

Best Practices, Stimulus Can Help Hospitals in Recession

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It's a tough time for Arkansas hospitals, but according to one expert in medical finances, they can improve their financial performance by incorporating sound business practices. The federal stimulus package can help.

As any hospital CEO knows, the nation's economic recession is hitting health care providers hard. According to a November 2008 report by the American Hospital Association, 38 percent of American hospitals have seen a decrease in admissions, and 31 percent have seen fewer elective procedures. Meanwhile, rising unemployment is leading to more uncompensated care. Adding to the strain on hospitals, physicians are seeking more pay for on-call and other services.

Like businesses and families across America, many hospitals are responding by tightening their belts. According to a recent survey of hospital CEOs by the American Hospital Association, nine out of 10 say their hospitals are finding it harder to access tax-exempt bonds and attract charitable donations. Nearly half have put on hold capital projects that would have upgraded and modernized facilities, added clinical technologies, or added information technology projects. Sixty-five percent of the projects put on hold impacted inpatient medical and surgical care. Eighty-two percent of information technology projects that have been put on hold would have automated clinical processes, while 68 percent would have improved care quality and patient safety. Some hospitals have even stopped in-progress projects before completion.

According to David Marcinko, MD, certified medical planner and CEO of Medical Business Advisors, Inc., (www.medicalbusinessadvisors.com) some hospitals will struggle to make a profit even when the recession ends. Answering questions by email, he said, "The 'golden-age' of medicine (1965-90) is gone forever; demographics and aging populations run against the tide as are the expensive trends of technology, new treatment options and new drugs, etc. And, inner city hospitals and (Medicare/Medicaid) providers are hurt more than the private entities; as always."

Still, Marcinko said hospitals can take several steps to weather the storm, including improving their management of revenue cycles – an area where the health care sector follows far behind the more efficient retail and financial services industries. He said hospitals should automate their financial processes so patients can be approved and cleared quickly. Insurance claims should be submitted at least daily and ideally immediately after providing care, rather than monthly. He said hospitals also should improve their length-of-stay forecasting to better utilize capacity.

Marcinko said there are other areas where hospitals can find savings. They can improve supply-chain management, including adopting a just-in-time approach where possible. He advised better management of hospital access and scheduling to avoid bottlenecks regarding critical resources. Better outpatient scheduling can reduce patient waiting times, nurse staffing and overtime for physicians.

He said hospitals should look for creative new revenue sources, such as participating in drug trials or embracing alternative medicine such as acupuncture in order to get a piece of the \$20 billion being spent annually for those goods and services.

Moreover, he said that now is a good time for hospitals to consider upgrading their facilities. It may seem counterintuitive, but upgrading is cheaper during a recession and can provide a greater return on investment than trying to increase demand for services.

The federal government's economic stimulus package should help, although specifically how is yet uncertain. Meanwhile, a statewide tobacco tax, passed by the Legislature and signed into law by Governor Mike Beebe this year, will add \$86 million annually in state funds for health programs, plus about the same amount in federal matching funds. (See accompanying story.)

The state is receiving about \$2.1 billion from the federal package – a sizable enough chunk that Governor Mike Beebe has convened the relevant agency heads into a Governor's Recovery Cabinet that will meet on an as-needed basis.

Many of those dollars will come in the form of a higher federal Medicaid match rate. Currently about 73 percent, those rates will rise to about 80 percent for a nine-quarter period beginning October 2008. According to Julie Munsell, spokesperson for the Arkansas Department of Human Services, Arkansas Hospital Association senior vice president, one analysis has shown that this provision alone will result in \$700 million extra dollars for the state.

States also will receive \$19 billion in grants and loans related to health information technology, an area on which Marcinko

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advised hospitals to focus. Munsell said providers could receive the money directly from the federal government rather than going through the state.

Paul Cunningham, senior vice president for the Arkansas Hospital Association, said there are other areas where the state will see extra dollars through the stimulus package. It will receive increases in its Medicaid disproportionate share dollars – money provided to offset the cost of caring for low-income patients. Also, the package extends a moratorium for enforcing certain Medicaid regulations that would be costly to hospitals if enacted, such as those regarding provider taxes and targeted case management. The stimulus package also places a moratorium on implementing cuts of certain Medicare payments to hospitals involving indirect medical education. It also provides \$300 million for the National Health Service Corps and \$200 million for general education for nurses and doctors, as well as a provision creating incentives in 2009-10 for banks to purchase hospital tax exempt bonds.

According to Matt DeCamp, spokesperson for Beebe, the governor is directing agency heads to use Medicaid funds for one-time expenditures rather than ongoing projects to not obligate the state for future projects. "We don't want to build them into ongoing programs that we're then left on the hook to fund once the federal money goes away."

Julie Munsell, spokesperson for the Arkansas Department of Human Services, said it's too early to tell what the state will do with the extra money, especially considering that it doesn't know how much flexibility it will be provided by the federal Center for Medicaid/Medicare Services. "That's why I say the devil's in the details," she said.

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