Welcome to the Webinar

ZurickDavis

All attendees are on mute, so if you would like to ask a question, please type it into the Q&A box in the control panel on your screen

A copy of the slides from this presentation can be downloaded at: **http://tinyurl.com/BDO-slides**

If you would like to minimize the control panel so that you can see more of the screen, click on the white arrow in the small orange box and the control panel will be minimized. You can click on the arrow to open the panel if you would like to type in a question.

BDO

BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

BUNDLED PAYMENTS
Clinical, Operational And Financial Implications

David Friend, MD, MBA
Managing Director & Chief Transformation Officer
BDO Center for Health Care Excellence & Innovation

October 2015

OPERATIONAL ANALYSIS

Bundled Payments Overview

- Bundled payments are starting to **gain traction** because they offer an **attractive care and risk management option** that is designed specifically for specialists, acute and post-acute care providers. The theory behind bundled payments is that they **focus care coordination responsibilities and opportunities on the best provider** to treat 'targeted' patient populations when those patients most need their expertise.

- In January of 2015 the Center for Medicare and Medicaid Services (CMS) announced their **Better, Smarter, Healthier campaign** which calls for **Medicare to shift over $300 Billion away from Fee-for-Service into Alternative Payment models by 2018.** It is clear from recent announcements that bundled payment models will be a **major part** of this shift.

Bundled Payments Overview (contd.)

- Currently CMS is **implementing two voluntary bundled payment programs – ‘**Bundled Payments for Care Improvement (BPCI)’ and the ‘Oncology Care Model (OCM)’, and **one mandatory program** – ‘Comprehensive Care for Joint Replacement (CCJR)’.

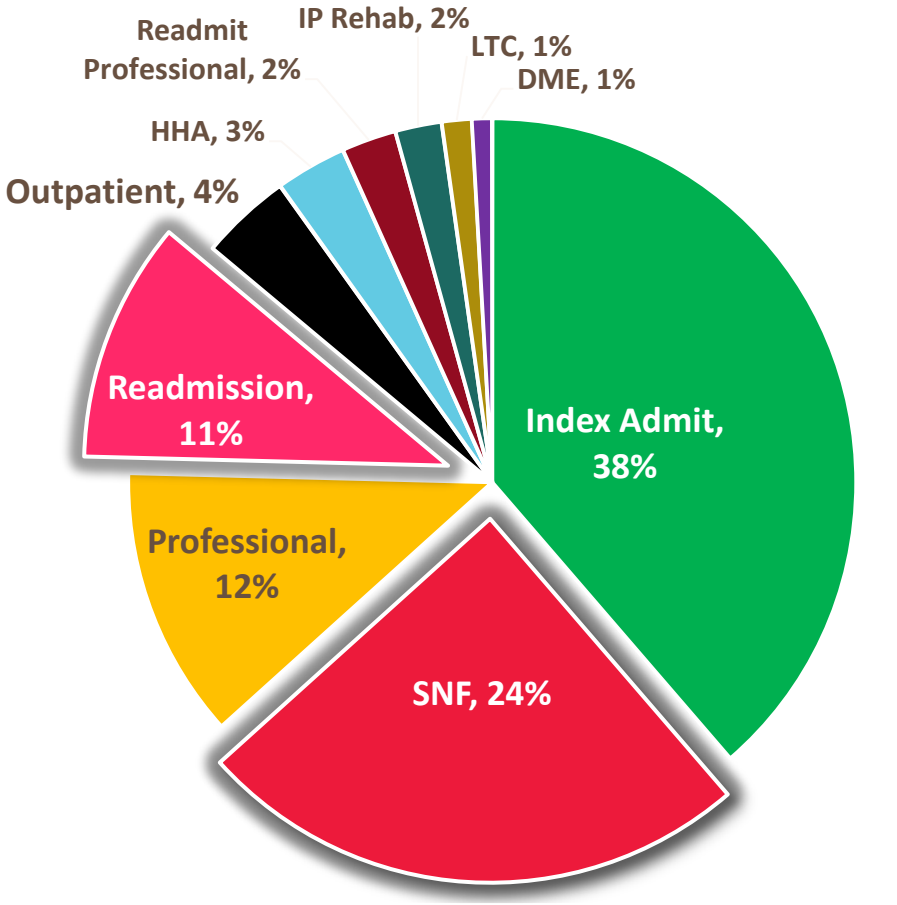
- In total approximately between 3,000 to 4,000 providers across the country are participating in these programs. Additionally, **payors and employers** in the commercial health insurance market are **starting to enter into bundled payment contracts with physician groups and health systems.**

