

A TAKE-ACTION GUIDE

PAYER MIX EROSION

*Systems nationwide are seeing their
proportion of commercial volumes slide.
Is there a way to regain lost ground?*

PAYER MIX EROSION

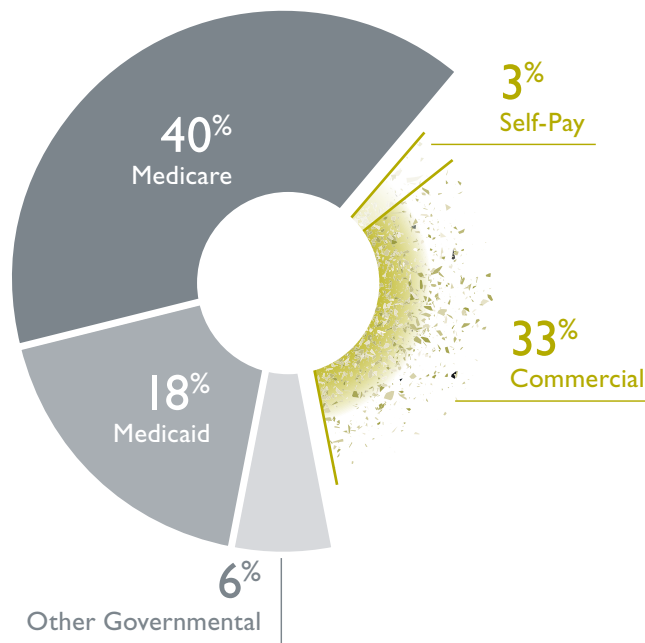
HEALTH CARE PAIN POINT

Avenues for growth for many health systems today seem insurmountably constricted. Value-based payment models, site of care shifts and new market entrants have stalled many traditional growth opportunities.

Frequently, Sg2 is hearing from executives who are highly concerned about their eroding payer mix. It's a growing problem: Medicare and Medicaid share of the payer pie continues to expand at the same time that reimbursement trends downward. The net result? Financial uncertainty and margins under threat.

To balance payer mix in support of the bottom line, commercial volumes are critical. The dollars speak for themselves: a recent report from the Congressional Budget Office found the average inpatient commercial payment rate to be nearly 90% higher than the Medicare fee-for-service rate. And yet valuable commercial volumes are increasingly hard to find. Projections indicate already-low commercial volume penetration will further deteriorate over the next decade, representing just a third of hospital payer mix by 2024.

MARKET FORCES ARE EATING AWAY AT THE EDGES
Forecasted National Payer Mix, 2024



Source: Mulvaney C. *Healthc Finance Manag.* 2016;70:30–33.

→ → → *There are pockets of expanding, clinically appropriate, financially attractive services to be found. Systems just need to dig a little deeper.*

Sg2 PERSPECTIVE

To shore up payer mix, robust channels for short-term revenue are key. But getting to that growth can be challenging for leaders with a mind-set more appropriate for the 1990s. Back then a narrow focus on specialty referrals was top priority. Today requires a broader perspective, one focused further upstream. **With an aggressive approach, you can reclaim commercial volumes.** But capitalizing on that opportunity demands a solid ground game.

LEARN YOUR MARKET TRAFFIC PATTERNS

To tap channels of commercial volumes, you'll need visibility into how patients move across your local ecosystem to identify and prioritize physician groups that are directing essential volumes.

PLAY TO YOUR POINT OF LEVERAGE

How you proceed will then depend on local physician positioning. In some markets, a land grab will have left MDs all locked up. You'll need to focus furthest upstream, with a dynamic strategy that goes direct to employers or even straight to consumers.

Yet in more markets than anticipated given burgeoning alignment models, sizable numbers of independent and loosely affiliated primary care physicians (PCPs) and specialists remain. And within their control is significant business still to go after, both volumes and margin. Honing your physician outreach will sharpen your ability to shift share in your favor.

KEY ANALYSIS | Are Provider Systems Leaving Money on the Table?

Sg2 recently completed a drill-down using Patient Flow™ for a system with a large number of affiliated orthopedists. The analysis of commercial claims showed the system capturing little more than 1 in 10 potential joint replacement cases in its primary service area. A competitor down the road was topping 40%. Why? Leakage from affiliated specialists wasn't the issue. Rather, PCPs controlled the channels, and there were plenty of free agents.

