How to Solve the Patient Pay Challenge

February 27, 2015

Agenda

The Future Forecast
The CHRISTUS Experience
Leveraging Predictive Analytics
Closing Thoughts
A Challenging Environment

There are storm clouds on the horizon...

- Rise of the consumer as a payer
  - Exchanges and high deductibles
  - Regulator and government scrutiny

- Integration across care continuum
  - Hospital-clinician-ancillary services
  - Attention to the end-to-end patient outcome

- Expanded risks born by provider enterprise
  - ST: ICD-10, Readmissions, bundled payments
  - LT: Value health reimbursement, clinical integration

- Relentless ROI pressure
  - No room for budget growth
  - Maximize revenue from every encounter
  - Capital budgets committed to clinical IT

- Transforming “on the run”
The Rise of the Consumer

Non-Government HSA / HDHP Enrollment, AHIP January 2014 Census

700+% increase

Million Covered Lives


Other
Large Group
Small Group
Individual Market

The Rise of the Consumer

Exchange plans are also oriented toward a consumer-directed approach

Health care accessed:
Hospitalized, 3 doctor visits, 20 PT visits

<table>
<thead>
<tr>
<th></th>
<th>Bronze (enrollee pays)</th>
<th>Silver (enrollee pays)</th>
<th>Gold (enrollee pays)</th>
<th>Platinum (enrollee pays)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$3,000</td>
<td>$2,000</td>
<td>$600</td>
<td>$0</td>
</tr>
<tr>
<td>Inpatient (after deductible)</td>
<td>50%</td>
<td>$1,500 / admission</td>
<td>$1,500 / admission</td>
<td>$500 / admission</td>
</tr>
<tr>
<td>Physician visit (after deductible)</td>
<td>$50</td>
<td>$30</td>
<td>$25</td>
<td>$15</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Bronze</th>
<th>Silver</th>
<th>Gold</th>
<th>Platinum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$5,150</td>
<td>$4,190</td>
<td>$2,675</td>
<td>$845</td>
</tr>
</tbody>
</table>

Total Out of Pocket Expenses

Patient Responsibility Analysis by Center on Budget and Policy Priorities, June 2013.
Competency Transformation

To balance the budgets, operations will need to change approach to managing consumers and operations

- Patient Relationship Management
  - Selection
  - Engagement over time
  - Loyalty

- Applied data
  - Predictive in nature
  - Automate day-to-day processes
  - Inform critical business decisions

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Closing Thoughts
A Closer Look at CHRISTUS Health

Among the top 10 Catholic health systems in the U.S.

- $3.1 billion NPSR
- 30,000 employed associates
- 9,000+ staff physicians
- 60 hospitals and long-term care facilities
- Seven U.S. states, Chile and Mexico
- 175+ clinics and outpatient centers
- $4.6 billion in assets

Revenue Cycle 2013

Complex, inconsistent, and failing to leverage our scale

- Mix of local, regional and central operations
  - Retain local accountability but capture benefits of scale
  - 5 CBOs and Central Self Pay team (TLRA)
- Each CBO operated as revenue cycle lead
  - Gov’t, commercial and self-pay
  - Use and selection of vendors (other than TLRA for primary bad debt)
  - Some hospitals retained vendor selection rights
  - More than 30 different vendors engaged
- TLRA, available central self-pay resource
  - All primary bad debt, although placement timing left to CBO/Hospital policy
  - Optional active A/R services (“early out”), left to CBO/Hospital decision
We recognized that...

- Not leveraging data proactively
  - Major efforts to simply reconcile between hospitals and CBOs
- Failing to realize benefits of CHRISTUS scale
  - Vendors
  - Commercial contracts
  - IT / Systems
- Important policy and processes diverging in places
- Change in many dimensions was slowed
  - Situation was holding back critical opportunities

...and came to believe

- CHRISTUS was large enough to realize scale benefits
- Revenue cycle was a strategic function for the company long term
  - Critical point of patient engagement
  - Long term lever
- Short and long term positive ROI
  - Cash
  - Cost
  - Control
- Balance sheet could support a transformation
- Build a long term platform for innovation

The Opportunity

Consolidation presented a significant opportunity

The Consolidation Strategy

Multi-year program moving where work is done and the technology and process utilized

- Central operating structure
  - Single CBO for Gov’t and MC
  - TLRA for self-pay
- Centrally set policy and process standards
- Vendor strategy and restructuring
- Data-driven
  - Reporting
  - Predictive analytics
- Timely but not rushed migration
  - Clarity of end point
  - Recognition that pacing would be thoughtful

Selected Technology Components

- Self-Pay predictive analytics (2012-2013)
- Vendor management (2013)
- Denial management (2013)
- Computer Assisted Coding (2013-2014)
- Charge Capture
- Front-end systems
Consolidation Pathway

Migration efforts over the balance of 2013 and into 2014

Patient-Pay Transformation

New approach since early 2013, leveraging predictive analytics and vendor management technologies