FINANCIAL AND CLINICAL ANALYTICS

Focus on Total Patient Episodic Costs

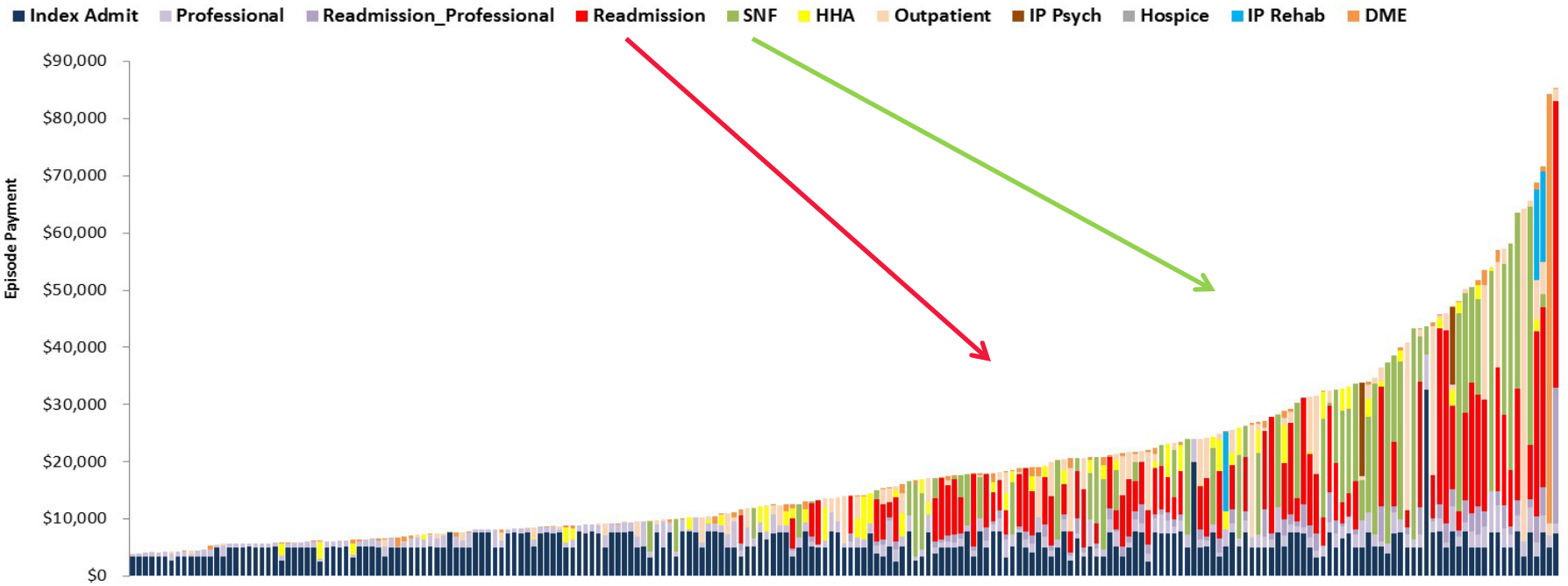
- Over 1/3 (35%) of total patient episodic costs are related to SNFs and readmissions.
- As acute care anchors begin to narrow networks, and bundled payments are introduced, the focus is on reducing the costs of the post acute care of the episode, while improving the quality of that care, thus reducing the occurrence of readmissions.
- Those post acute providers who can control costs and provide high quality care will be the survivors of this industry transformation.

