Fundamentals of Health Care Financial Management

SECOND EDITION

A Practical Guide to Fiscal Issues and Activities

STEVEN BERGER

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PREFACE

Starting right now, we are embarking on a journey into the interesting and compelling world of the health care financial manager. Though not on the front line of the patient's care, the health care financial manager needs to be involved in or apprised of all decisions related to operating or planning the facility. Because of this, the financial manager develops a unique understanding of the business of health care.

Whether in a hospital, a skilled nursing facility, a physician office, a home health agency, a psychiatric facility, or any of the other operations doing business in this industry, the basic concepts are essentially the same. Health care and how it is financed have several characteristics unique to this industry alone:

- The health insurance system separates the consumer from the buying decision. Because of this, the consumer seldom has to make a rational choice in the amount or level of product consumption. This is the number one reason the cost of health care is so high in the United States.
- The health care system is pluralistic, a mixture of government and nongovernment providers and payors.
- The payment system is very technical and complex. Every payor has its own set of benefits, and often they are not spelled out clearly. The consumer (patient) may believe she has a certain set of benefits, but when she finally needs care she may find out that she is in fact not covered for a particular

set of illnesses or therapies. This often puts the provider in the difficult situation of denying or postponing care until these coverage issues are settled.

- Ultimately, health care is personal. It affects everyone. No other industry encounters the intensity of emotion engendered in health care. The patient, whose illness may lead to death (or in the case of maternity care, life) is always at personal risk. So, too, are the loved ones who congregate around the patient and the provider, often with great anxiety and trepidation.

This, then, is why health care, and how it is financed, is so important. Knowing this helps to explain why the role of the finance manager takes on great importance within the industry. The financial manager is responsible for financial reporting and the budget, both of which summarize financial results of the organization, actual and projected. These summaries are a direct reflection of the decisions made before the fiscal year begins and day to day as the year moves along. The astute financial manager, who needs to learn as much as possible about every aspect of the organization's operation, is often in a better position than any other manager to assess the operation in an objective and nonpartisan manner.

At the same time, the health care financial manager needs to learn, understand, and absorb myriad rules, regulations, policies, and procedures that reflect the highly unique world of American health care practices and its finances. This book is dedicated to the proposition that you the reader can learn much about the unique financial underpinnings of your industry. There is so much to know and so little time. The challenge is how to make these complex ideas presentable in a basic text.

Imagine, if you will, an industry in which the billing rules for only one of its many payors, Medicare, are forty-five thousand pages long. Then imagine that in 1997, Medicare's enforcement division claimed that a billing mistake constitutes fraud, not an honest error.

Or imagine an industry in which the largest group of nongovernmental payors, known as health maintenance organizations (HMOs) or preferred provider organizations (PPOs), together commonly referred to as managed care, creates incentives for its contracted providers of care (the hospitals, doctors, and other caregivers) to limit the care given. This is done in the name of saving money for the premium payor, who is usually the employer. Yet these same insurers generally do not offer coverage for screening tests that could either rule out or determine illness that, if caught early, would cost those self-same insurers less money through less intensive treatment.

OK, you get the idea. Crazy policies. Not always in the best interest of the patient. More than likely in the best interest of the insurer. But ask yourself: *When was the last time I reached into my own pocket to pay the full list price for my health care?* Most

probably never. Very few employed, elderly, or poor people in America have. They seldom ask the question, which we will do, "Why does health care cost so much?" The biggest part of the answer is that if one of your loved ones gets sick, you will spare no expense (primarily the insurance company's money) to make sure he or she gets well. The providers of care in America have therefore built their industry to respond to the needs and desires of the market.

The problem here is what the market desires is in conflict. Because very few patients (customers) pay out of pocket, the patient's desires are often at odds with the desires of the payors and employers who pay the premiums. Caught in the middle, then, are the providers, attempting to be cost-efficient, produce quality outcomes, and create a high level of patient satisfaction while earning a positive financial return on their investment.

How all this came to happen and how a particular fictional provider contributes to overall industry expenditures is a case study for learning. This book covers the basic health care financial management issues, but from a distinct perspective. You, the reader, get to act like a health care financial manager for the most common financial reporting period, one calendar year. Starting on January 1, you will experience the highs and lows of a health care finance officer as he (in this case, a man) weaves his way through busy times and slow times—mostly busy!—and through the conflicting issues that populate the health care financing landscape.

This particular book is written from the perspective of a finance officer for a hospital. However, many of the other primary industry providers are also profiled because the organization in this case study also operates a hospital-based skilled nursing facility, a home health agency, and a psychiatric unit, and it employs a dozen physicians in office practices.

Finally, this text is not intended as an academic treatise. Rather, it is a practical guide to how an integrated health care finance division operates in this era, day to day. It is an attempt to meld practice with theory. As we go through the year, various concepts are highlighted and highlighted again, just as often really happens. This helps to clarify those issues that are of overriding importance to sound financial management.

November 2001
Libertyville, Illinois

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I would like to thank a number of people for bringing me to the point in my life where the opportunity to write this book coincided with reality. On the professional side, I would like to thank two of the best bosses anyone could possibly be lucky enough to have had—Ken Knieser and Jack Gilbert—for never telling me to stop doing what I thought was right. Thanks also to John Dalton, for encouraging me to become a writer and editor of health care finance material more than ten years ago. Finally, my thanks to Jim Curcuruto, who, more than two decades ago, was the first professional I worked with who took the time to stop what he was doing and give me my first taste of understanding the concepts of health care finance.

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In addition, several people with expertise in some specific areas of health care financial management contributed their time and effort to review those sections and offer insightful comments that helped to improve this book. They are Jane

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ABOUT THE AUTHOR

Steven Berger is president of Healthcare Insights (http://www.healthcareinsightsllc.com), which specializes in teaching and consulting on general and financial management issues in health care. In addition, Healthcare Insights has developed dynamic decision support software solutions for the health care industry.

Prior to assuming his role at Healthcare Insights, he was vice president, finance, for seven years at the two hundred and fifty-bed Highland Park Hospital in suburban Chicago. Before that and since 1978, he was a hospital or health system finance officer in New York, New Jersey, and Missouri at diverse organizations including urban and suburban facilities, both academic and nonteaching, ranging in size from one hundred to four hundred beds. He began his career as a Medicare auditor for the Blue Cross Blue Shield Plan of Greater New York and has also worked for a small CPA firm in New York City.

Berger has twenty-six years of health care financial management experience. He holds a bachelor of science degree in history and a master of science in accounting from the State University of New York at Binghamton. He is a certified public accountant (CPA) and a fellow (FHFMA) of the Healthcare Financial Management Association, where he currently serves as immediate past president of the First Illinois chapter. He has recently completed a three-year term on the HFMA's National Board of Examiners. He is also a diplomate of the American College of Healthcare Executives (CHE).

In addition, over the past several years he has presented many health care

finance-related seminars throughout the United States and Canada, including three two-day classes on Fundamentals of Health Care Financial Management (which is the basis for this book); Turning Data into Useful Information (how to effectively collect, analyze, and report financial and clinical data to enhance decision making in health care), which trains both data users and data crunchers in understanding each other's needs and practical ways in which to meet those needs; and Hospital Financial Management for the Nonfinancial Manager, which teaches clinical and operating managers how to use financial tools and techniques to improve the financial results in their own departments. He has also cowritten articles on health care information systems that were published in *Healthcare Financial Management* and a February 2000 commentary in *Modern Healthcare* on the lack of training in the industry.

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