

Fitch: Utilization Metrics Review

A New Business Model for the Healthcare Industry
Comment

Clinical Volume Metrics in Transition

Legislation Accelerating Shifts in Utilization: Technological advancements, changing care protocols, and a tightening reimbursement environment have been key drivers in moving more care out of the hospital and into the outpatient/ambulatory setting. The incentives and penalties embedded in the Patient Protection and Affordable Care Act (PPACA) have helped to accelerate this transition in clinical care. As the clinical care landscape shifts, so has the method of measuring clinical output.

New Metrics Add Value: Traditional utilization metrics have focused primarily on inpatient activity. With the increasing shift towards outpatient/ambulatory care the need to capture and measure that volume becomes increasingly important in assessing the strength of a hospital or health system's future revenue stream. Fitch Ratings believes that value based reimbursement contracts will further accelerate the shift from high cost inpatient care to lower cost outpatient care.

Reevaluating Volume Growth: From fiscal 2010 to fiscal 2013, Fitch's rated hospital and health system portfolio experienced a decline of inpatient volume compared to an increase in ambulatory services. Furthermore, the anticipated move away from fee-for-service/volume base reimbursement models to value-based/population health management reimbursement requires a re-evaluation of traditional volume based utilization measures.

Future Flexibility Necessary: The ongoing shift toward population health and value-based reimbursement will require some fluidity in the metrics Fitch uses in its analysis. We expect that our credit analysis process will be informed in the near term by data collected by the Centers for Medicare and Medicaid Services (CMS) from demonstration projects and accountable care organizations (ACO) across the country as well as data collected by providers and payors using ever more sophisticated information technology infrastructure.

Existing Metrics Remain Relevant: While Fitch believes that value based reimbursement models, risk sharing arrangements, and increasing consumerism will reward those providers that deliver high quality, low cost care in the most convenient setting, traditional inpatient, volume-based metrics remain important indicators of market relevance and competitive position. Moreover, inpatient admissions, surgical volumes, emergency room visits, average length of stay, and case mix index will continue to have a strong influence on overall profitability.

Utilization trends are also a useful indicator of market position and competitive activity as well as the success or failure of growth strategies around physicians or clinical service lines.

Related Research

[2014 Median Ratios for Nonprofit Hospitals and Healthcare Systems \(August 2014\)](#)

Analysts

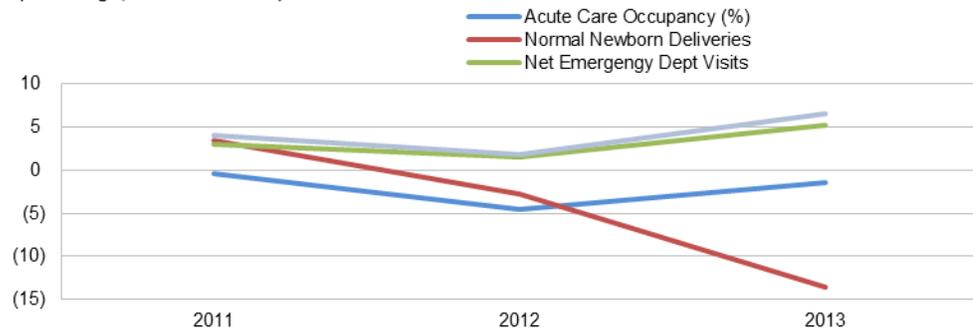
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Shift In Healthcare Delivery

The U.S. healthcare industry is in the midst of significant change, sparked by the passage of and implementation of PPACA as well as the technological changes and clinical advances in care delivery. The key goals of PPACA include increasing the access, improving the quality, and reducing the cost of healthcare services provided in the US. As a result, the transition in healthcare delivery from a volume-based hospital-centric model to a value-based patient-focused model is causing a significant shift in clinical volumes. As result, traditional hospital-based utilization metrics need to be viewed through the lens of an evolving care delivery model with new measures added to assess the sector's transition to outpatient, population health management model.

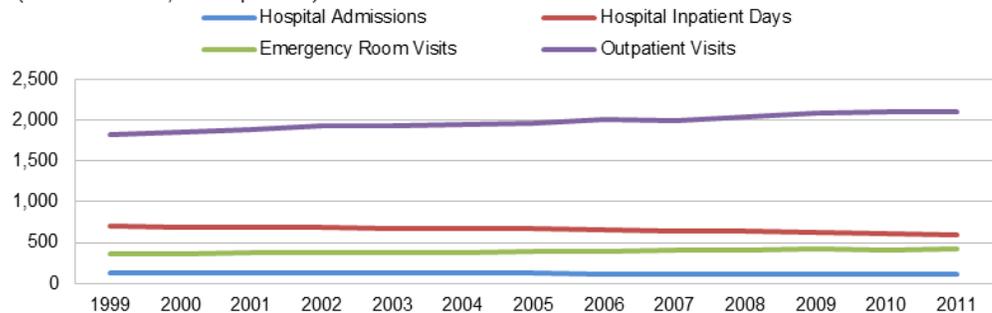
Fitch Investment-Grade Median
(% Change, Year over Year)



These changes are evidenced in several ways. Perhaps the most visible is the ongoing decline in use rates for inpatient services across population groups and service lines. Fitch's investment-grade rated portfolio showed a compound annual median decline in inpatient occupancy of 0.5% from 2010–2013 as well as a 3.4% decline in deliveries. Conversely, emergency department visits were up 2.4% and outpatient visits increased 3.1% annually for the same time period.