ABC Hospital Case Study –
2013 % of Total Payments, 90 Day Fixed Episodes



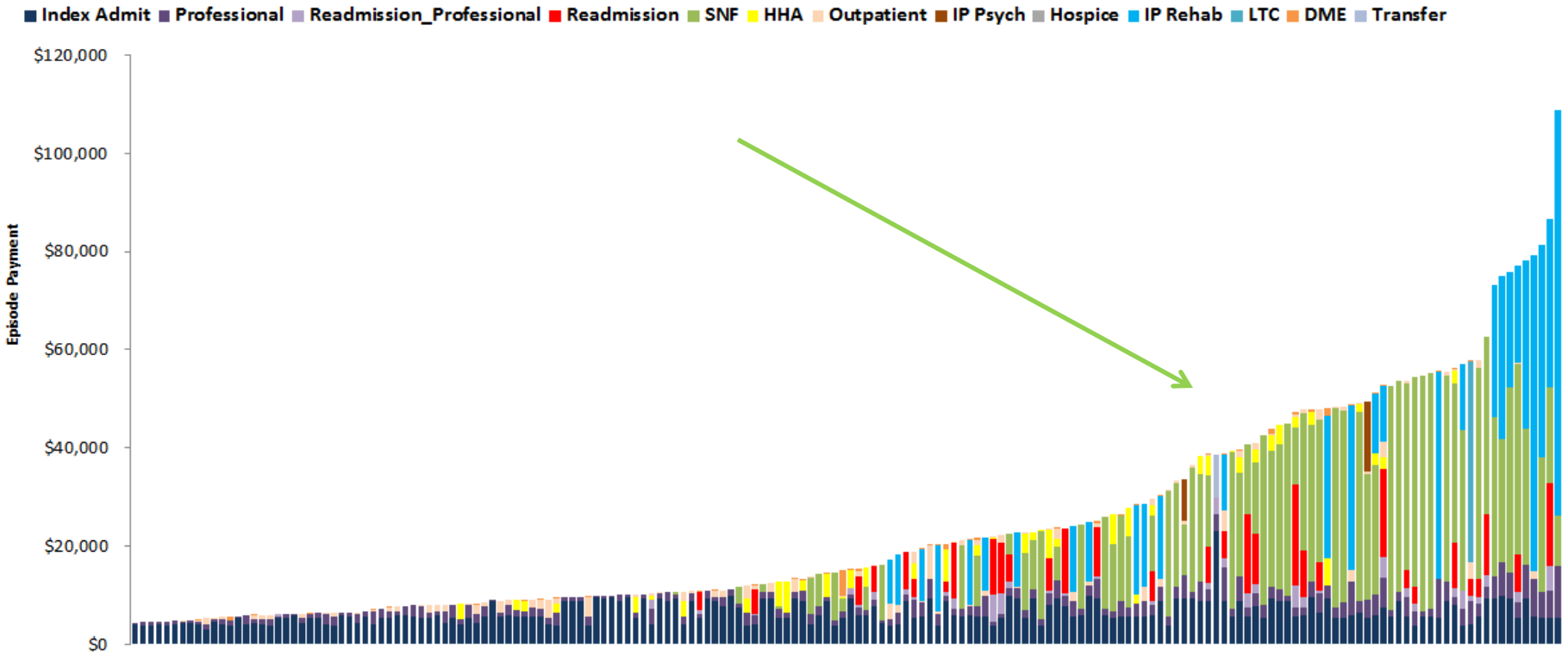
Episode Family: Congestive Heart Failure - DRGs 291-293

Through an analysis of the hospital case study, a wide variability of costs were noted for the congestive heart failure family of episodes. **Readmissions and SNFs** were a large component of this variability.



