# HEALTHCARE+

Information Management Solutions for the Healthcare Industry

## Are CFOs today ready for the healthcare reforms of tomorrow?

Aptitude SOFTWARE

TOM CRAWFORD, EXECUTIVE VICE PRESIDENT,
APTITUDE SOFTWARE.

The role of the CFO is changing. As businesses slowly emerge from the recession, CFOs have become an increasingly strategic component to the success of their organization. This is particularly true for CFOs working in US healthcare where the industry is facing sweeping reforms.

Hospitals and healthcare payers are expected to deliver greater financial transparency under reforms such as the Affordable Care Act, and the strategic importance of efficiently managing these healthcare changes sits firmly with the CFO. These new reporting requirements, largely leaking out of the much-debated 'Obamacare', put CFOs under pressure to better account for cost of care. This requires an improved ability to integrate and manage massive amounts of financial, transactional and operational data.

Many existing data management systems and hierarchies still leave finance teams having to spend vast amounts of time collecting, validating and integrating financial data on spreadsheets – a breeding ground for both human-error and time consumption. Acting this way, finance teams struggle to validate financial results or gain valuable financial insights needed to optimise operations.

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## Data Transparency is the New Sterility

Ensuring regulatory compliance – in addition to the core responsibilities of reducing risk and improving financial control – has always been among the CFO's top priorities. For US healthcare payers, this now becomes a much bigger challenge. Insurers, issuers and hospital networks are finding calculating the Medical Loss Ratio (MLR) required for compliance with the Affordable Care Act a real challenge. The variation of rules on a state or national level as well as the differences across health plan products and local quality initiatives (such as outreach programs) contribute to this complexity.

Being able to efficiently tap into the right data across the organization to quickly and confidently calculate profitability is of vital importance. Many current systems restrict users from accessing premiums and claims data simultaneously, and the process of incorporating these two key data sets can be laborious. Combine this with the large number of data handoffs throughout the financial forecasting, planning and reporting journey and you're left with unnesseccarily long processing time frames and an increased risk of reporting errors.

All too often, existing data systems and hierarchies do not support new reporting requirements. Finance teams at large healthcare payers find themselves working across a range of legacy applications or piecemeal solutions to source the necessary data, such as is required to calculate Medical Loss Ratios

The standard approach is to extract and consolidate this data in simple databases. This often results in a data impedance mismatch that is compunded further through the unaudited use of spreadsheets.

Ad-hoc data-jockeying drains resources that could be better used for more strategic purposes.

For more information call us on
+1 617 273 8289 (US) • +44 (0) 207 496 8100 (UK)
or email info@aptitudesoftware.com

# Making sure you can calculate MLR quickly and accurately

Even though CFOs have probably had to tackle more complicated equations in their financial careers, it's the data required to confidently report accurate MLRs that make this one such a challenge. Depending on the scale of the healthcare payer, they must be able to prove an MLR of 80-85% which means that both profits and operating overheads will have to come out of the remaining 15-20%. For every year these standards aren't met, rebates will have to be issued to policy holders. Needless to say, those who can best boost transparency will be in a much stronger position to boost profitability.

$$\frac{\text{Medical Claims} + \text{Quality Improvement Expenditures}}{\text{Earned Premiums} - \text{Taxes, Licensing and Regulatory Fees}}$$

So what data is needed and why is it so complex? For a start, the MLR is based on the aggregated performance of the health plan, not on the basis of an individual policy. This means payers will need to integrate all transaction data pertaining to claims, membership records, products and providers which may all be subject to different adjustments due to specific clauses and geographical regions.

Charges will also have to be broken down to a more granular level. Multiple charges won't be allowed to be grouped under one 'administration fee' for example. Instead, individual costs that make up that charge have to be reported. As a result, this means that calculating the MLR requires the integration and processing of massive volumes of data.

## Best Practice for Future Proofing your Finance Data Architecture

CFOs should look to align and integrate finance data from across the business into a single, detailed financial data warehouse with the capability to control and review the key processes and logic behind it. Many of today's systems don't have the capability to incorporate Personal Health Information or Personally Identifiable Information for example which should be ideally stored within the financial reporting systems. This should then combine with claims, membership records, products and provider data to provide an integrated platform on which one can generate regulatory, management and financial reporting.

The right systems architecture can help finance teams to build that central point of information.

Many firms have begun to streamline their finance IT architecture through the use of a finance-centric data warehouse and integrated sub-ledger. With the ability to integrate and validate transaction-level data from sources across the business into a comprehensible and unified format, finance teams can save time juggling data in spread sheets and comply with key regulations much faster. This leaves the CFO in a stronger position to quickly address regulatory requirements e.g. calculating MLRs. Better yet, with a single source of financially accurate data, the CFO is able to provide investors, business leaders and other C-suite executives with a contemporary view of the company's financial health and a stronger ability to identify key strategic drivers for improving profitability.

An efficient finance architecture can not only help payers to comply with new reporting requirements but also to quickly and accurately address any new regulations without undue IT investment.

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or email info@aptitudesoftware.com