



**Hospitalist Management Resources, LLC**

**White Paper:**

**Regional Referral Programs**

**June 28, 2014**

# **Growing Niche for Regional Referral Programs**

## **The Problem:**

Hospitals nationwide are reporting a sustained decline in Emergency Department (ED) utilization, resulting in decreased admission rates and reduced patient days. Regardless of the cause (Healthcare Reform, economic challenges, rising unemployment, etc.), the impact is clear: an average 5-7% drop in census and a significant loss of revenue.

For Hospitals yet to experience census declines in the ED, many report lacking a strategy to counter-act anticipated effects of Healthcare Reform on ED utilization.

In addition, Hospitals are currently unable to direct patients to in-network providers because there is no easy way to refer within a network. Consequently, Hospitals complain of patient 'leakage' to competing facilities.

## **The Emergency Department Imperative:**

On average, 12-15% of ED visits result in patients being admitted, which accounts for approximately 40-50% of a facility's total admissions and a contribution margin between \$1k - \$15k per admit. The direct connection between ED utilization, subsequent admissions and the resulting revenue indicates that the success of any facility in this changing healthcare landscape depends on increasing the number of times that new patients pass through the Emergency Department doors.

## **The Million Dollar Question:**

How does one hospital or health system attract more patients into their EDs?

## **Solution through Regional Referral Programs:**

The most effective solution is for a facility or health system to develop a highly functional Regional Referral Program, resulting in a 15 to 1 return on investment. Current successes show that facilities and health systems with Regional Referral Programs have grown their influence significantly, garnering patient care and admission opportunities from facilities far outside of traditional referral patterns. This has proven beneficial because the payor mix of patients referred from out-of-area tend to be equal to or better than the receiving facility's current E.D. mix. Thus, hospitals that successfully establish

and market themselves as regional receiving facilities have significantly more opportunities to increase patient admissions.

### **Regional Referral Program Priorities:**

Numerous hospitals and health systems have developed very effective Regional Referral Programs by prioritizing the following:

*Identification and Development of Key Service Lines* – Determining specialties (Cardiology, Neurology, Pediatrics, etc.) for which the facility wishes to solicit patients. The goal is to develop a solid reputation as the “go to” receiving facility for the targeted service lines.

*Aligning Physician Partners* – The success of any Regional Referral Program depends on the participation and support of the facility’s physician partners, whether by promoting the program with regular visits to the region’s referring facilities, or by being consistently available and accepting patients. To achieve these goals, successful Regional Referral Programs have implemented Hospitalist Programs to receive the patients and specialist compensation programs that reward participation.

*Transfer Center Utilization and Marketing* – Additionally, effective Regional Referral Programs require a *simple, consistent* way for facilities to refer their patients. Structured *Transfer Centers* tie the entire referral program together with “*one call does it all*” ease, coordinating patient transfers from the initial request through completion of the transport. Mature Transfer Centers will also provide extensive operational reporting and key patient flow analytics for hospital administration. Focused marketing strategies can convert the Transfer Center from a passive patient flow processing service into an aggressive volume builder for the facility or health system. Proven techniques can be employed to grow desired business through sound relationships with the referring parties.

### **Regional Referral Program Results:**

Facilities and health systems currently utilizing Regional Referral programs are showing exceptional returns in the form of increased Contribution Margins per referral. The chart below—based on actual Regional Referral Programs—highlights the benefits. As

reflected in the chart below, the average contribution margin is over \$5,000 per transferred patient.