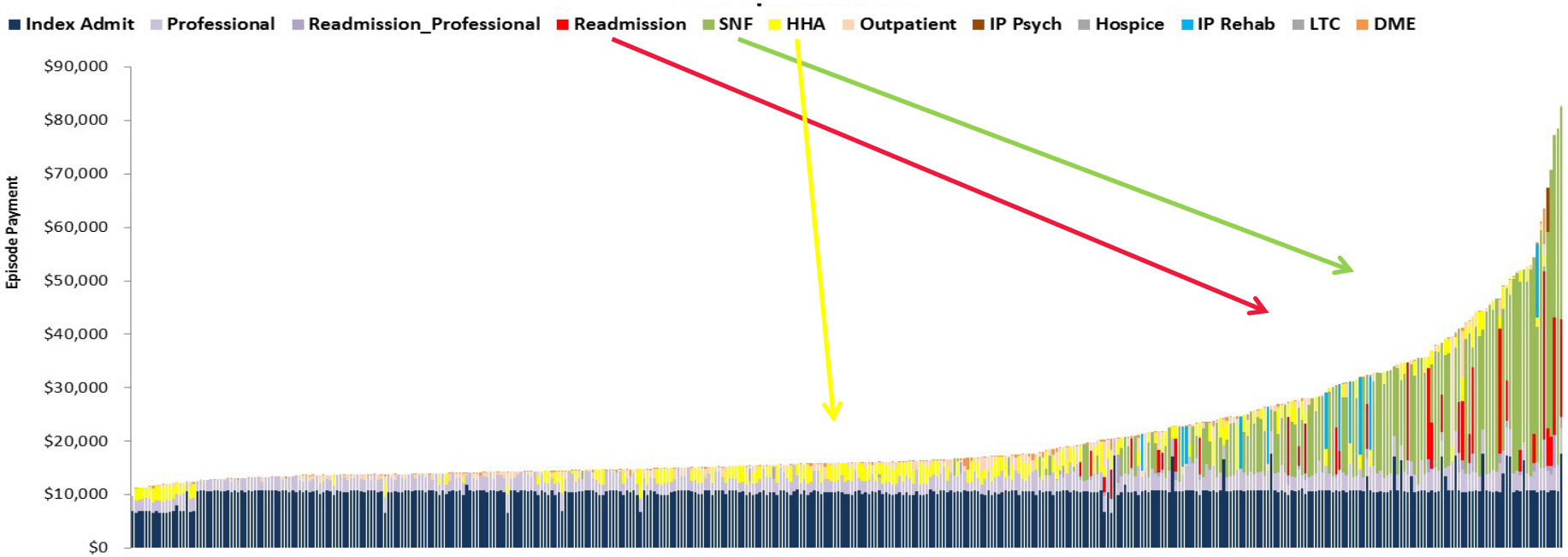
Episode Group: Stroke - DRGs 061-066

Through an analysis of the hospital case study, a wide variability of costs were noted for the stroke family of episodes. **SNFs** were again a large component of this variability.



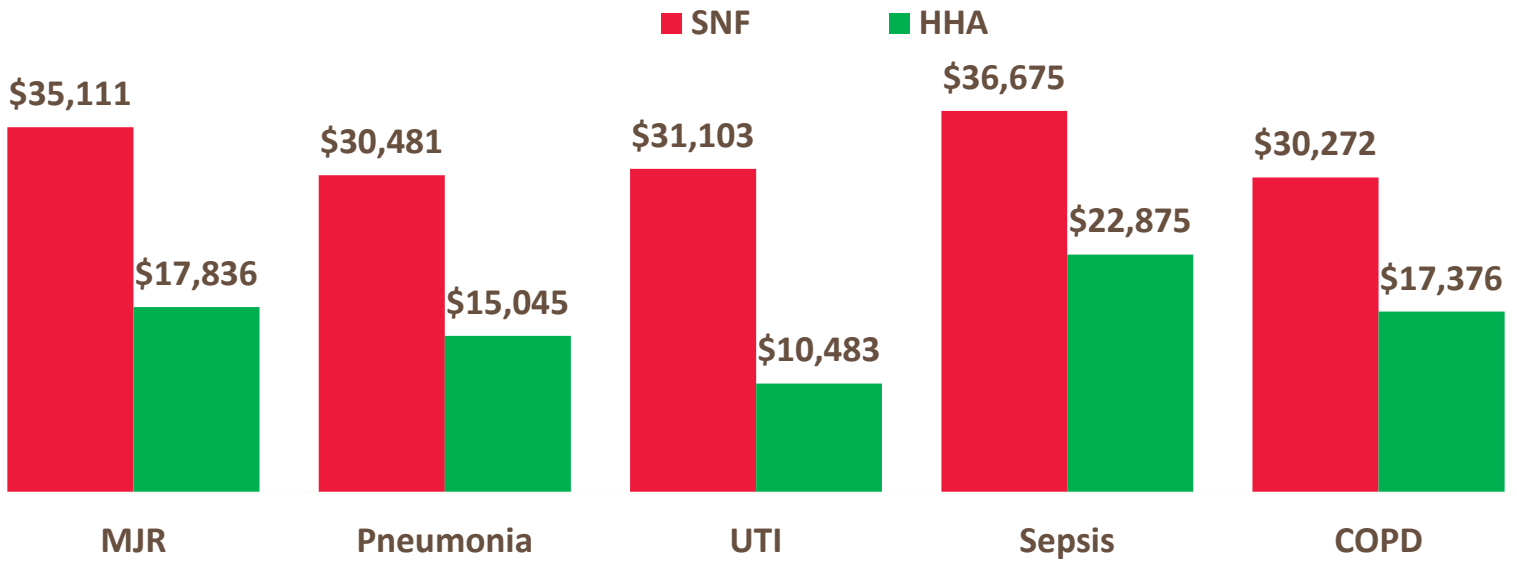
Episode Family: Major Joint Replacement - DRG 469 & 470

Through an analysis of the hospital case study, a wide variability of costs were noted for the joint replacement family of episodes. **Readmissions and SNFs** were a large component of this variability. However, note the large usage of home health agencies as well – **a sign of moving costs** from high cost SNFs to low cost home health providers.



