What is Financial Management in Healthcare?

by Sophia Tutorial

WHAT'S COVERED

In this lesson, you will learn about concepts of healthcare finance, the economic impact of changing healthcare financial policy and the manager/executive role in managing the organization's finances. Specifically, this lesson will cover:

1. Financial Management in Healthcare
2. Challenges
3. Reflect

1. Financial Management in Healthcare

Managers in the healthcare industry need to pay close attention to the following:

- Third-party payers
- Changing health financial policy
- Value-based reimbursement
- Emergence of managed care
- Securing capital to finance new projects/facilities
- Time it takes to collect payments
- Rising cost of the workforce
- A wide array of revenue streams and payment types

Managing finances is part of every organization. Corporations, religious organizations, not-for-profit organizations, and even government agencies all need to deal with finances. Managing the finances of an organization goes beyond just managing the flow of money in and out of the organization. Good financial management includes budgeting, forecasting, mitigating financial risk, and understanding where revenue sources come from. Financial management is part of most leadership roles regardless of organization type. At the very minimum, healthcare leaders need to understand the financial picture of their organization, department, or agency that they are leading.

2. Challenges

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Healthcare financial management is typically more challenging. This is because revenue sources in healthcare often come from third parties such as insurance companies, government programs like Medicare, Medicaid, or managed care organizations.

Healthcare managers often must deal with longer periods of time to collect revenue as well. This can create budgeting challenges. Good financial management in healthcare should always include the ability to forecast both revenue and costs related to the specific organization or department.

Evaluation is also an important aspect of financial management in healthcare. In order to plan, healthcare leaders must have the ability to evaluate their financials. In order to successfully strategize for the future, financial evaluation needs to look at the effectiveness of organizational operations. Healthcare leaders typically evaluate the cost of day-to-day operations, the cost of staffing their organizations, the cost of maintaining and acquiring patients or clients as well as the fixed costs associated with the organization such as rent, mortgages, and maintenance.

Currently, the economic environment is favorable for healthcare organizations. This means the utilization of services remains strong. Private healthcare organizations also have been able to secure capital at historically low costs (Arduino, 2018). Currently, this allows healthcare organizations to secure favorable financing for new technology, capital projects, and growth.

At the executive level, financial management often includes negotiating contracts, making sure monies are available for future endeavors, and ensuring positive cash flow to meet day-to-day operations. Executives also ensure financial stability in order to make payroll, maintain the organization's facilities, and keep the organization on a solid footing. Executives need to ensure that the leaders of their department have adequate financial information to make strategic decisions.

> EXAMPLE A nurse manager most likely would have access to the budget and financials related to their department. Often, nurse leaders will have input into the budgeting process as well.

It is important to always consider the costs of clinical aspects of care when making financial decisions. This includes areas such as staffing, equipment purchases, and day to day patient care.

It is important to note that financial management in healthcare is challenging. Challenges arise due to the changing environment of healthcare. For example, with the implementation of the Affordable Care Act, financial managers in healthcare must quickly adjust to new payment schedules. Managed care also has created many challenges.

Video Transcription

Jordan is a nursing unit manager at a large community hospital. Currently, the unit is experiencing a high incidence of billing errors as well as budget issues frequently attributed to staffing problems, overuse of supplies, and failure to bill patients for supplies provided during treatment.

Broadly speaking, managing finances in health care is particularly challenging mostly due to the continually changing environment. In the US, health care expenditures have been rising extremely fast. Most of the spending increase went to producers of intermediate goods like medical supplies and purchased services, although the labor compensation paid to staff increased as well.

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Health care managers like Jordan need to understand the basics of financial reporting. Most organizations use these four financial reports. First, the income statement shows the revenues, expenses, as well as the profit and losses over a set period.

The balance sheet shows the assets of the organization, which includes property and cash, liabilities, or responsibilities that the organization must meet such as loan payments and payroll expenses and equity, which is the amount left after liabilities are subtracted from assets.

Then there is the statement of cash flows, which shows the amount of cash and cash equivalents flowing in and out of an organization. Then the statement of retained earnings shows the changes in equity over time.