SAMPLE ANALYSIS: TOTAL JOINT REPLACEMENT (TJR) CARE PATHWAY

<p>Analysis of this Sample Client's market revealed the split between visits to affiliated vs nonaffiliated providers as TJR patients flowed from their initial PCP encounter through an orthopedic consult and, ultimately, to surgery.</p> <p>Patients following this particular pathway had only an 11% chance of receiving a total joint replacement at an affiliated Sample Client site.</p>	PCP VISIT	ORTHO CONSULT	TJR PROCEDURE
	In a 6-month time frame, 4% of patients visit an affiliated PCP (total of 86 encounters).	70% of these patients then visit an affiliated orthopedic surgeon (60 encounters).	98% then visit an affiliated site (59). 2% then visit a nonaffiliated site (1).
		30% of these patients then visit a nonaffiliated orthopedic surgeon (26 encounters).	3% then visit an affiliated site (1). 97% then visit a nonaffiliated site (25).
	In a 6-month time frame, 96% of patients visit a nonaffiliated PCP (total of 2,216 encounters).	8% of these patients then visit an affiliated orthopedic surgeon (168 encounters).	100% then visit an affiliated site (168). 0% then visit a nonaffiliated site (0).
		92% of these patients then visit a nonaffiliated orthopedic surgeon (2,048 encounters).	1% then visit an affiliated site (20). 99% then visit a nonaffiliated site (2,028).

By running the math strictly based on shifting a realistic proportion of referrals from 7 independent PCP practices, Sg2 was able to identify more than \$600,000 in revenue there for the taking.

SAMPLE ANALYSIS: PINPOINTING PRIMARY CARE POTENTIAL INTO THE ORTHOPEDIC PIPELINE

Estimates of Volume Growth and Revenue and Margin Returns, 2018

PRIORITY	OUTREACH TARGET	ANNUAL TJR OPPORTUNITY (VOLUMES)	REALISTIC GROWTH (VOLUMES)	ESTIMATED REVENUE OPPORTUNITY	ESTIMATED MARGIN OPPORTUNITY
Nonaffiliated PCPs to Nonaffiliated Orthopedic Practices	Independent PCP Group 1	25	6	\$180,000	\$27,000
	Independent PCP Group 2	19	5	\$150,000	\$22,500
	Independent PCP Group 3	13	3	\$90,000	\$13,500
	Independent PCP Group 4	11	3	\$90,000	\$13,500
	Independent PCP Group 5	6	2	\$60,000	\$9,000
	Independent PCP Group 6	5	1	\$30,000	\$4,500
	Independent PCP Group 7	5	1	\$30,000	\$4,500

Patient Flow unearthed more than \$600,000 in unrecognized revenue for the taking. <<<<<<<<

Note: Data do not reflect actual referrals, but actual patient activity, from which referral patterns can be inferred. Sources: Sg2 Patient Flow, 2017; Health Intelligence Company, LLC; OptumInsight; Healthcare Data Solutions; Sg2 Analysis, 2017; Congressional Budget Office. An Analysis of Hospital Prices for Commercial and Medicare Advantage Plans. June 26, 2017.

Looking for short-term revenue to shore up payer mix? Sg2 CAN HELP.



Want to Learn More?

Let us teach you.

Payer mix is a complex topic. Sg2's suite of intelligence offerings provides the guidance you need to get up to speed and start strategizing for success.

Sg2 SOLUTIONS

- Explore our **Payer Mix Erosion resource kit** to access a diverse range of thought leadership on this topic.
- Sign up to get an early release of our **upcoming report** on direct-to-employer contracting strategy.



Ready to Take Action?

Let us guide you.

Has the pressing problem of payer mix moved to the top of your priority list? Sg2's team can show you how to mine your market- and organization-specific data to reveal growth potential where competitors may not be looking or are ill-positioned to compete.

Sg2 SOLUTION

Schedule a **personalized session**. Facilitated live or virtually by Sg2 experts, this session will:

- Educate your team on the challenges of payer mix erosion and strategies to combat it
- Showcase the power of robust claims data to gain actionable insight into local market traffic patterns
- Provide a drill-down into 1 key clinical area to spot strategic options based on your organization's unique needs



Stretched Too Thin?

Let us tackle it for you.

Want the analysis we've shared tailored to you? Our consulting experts can help personalize your pain point approach, creating quantitative assessments and developing a detailed action plan.

Sg2 SOLUTION

- As a complement to your membership, turn to our consulting experts to help you forge a **smart growth strategy**. They'll identify achievable growth targets and create a customized solution for netting the best and quickest returns.

YOUR TAKE-ACTION TEAM: CFO | BUSINESS DEVELOPMENT | PHYSICIAN LIAISONS | STRATEGIC PLANNING

YOU CAN RECLAIM COMMERCIAL SHARE.
SCHEDULE YOUR Sg2 SESSION TODAY.

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