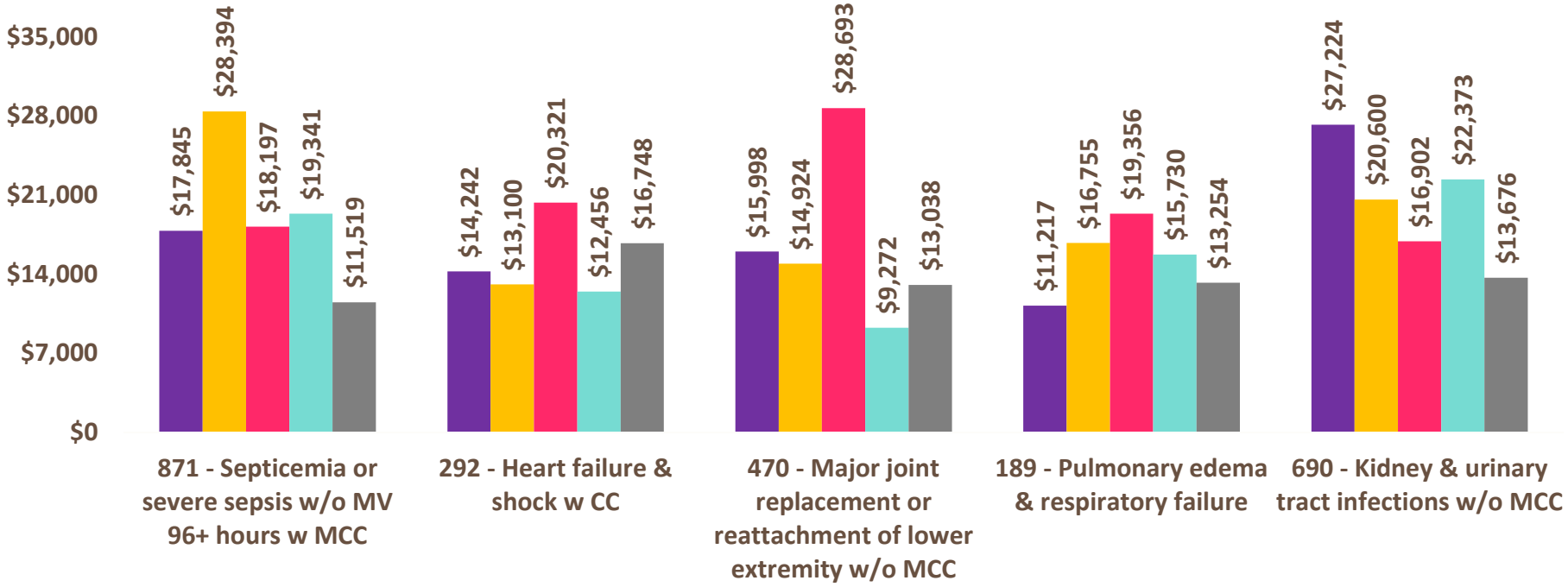
Home Health vs. SNF as First Post Acute Care Setting

For the major episodic families below, a SNF as the first post acute care setting costs Medicare, on average, $16,000 more than if a home health agency (HHA) was the first post acute care setting. Anchor acute care hospitals, as well as CMS, are beginning to look at **HHAs as a more fiscally reasonable option** in referring certain patients for post acute care.



DRG Cost Variance Across SNFs

In the case study, there was a wide variability of payments for post acute care for the same DRGs. Hospitals and CMS are shifting **their focus to a more consistent, lower cost facility** as part of creating the narrow network, and those who can demonstrate that will become part of those networks.



Comparative SNF Performance in Market

As narrow networks and bundled payments begin to emerge, hospitals are analyzing their partners in the complete episode of care, with SNFs being the most substantial in the context on number of episodes of care. Most significantly, costs and quality are being assessed to identify those few SNFs that they want to partner with going forward. Below is a **case study** of such an analysis by a hospital developing a narrow network and bundled payments.

SNF Provider	Episodes to SNF		Payments to SNF		Readmissions		ALOS
	Total	% to Total	Avg	% of Total	Total	Readmit Rate	
National Benchmark			**$15,294**			**16.6 %**	**29.8**
State Benchmark			**$17,700**			**16.6 %**	**35.0**
SNF 1	158	11.2%	$20,737	12.6%	32	20.3%	48.9
SNF 2	154	10.9%	$20,309	12.0%	36	23.4%	41.1
SNF 3	109	7.7%	$13,483	5.6%	7	6.4%	31.9
SNF 4	85	6.0%	$17,223	5.6%	14	16.5%	34.9
SNF 5	78	5.5%	$16,693	5.0%	13	16.7%	33.5
SNF 6	74	5.2%	$15,841	4.5%	13	17.6%	33.1
SNF 7	71	5.0%	$18,540	5.1%	12	16.9%	44.0
All Other Average	684	48.4%	$18,849	49.5%	141	20.6%	39.3
Total when SNF is the 1st PAC	**1,331**		**$19,550**		**268**	**20.1%**	**43.1**