Along with these, the health care industry commonly uses some additional financial reports. First, there is a fee schedule, which is a list of fees for each service that the organization provides. Then there is the electronic health record, which holds important information not only about the patient's diagnosis, treatment, and progress but also billing information such as the patient's insurance company, copayments, and patient deductibles.

An aging report shows when the last insurance reimbursement payment was received on a patient and what balances are owed by the patient or insurance company. Finally, patient account reports are often part of the aging report and consist of important patient information like a customer or client report that includes details on what services have been paid for and what services are still owed.

Now, to address the unit's issues, Jordan should meet with the leadership team and discuss investing in an electronic health record system that can improve both clinical and administrative workflow. Specifically, it's important to ensure that the system can recognize common billing errors, produce aging reports, and alert managers when accounts are not paid, lower than normal admissions or caseload, and when staffing does not match case load.

Even though the hospital has a billing and finance team that handles a lot of this, he should explain that health care finance starts at the clinical level. So it's crucial that the clinical staff enter the correct information into the patient's chart and each procedure, treatment, or diagnosis is recorded correctly.

3. Reflect

Jan Smith is a registered nurse and new manager of a transitional care unit at a mid-sized metropolitan hospital. She has been on the job for about one year and has sat in on several budget meetings. She has a very good understanding of the tight budget and has been doing a great job keeping staffing and operational costs under control.

However, there have been recent concerns over revenues from this unit by the executive leadership. The transitional care unit gets reimbursed differently than other units of the hospital. In most cases, reimbursement is based on the length of stay. Patients are typically allotted a 21-day stay maximum where they can receive rehabilitation services, as they are not quite ready to transition back home. Recently,

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physicians have been referring their patients to more modern, complex rehabilitation facilities. The patients in the transitional care unit typically don't need a lot of rehab or are staying for other reasons, such as waiting on placement to a long-term care facility. The average stay is about 10 days. On average, the unit is 75% full, which means 25% of the beds are often empty.

The hospital executives are wondering if it's worth keeping this unit open as a transitional care unit. They have asked Jan for her input. Jan decided to speak to several staff members as well as referring to physicians. It was determined that the unit lacks the innovative rehabilitation equipment needed and the modern technology to provide effective sub-acute care. The rehab room on the unit is somewhat small and the equipment is outdated. While many physicians stated they would prefer their patients to stay right at the hospital to get their rehab, they have concerns over the quality of rehab they are getting. Jan also noted that many of the patients are complex, such as stroke patients or post-surgery hip-replacement patients. This requires highly trained nursing staff to ensure quality of care. The direct care staff also need special training in restorative care. All staff need to be able to collaborate with the therapy team. Looking at the staffing situation, Jan realizes that she cannot cut staff.

However, Jan sees many areas in the budget where she can make cuts to operational expenses. She sees some areas of waste or overuse of supplies. Jan also sees opportunity. She wonders if making an investment in more modern equipment and technology would improve physician referrals and fill more beds for longer periods of time. In doing some research, Jan feels investing in more modern rehab and restorative equipment as well as some improved technology could be beneficial to the unit. Physicians stated that they would be more likely to refer patients for longer periods of time. The rehabilitation equipment needed would be very costly though.

Jan knows that if she pitches the cost-cutting measures to the executive team, there's a very good chance they would agree to give this a try and she could keep the unit open for an extended period. However, she is also concerned about these cuts having an impact on staff and morale. On the other hand, Jan is considering taking a risk and proposing a bold idea of investing in updated rehab equipment and technology. She would have to spend time forecasting and projecting a return on investment. She feels that if her numbers are off and the hospital invests but does not recoup the money in increased revenues, longer stay time, and more beds being filled, she could lose her job.

REFLECT

If you were Jan, what would you do? Would you go with the conservative approach and propose the cost-cutting measures? Or, would you propose the executive team make an investment and create a long-term strategy to recoup that investment?

Note, these are the types of challenges often faced in today's modern healthcare organization.

Authored by Christopher Miller, DHSc, MHM

Support

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