U.S. Census data (see table below) provides more evidence of this trend. The average admissions per 1000 declined 0.5% from 1999–2011, while the average number of outpatient visits per 1000 increased 1.1% for the same time period.

U.S. Healthcare Utilization
(Use Rate Per 1,000 Population)



Source: U.S. Census Data

Related Criteria

- U.S. Nonprofit Hospitals and Health Systems Rating Criteria (May 2014)
- Revenue-Supported Rating Criteria (June 2014)

Existing Utilization Metrics

Fitch considers several indicators when evaluating hospital utilization trends, from broad measures of patient activity such as inpatient discharges or total outpatient visits to specific service or ancillary activity that may disproportionately influence profitability. Utilization trends

are also a useful indicator of market position and competitive activity as well as the success or failure of growth strategies around physicians or clinical service lines.

Key existing metrics include: acute adult discharges (excluding rehabilitation, long-term care, and mental health), normal newborn deliveries, surgeries (inpatient and outpatient), emergency department visits (net of admissions), outpatient visits, average length of stay (acute care only), and Medicare case mix index.

These largely traditional utilization metrics capture the volume of services provided, on both an inpatient and an outpatient basis. They provide Fitch with an indirect means of measuring overall market utilization patterns, market share position and relevance, physician and payor relationships, or deteriorating economic conditions. However, as the transition continues from volume to value with a focus on population health, new metrics are under development to better support credit analysis.

Proposed Utilization Metrics

Effective with all audit periods ending after Sept. 30, 2014, Fitch will begin incorporating the following additional utilization metrics into its credit review process. Over the longer term, it is anticipated that these, along with more granular data on revenue diversity, quality, and efficiency, will complement Fitch’s current array of metrics. We anticipate that the ongoing evolution of available data from CMS, commercial payors, and providers as they implement more sophisticated clinical and actuarial information systems will require some fluidity of key metrics gathered by Fitch.

New Utilization Metrics

Indicator	Measure	Significance	Strength		
			Stronger	Midrange	Weaker
Adjusted Discharges	Inpatient Discharges + [(Gross Outpatient Revenue/Gross Inpatient Revenue) x Inpatient Discharges]	Measures total clinical activity, weighting by revenue mix. Predominant measure of total hospital (inpatient and outpatient) volume.	Consistent and/or robust growth trends, indicative of strong demand for services and leading market strength.	Consistent and/or modest growth trends, indicative of steady demand for services and stable market strength.	Flat or declining trends or significant volatility. May indicate market share loss, service area population losses, patient outmigration for services, or poor provider or payor relationships.
Hospitalwide Readmission Rate	Measures the number of unplanned readmission for any cause to any acute care hospital within 30 days of discharge from a hospitalization.	A nationally recognized measure of a hospital’s clinical quality outcomes. Currently Medicare is tracking data and enacting escalating reimbursement incentives and penalties for specific conditions. It is anticipated that other payors will follow this trend on a broader scale.	Rates favorable to the national average may indicate stronger clinical processes and outcomes, and increase the chance of reimbursement bonuses.	Rates in line with national averages indicate sufficient performance, and modest impact from reimbursement incentives or penalties.	Rates unfavorable to national average may indicate poor clinical quality processes or outcomes and may result in material reimbursement penalties as well as higher levels of uncompensated care.
Unique Patient Records	The number of unique medical records with an active visit within a specified time period – typically one year. Can also be measured by care site or payor source.	Measures the number of unique patients accessing – and remaining – within the healthcare organization. Indicates access, demand, and market presence.	Consistent and/or robust growth trends as well as consistent levels of new unique patients per year.	Consistent and/or modest growth trends, including a steady rate of attrition versus new additions.	Flat or declining trends or significant volatility. May indicate poor access, market share loss, patient outmigration, or poor provider or payor relationships.
Total RVUs – By Active and Employed Medical Staff	RVU (relative value unit) is the predominant measure of the volume of work or work effort produced by a physician in treating a patient.	Indicates the productivity of the medical staff, with direct impact on revenue and reimbursement. Median RVU will vary widely by physician specialty and care site.	Stability to modest growth indicates an active and productive medical staff.	Steady levels which are comparable to the 25th–75th percentile benchmarks for respective specialties.	Sharp volatility or significant declines may indicate medical staff instability, service over/under use, or access issues.

New Utilization Metrics (continued)

Indicator	Measure	Significance	Strength		
			Stronger	Midrange	Weaker
% Net Revenue – Outpatient/Inpatient	The percentage of total net revenue derived from inpatient versus outpatient services. May also be measured as a percentage of gross revenue.	Indicates the source of revenue by care site. Industry-wide, the shift has been from +65% inpatient mix (1990s–2000s) to what is now close to 50/50.	Steady levels or mild shifts over time reflect a stable operating platform and market.	Steady levels of revenue mix may reflect a stable or non-competitive market.	Sharp fluctuations or shifts coupled with declines in total revenue declines significantly may indicate operating challenges.
Employed Physicians	The total number of medical staff members which are employed or directly contracted to provide services for the healthcare organization.	One indicator of the level of integration of the active medical staff, as well as the ability to recruit/retain members. Fitch will track this over time in conjunction with net income/loss on employed physicians and primary/specialty physician mix.	Steady levels of growth indicate good recruitment and retention practices, and favorable physician strategy.	Steady levels generally indicate a stable medical staff with sufficient succession planning practices.	Sharp increases may lead to outsized expenses to be absorbed, while sharp decreases may illuminate a misaligned or dissatisfied medical staff, or a new competitive threat.

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