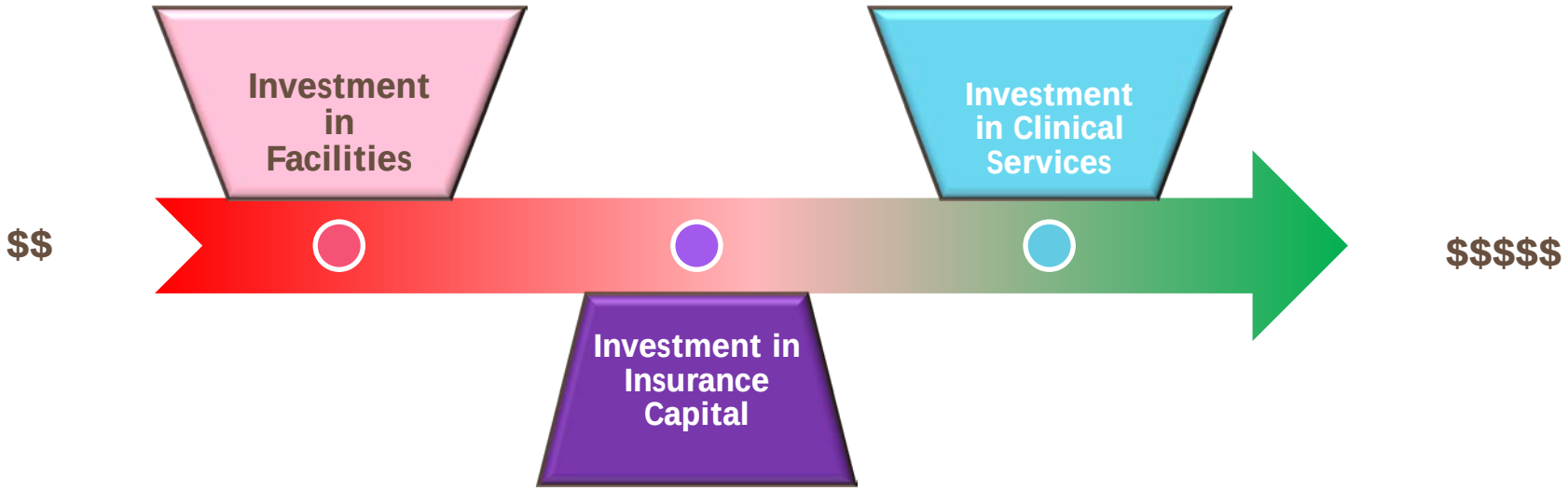
Comparative SNF Performance in Market (cont.)

- On the previous chart, the hospital performed an analysis of their top referral SNFs, including referrals, payments, readmissions and average length of stay (ALOS)
- The top two referral SNFs demonstrated higher costs, higher readmissions, and longer ALOS
- The hospital, in identifying its go forward partners, looked for those SNFs who could meet low readmission standards and low ALOS. In return, those who reduced the ALOS would see an increase in their number of patients by participating in the narrow network
- In the final cut of SNF partners identified as being in the hospital's narrow network of SNF post acute care providers, either one of both of these SNFs did not make it into the network. **History is not necessarily a predictor of the future.**

OPERATIONAL IMPLICATIONS

Operational Analysis

Need to Determine Management Bandwidth, Balance Sheet Capacity, Risk Tolerance and Return on Investment



Staffing, Contracting, Legal, Accounting, Referrals, IT, Management, Physician Relationships, Clinical Outcomes

Where Do We Go From Here?

Strengths

- Clinical
- Financial
- Operational

Threats

- Potential exclusion from narrow networks
- Potential decrease in fair market value
- Decrease in reimbursement from move to value-based reimbursement
- Potential closure of business

Benefits

- Probable increase in fair market value
- Positive positioning for participation in narrow networks and bundled payments
- If selling, maximization of return on depleting investment
- Solidification of generational financial security

Challenges

- Significant investment in operations and balance sheet
- Cultural change

QUESTIONS?

Thank You!

We hope you enjoyed this presentation. To make sure that you receive invitations to future Webinars, follow us: @ZurickDavis

A copy of the slides from this presentation can be downloaded from our web site:

http://www.zurickdavis.com/zurickdavis_industry_insights.php
OR
http://tinyurl.com/BDO-slides

ZurickDavis

BDO

David Friend, MD, MBA

BDO Center for Healthcare Excellence & Innovation

Managing Director & Chief Transformation Officer

dfriend@bdo.com
Direct: 212-885-5562
Mobile: 781-296-6300

100 Park Avenue
New York, NY 10017

Dr. Friend has more than 35 years of healthcare experience, serving as a physician operating executive, board director and consultant working with managed care plans, integrated delivery systems, physician groups, biotechnology companies, REIT's. hedge funds, device makers, hospitals, post acute care providers and ACOs focusing on achieving shareholder value, revenue growth, physician engagement, and clinical excellence.

