some cases, health systems that are reconfiguring costs will wind up disrupting their own business models. “Embrace the likelihood of disruption in health care by investing in innovation,” said Fifer. “It’s better for an organization to disrupt its own business model than to have it disrupted by others.” For example, one of the organizations profiled in the report, Providence Health & Services (Renton, Wash.), is funding an innovation agenda that includes a venture fund to invest in developing healthcare IT companies, a software and digital innovation team dedicated to building new technologies for patient engagement, and a consumer team focused on developing consumer-oriented businesses.

Key lessons from the research which were identified and addressed in depth in the 28-page report include the following:

- Understand that reconfiguring cost structure is different from reducing it.
- Develop a strategy for maintaining or building on gains to avoid erosion of gains over time.
- Don’t view standardization as a universal panacea.
- Develop strong physician leadership models to achieve savings from clinical transformation.
- Be alert to opportunities for short-term returns on long-term investments in population health management infrastructure.
- Consider affiliation as a cost-effective alternative to ownership when developing a population health management network.

The report is based on quantitative and qualitative research conducted by HFMA in 2014 and 2015. Of 146 responses to the survey of senior financial executives, 54 percent represented stand-alone hospitals and 46 percent represented health systems. In-depth site visits and interviews also were conducted at Banner Health, Benefis Health System (Great Falls, Mont.), Providence Health & Services, and Vanderbilt University Medical Center (Nashville, Tenn.).

To download the full report, visit hfma.org/valueproject.

About HFMA

With more than 40,000 members, the Healthcare Financial Management Association (HFMA) is the nation's premier membership organization for healthcare finance leaders. HFMA builds and supports coalitions with other healthcare associations and industry groups to achieve consensus on solutions for the challenges the U.S. healthcare system faces today. Working with a broad cross-section of stakeholders, HFMA identifies gaps throughout the healthcare delivery system and bridges them through the establishment and sharing of knowledge and best practices. We help healthcare stakeholders achieve optimal results by creating and providing education, analysis, and practical tools and solutions. Our mission is to lead the financial management of health care. hfma.org

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