

Healthcare Finance: What I See Clearly Can Be Scary



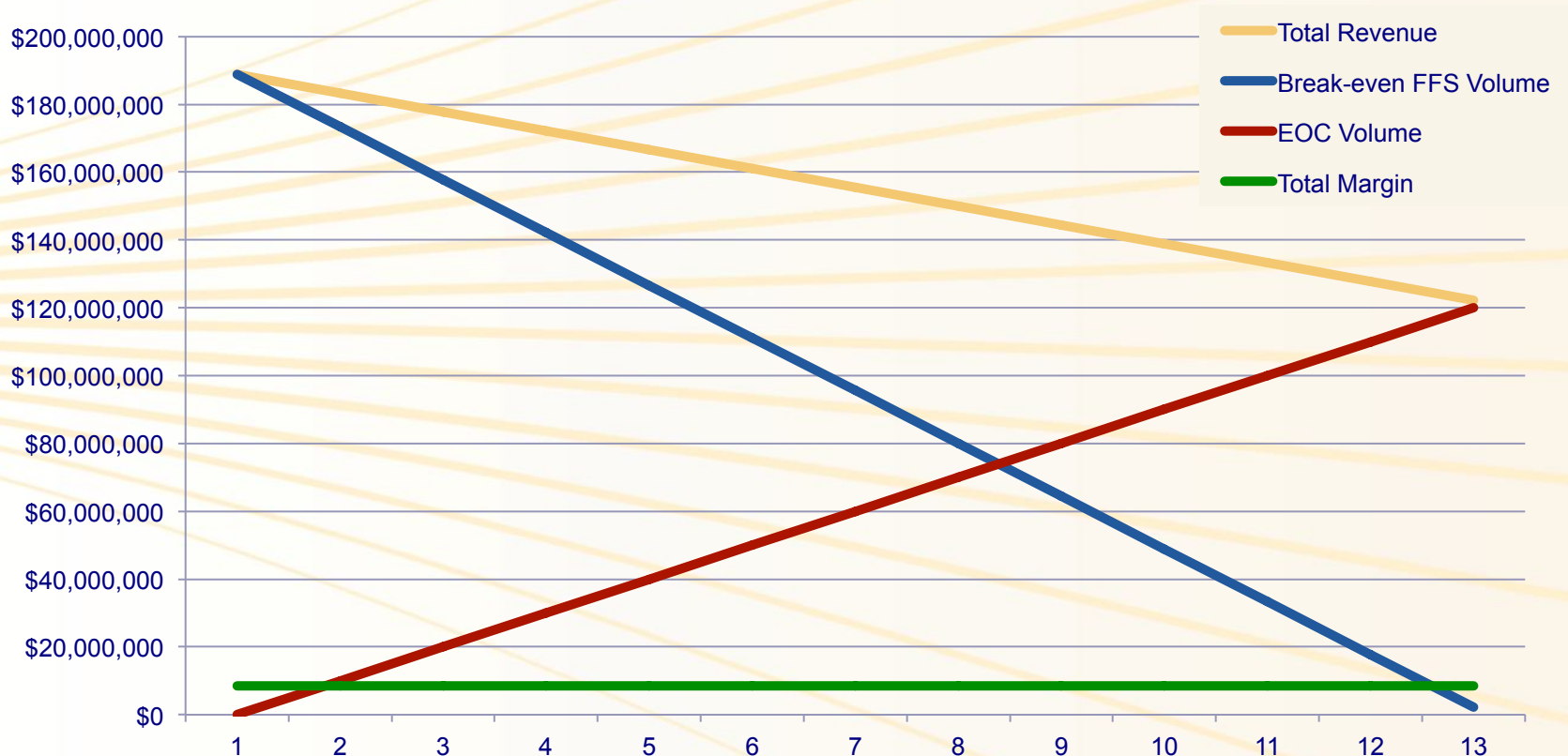
Fair, Evidence-based Solutions. Real and Lasting Change.

The CFO's Dilemma
May 2011

The CFO's Dilemma

- It's better to make a 7% margin on \$140 million in revenue from value-based payments than a 4.5% margin on \$190 million in revenue from fee-for-service
- However, you're worse off if you're making 7% margin on \$40 million from VBP plus a 4.5% margin on \$120 million from FFS
- So...how do you manage the transition from volume-based payment to value-based payment?

EOC volume and margin dictate the sustainable pace of change



Note: Assumes a 7% margin for Episode of Care payment and a 4.5% margin for FFS payments.

$$\text{FFS b/e Vol} = (\text{Target } \$ \text{ Margin} - (\text{EOC } \$ \text{ Vol} * \text{EOC margin})) / \text{FFS margin}.$$

Maintaining current net cash margin is essential

- It can be accomplished by ensuring a significant margin differential between FFS and VBP revenues, especially in the early days of transition
- It can be accomplished by speeding up the transition, which requires the majority of payers to make the switch

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