Day 1

Day 110*
Day 120*
Day 240*

*Spohn and St. Vincent follow altered schedules

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Patient-Pay Transformation

Patient-pay predictive analytics delivering significant ROI

- **25%** increase in self-pay cash since go-live
- Translates to an additional **$8.1M** cash collected per year
- Neutral or better on FTE and postage/letter expense

*Includes both Insurance and Patient Payments; adjusted for shift in segment distribution

Vendor Management

Technology changing our insight and ability to manage performance

- Vendor B performance is equal or better than Vendor A
- Overall netback favors Vendor B, as their commission rate is 15% lower
Commercial Revenue and Denials

Adopting predictive analytic logics to drive our commercial claim follow-up

- Too many claims to work every denial and underpayment equally, but too much money ($8+ million) to not be proactive
- Balance sorting and reason code sorting fail to answer the ROI issue: where is the most return for the resource investment?
- Deploying predictive analytic system to segment and prioritize by collection ROI

### Predictive Analytic Cash-ROI Based Segmentation

<table>
<thead>
<tr>
<th></th>
<th># of Claims</th>
<th>Post Denial Payments</th>
<th>Payment per Claim</th>
<th>% of Claims</th>
<th>% of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Priority</td>
<td>6,791</td>
<td>$7,149,986</td>
<td>$1,053</td>
<td>25%</td>
<td>86%</td>
</tr>
<tr>
<td>Low Priority</td>
<td>5,968</td>
<td>$899,844</td>
<td>$151</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>No Follow Up</td>
<td>14,098</td>
<td>$321,482</td>
<td>$22</td>
<td>53%</td>
<td>3%</td>
</tr>
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</table>

Lessons Learned

- Opportunity in standardization greater than we initially expected
  - With every deployment we find more and new upsides
- Clarity in responsibility improving coordination and energy between Central Resource and facilities
  - Less debate about who handles
  - More focus on how we are doing and how to improve
- Speed less critical than clarity of objective
  - This is the end-point
  - Transition will be thoughtful and reflect the needs of all parties
  - But we will get to the other side within a set window
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• Cash recovery increase
• Post and print savings
• FTE reallocation
• More efficient
• Lower Employee turnover

Hard Gains

• Better patient experience
• Patient loyalty
• Physician support

Soft Gains

Plus...

Costs

• Predictive Analytic Cost
• IT work (if necessary)

Less...

Multiple components to the business case

<table>
<thead>
<tr>
<th>More Cash</th>
<th>Operating Cost Savings</th>
<th>Cost of Predictive Analytic System</th>
<th>Net Value</th>
</tr>
</thead>
</table>

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More Than Simply a Model

Success starts with the predictive analytic but requires driving to segment-level activity programs
- Predictive Analytic informs the subsequent components
- What segment, with what activity, when, and with what message

Predictive Analytics – “Cash is King”

Our ability to invest is primarily constrained by the cash opportunity

- Expected Cash Value
  - How much cash should we expect to collect from a given account?
- Expected Cash Value is NOT the same as “propensity to pay” or “probability to pay”
  - These are measures of “how likely an account is to pay”
  - Fail to answer what percentage of the bill will be paid
- Expected Cash Value key to managing collection operation
  - Large balances tend to have “low propensity” but are ultimately source of most business office cash
Monitoring and Improving Over Time

Monitor performance and enhance over time
– Identify where/how to enhance segment definition
– Identify where/how to enhance workflows

<table>
<thead>
<tr>
<th>Self-Selected Payor</th>
<th>Patient Repayment Behavior</th>
<th>Reluctant Payor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segments</th>
<th>% of Accounts</th>
<th>% of Collection</th>
<th>% of Balances Paid if Pay</th>
<th>Lift from Prior Baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment 1</td>
<td>20%</td>
<td>1%</td>
<td>53%</td>
<td>0%</td>
</tr>
<tr>
<td>Segment 2</td>
<td>26%</td>
<td>11%</td>
<td>97%</td>
<td>12%</td>
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<tr>
<td>Segment 3</td>
<td>37%</td>
<td>26%</td>
<td>43%</td>
<td>8%</td>
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<tr>
<td>Segment 4</td>
<td>12%</td>
<td>25%</td>
<td>88%</td>
<td>14%</td>
</tr>
<tr>
<td>Segment 5</td>
<td>5%</td>
<td>36%</td>
<td>52%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Month X
Decline in segment 150/170 performance during summer
Caused by key staff on vacation with no backfill
Implemented catch-up campaign.

Month Z
Performance erosion in 110/130 and 180
Shortfall seen in 0-30 day collections
Shifted call timing pattern and added dialing campaigns to in process accounts.

Month A
Noticed reduction in 150/170's unit yield
Caused by % of BAI increase in segment which leads to decreased in average balance.

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- The perfect storm is here
  - Affordable Care Act (ACA)
  - High-Deductible Health Plans (HDHPs)
  - ICD-10
  - 501(r)

- Which presents the motivation for breakthrough transformation
  - Data-driven solutions
  - Business model re-thinks
  - Proven applications

- The upside is significant, short and long term
  - Cost reduction
  - Cash flow
  - Patient Experience

- The “wait it out” path has high downside risk