Prior to joining BDO, Dr. Friend served as the Chief Clinical Officer of Golden Living, a leader in post-acute healthcare, where he was responsible for the care of 20 million patients annually provided by over 5,000 physicians in 40 states. Dr. Friend previously served as President and Chief Medical Officer of Aseracare, a leading provider of hospice, homecare and palliative medical services.

Other notable experiences include:

- Board Member of the University of Connecticut Health Center, Teaching Hospital and Medical School
- Chairman and CEO of The Palladium Group, a medical analytics company
- Managing Director of Healthcare at Alvarez & Marsal
- Senior Partner, Board Member and Global Health Care Practice Leader at Towers Watson
- Biotechnology Analyst at Robertson Stephens

EDUCATION

M.B.A., The Wharton School of The University of Pennsylvania
M.D., The University of Connecticut
B.A., Economics, Brandeis University

The BDO Center for Healthcare Excellence & Innovation

DRIVING THE FUTURE OF HEALTHCARE

The BDO Center for Healthcare Excellence & Innovation is devoted to helping healthcare organizations thrive, clinically and financially. We help clients redefine their strategies, operations, and processes based on both patient-centric demands and rigorous best business practices – responding to the industry's new market disrupters, cost pressures, and outcome-based reimbursement models.

The Center is built to meet the current and future needs of providers, payers, and investors. We are accomplished, senior-level specialists, who approach every challenge from multiple perspectives, collaboratively, in spirit and in practice. Drawing on the full extent of the BDO network, we are uniquely able to meet the specific needs of each client, no matter how large or complex.

□Healthcare Executives	□Clinical Practitioners	□Valuation Professionals	□Turnaround / Restructuring Advisors
□Investment Bankers	□Economists & Statisticians	□Auditors	□IT Specialists / Data Analysts
□Forensic Technologists	□Regulatory Specialists	□Tax Accountants	□Real Estate Planners & Advisors

HEALTHCARE: THE NEW REALITY

Healthcare is in an era of unprecedented transformation and complexity: new payment models; new incentive structures; new regulatory requirements; and new sources of stress. Financial results and clinical outcomes will be intertwined as never before, changing not only business models but the fundamental nature of healthcare organizations.

- **Reimbursement determined by clinical outcomes**
  Regulators and payers will reward superior clinical outcomes – and penalize underperformers.
- **Patients as customers**
  Patient perceptions will be measured, analyzed, and factored into reimbursement levels.
- **Increasing focus on fraud, waste, and abuse**
  As budgets tighten, there will be growing pressure to prevent, detect, and resolve financial and clinical improprieties.
- **Accelerating M&A activity**
  Intensive merger activity for strategic and financial healthcare buyers will continue.
- **Restructuring and redesign for sustainability**
  Medicaid waivers, new regulations, and risk-based reimbursement models will require integrated financial and operational restructuring.

By 2020, approximately 1 in 5 hospitals will be sold, closed, or merged.

MEASUREMENT: THE NEW STANDARD

Regulators and payers are aggressively seeking to reward superior clinical performance and penalize underperformers. Quality rating systems, standardized benchmarks, and quantitative analysis are the new determinants of reimbursement, altering the very nature of the industry's risks and opportunities.

For healthcare organizations of all kinds, future success – and in some cases, continued viability – will depend on how well they adapt to value-based payment reforms, and whether they are able to optimize reimbursement.

Comprehensive measurement capabilities enable:

Providers	Payers	Investors	Consumers	Regulators
to manage the sustainable future - state model and capital structure	*to assess performance gaps and consumer experience.*	*to evaluate capital and profitability requirements of operating model.*	*to determine the real vs perceived value of clinical services rendered*	*To verify services rendered and ensure appropriate payment*

More than 50% of reimbursement for healthcare services will be risk-based.

Does our current structure align with our future needs?

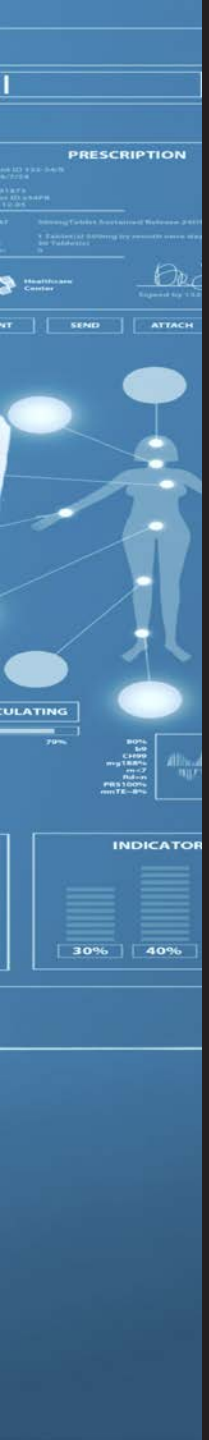
How do we balance financial performance with patient health and satisfaction?