SAMPLE PROFITABILITY REPORT - by Facility											
Referring Facility	Cases	Days	Charges	Expected Net Revenue	Direct Cost	Indirect Cost	Total Cost	Contribution Margin	Net Income	Contribution Margin per Case	
Facility A	34	220	\$ 1,092,016	\$ 622,413	\$ 280,081	\$ 119,883	\$ 399,964	\$ 342,332	\$ 222,449	\$ 10,069	
Facility B	244	1,266	\$ 7,214,384	\$ 2,662,311	\$ 1,581,680	\$ 691,341	\$ 2,273,021	\$ 1,080,631	\$ 389,290	\$ 4,429	
Facility C	161	938	\$ 6,903,266	\$ 2,941,647	\$ 1,695,032	\$ 604,717	\$ 2,299,749	\$ 1,246,615	\$ 641,898	\$ 7,743	
Facility D	32	140	\$ 1,066,425	\$ 388,898	\$ 286,419	\$ 96,863	\$ 383,282	\$ 102,479	\$ 5,616	\$ 3,202	
Facility E	58	464	\$ 2,401,113	\$ 971,858	\$ 502,988	\$ 225,031	\$ 728,019	\$ 468,870	\$ 243,839	\$ 8,084	
Facility F	40	256	\$ 1,635,931	\$ 831,696	\$ 397,250	\$ 148,736	\$ 545,986	\$ 434,446	\$ 285,710	\$ 10,861	
Facility G	159	820	\$ 4,838,233	\$ 1,909,249	\$ 1,208,885	\$ 469,495	\$ 1,678,380	\$ 700,364	\$ 230,869	\$ 4,405	
Facility H	107	658	\$ 3,321,016	\$ 1,220,079	\$ 685,664	\$ 329,134	\$ 1,014,798	\$ 534,415	\$ 205,280	\$ 4,995	
Facility I	238	1,198	\$ 7,867,190	\$ 2,946,718	\$ 1,832,414	\$ 736,174	\$ 2,568,588	\$ 1,114,305	\$ 378,130	\$ 4,682	
Facility J	114	660	\$ 3,967,033	\$ 1,632,956	\$ 1,044,900	\$ 372,213	\$ 1,417,113	\$ 588,055	\$ 215,842	\$ 5,158	
Facility K	98	498	\$ 3,331,443	\$ 1,484,500	\$ 837,977	\$ 325,897	\$ 1,163,874	\$ 646,523	\$ 320,626	\$ 6,597	
Facility L	93	408	\$ 2,505,675	\$ 1,092,172	\$ 681,214	\$ 247,728	\$ 928,942	\$ 410,958	\$ 163,230	\$ 4,419	
Facility M	113	674	\$ 4,259,901	\$ 1,535,669	\$ 1,005,816	\$ 414,954	\$ 1,420,770	\$ 529,852	\$ 114,899	\$ 4,689	
Facility N	64	300	\$ 1,715,722	\$ 646,417	\$ 426,301	\$ 172,974	\$ 599,275	\$ 220,115	\$ 47,141	\$ 3,439	
Facility O	143	675	\$ 3,554,063	\$ 1,337,896	\$ 782,519	\$ 362,219	\$ 1,144,738	\$ 555,376	\$ 193,158	\$ 3,884	
Facility P	102	306	\$ 1,230,301	\$ 602,797	\$ 317,937	\$ 137,569	\$ 455,506	\$ 284,860	\$ 147,291	\$ 2,793	
Grand Total	1,800	9,481	\$ 56,903,712	\$ 22,827,276	\$ 13,567,077	\$ 5,454,928	\$ 19,022,005	\$ 9,260,196	\$ 3,805,268	\$ 5,145	

**Transfer Center Costs:** Studies of current successful internal Transfer Center services show that the average cost *per transfer request* is approximately \$230 for new centers and \$190 for established centers (*assuming a daily request volume of ~12*).

**Note on the Future Importance of Full-Service Transfer Centers within Accountable Care Organizations (ACOs) and Bundled Payment Programs:**

Medicare ACOs may have difficulty lowering costs and improving care quality because beneficiaries have unrestricted choice of health care providers. This often leads to fragmented care, weakened facility incentives, and ultimately undermines the ACO’s efforts to effectively manage patient progress. Health care provider organizations are more likely to succeed when they: partner with providers; make the necessary investments to effectively coordinate care; manage chronic conditions; and facilitate ease of transfer within the provider network. One example of this is establishing a Full-Service Transfer Center that also offers Post-Discharge Follow-Up services to prevent unnecessary readmissions and to direct beneficiaries to in-network providers, should additional care be required.

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## **Hospitalist Management Resources, LLC Experience:**

Our organization, Hospitalist Management Resources, LLC (HMR), assists physicians, clinics and hospitals with the design, evaluation and support of Hospitalist programs, Emergency Department (ED) compensation programs and other specialty programs. We do not manage programs on an ongoing basis. For nearly 14 years, we have been involved nationwide with the development and evaluation of more than 500 Hospitalist, Intensivist and other specialty Hospitalist programs as well as ED call panel solutions. We have consulted with large medical groups, small and large community hospitals and teaching universities. HMR focuses exclusively on consulting, allowing us to offer a unique and objective perspective for our clients. As a result of our dedicated focus, the clients we have assisted over the years consistently operate among the best Hospitalist programs and the most equitable ED compensation programs in the country.

HMR takes a two-fold approach to develop the most productive solution for your organization. First, we lead by listening to the needs of the ED call panel members. Our interviews give us the perspective of the Medical Staff and a better understanding of what it will take to transition the Hospital with a successful Regional Referral Program, including the development of an effective Transfer Center. Then we analyze the current clinical and business data to recommend the changes necessary for success as well as the proposed physician compensation programs, the business plan and return on investment analysis. If we find that the Hospitalist Program is not operating at maximum efficiency, we propose changes for you to implement. If the Medical Staff is not aligned with the Hospital, we propose changes that will create positive synergies between the hospital and ED call panels. Often, this involves changes to panels, including new Surgicalist Hospitalist Programs, or it requires changes to the compensation program to reward physician behavior that is supportive of the Hospital's goals. Once the deficiencies have been identified and corrections implemented, the Hospital is positioned to function as a successful Regional Referral Center with an efficient and effective transfer center.