Do we grow organically, by acquisition, or both?

Who has the vision to help us get where we need to go?

Which data analytics do we use to measure performance?

Are we even viable under the new reimbursement models?



"Clinical, financial, and capital strategies need to be aligned and synthesized. That's what we do."

AN EXCEPTIONAL RANGE OF SERVICES

Healthcare Redesign
BDO works closely with clients to envision future-state models, restructure existing models, determine total cost of care and design organizational strategies for the shift to value-based reimbursement and vertical integration of clinical care.

Measurement & Performance Optimization
BDO's multidisciplinary teams help healthcare organizations adapt to value-based payment reforms, improve efficiency, enhance patient outcomes, achieve higher Five Star ratings, and strengthen financial results.

Investment Banking
BDO helps clients raise the capital needed to manage risk and compete effectively, through mergers, sales, acquisitions, leveraged buyouts, joint ventures, raid defenses, spin-offs, divestitures, and other restructurings.

Assurance
BDO helps clients ensure that both their financial statements and internal controls meet the complex regulatory requirements of the International Standards of Auditing, as well as other national and local standards.

M&A Advisory & Integration
BDO guides healthcare systems and investors throughout the entire M&A transaction life-cycle, from initial target screening to comprehensive due diligence, valuation, and post-merger integration.

Risk Advisory, Disputes & Compliance
BDO helps clients prevent fraudulent practices, detect past and ongoing fraudulent activity, and remediate inadequate governance. We also provide advocacy, risk advisory, dispute resolution, and compliance services.

Tax Advisory
BDO helps clients derive the greatest tax benefit possible. Our services span the full spectrum of tax planning and advisory to ensure compliance with evolving tax laws and other regulations.

ACCOUNTANTS, CONSULTANTS, DOCTORS, BANKERS

Christopher Orella, CPA
National Healthcare Industry Leader
212 885 8310
corella@bdo.com

David Friend, MD, MBA
Chief Transformation Officer
781 386 7090
dfriend@bdo.com

Stephanie Giammarco CPA/CITP, CFE, CEDS
National Leader, Forensic Technology & Data Analytics
212 885 7439
sgiammarco@bdo.com

Gina Tapper, MBA, MSN
Clinical Fellow & Director
619-985-6054
gtapper@bdo.com

Steven Shill, CPA
National Healthcare Industry Leader
714 668 7370
sshill@bdo.com

William Bithoney, MD, FAAP
Chief Physician Executive
212 885 8206
bbithoney@bdo.com

Venson Wallin, CPA
National Healthcare Compliance & Regulatory Leader
804 614 1188
vwallin@bdo.com

Sharyl Ross, CPA
Healthcare Liaison - Tax Partner
847-779-6219
sross3@bdo.com

Patrick Pilch, CPA, MBA
*National Healthcare Industry Leader**
212 885 8006
ppilch@bdo.com

Karen Meador, MD, MBA
Senior Physician Executive
214 259 1477
kmeador@bdo.com

Randy Zarin
Managing Director- Houston Region
832 264 0924
rzarin@bdo.com

Mike Musick , CPA
National Leader Long-Term Care Sector
615-493-5610
mmusick@bdo.com

"All of the professional resources, without the barriers."

BDO

BDO delivers customized accounting, consulting, and financial advisory services to clients of all sizes – across industries, throughout the country, and around the world.

Our culture is collaborative, with a flat organizational structure designed to minimize bureaucracy and maximize person-to- person interaction. Partners are approachable. Specialists are accessible. Everyone at BDO understands that at its core our job is about helping – in thousands of different ways, for thousands of different clients – and that we measure the success of our client relationships not in dollars earned, but in years served.

BDO USA is a member of BDO International, the world's fifth largest accounting and consulting network.

healthcareblog.bdo.com @BDOHealth

www.bdo.com/healthcare

About BDO Consulting
BDO Consulting, a division of BDO USA, LLP, provides clients with Financial Advisory, Business Advisory and Technology Services in the United States and around the world, leveraging BDO's global network of over 55,000 professionals. Having a depth of industry expertise, we provide rapid, strategic guidance in the most challenging of environments to achieve exceptional client service. For more information, please visit www.bdoconsulting.com.

About BDO
BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 58 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit www.bdo.com.