

Puerto Rico Hospital Association 2024 Annual Convention

Update of the Puerto Rico Hospitals' Financial
Challenges

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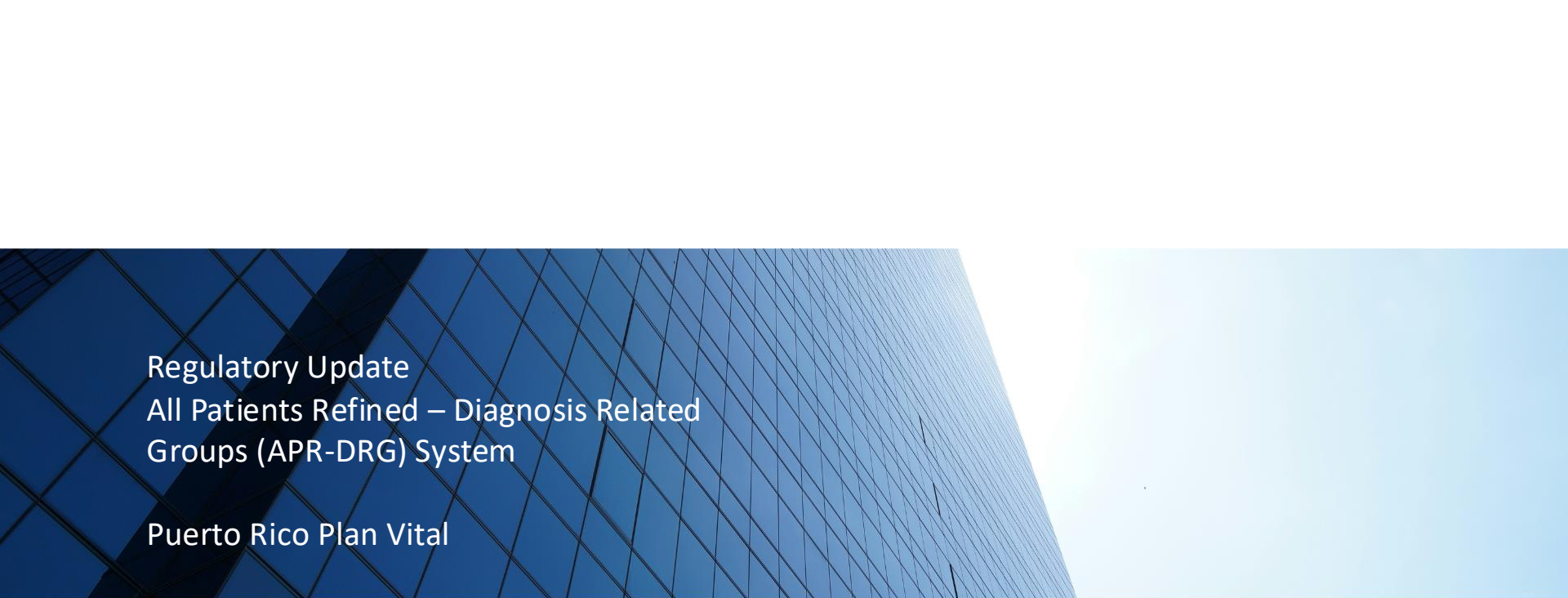
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Topics to be discussed

- Regulatory Updates
 - Implementation of APR-DRG for IPD Services in Plan Vital
- Puerto Rico Healthcare Economic Data
- Outlook of Health Insurance Companies
- Outlook of Puerto Rico Acute Hospitals (*all private*)
- Limited Outlook of Psychiatric and Rehabilitation Hospitals (*all private*)
- Closing



Regulatory Update
All Patients Refined – Diagnosis Related
Groups (APR-DRG) System

Puerto Rico Plan Vital

APR-DRG Implementation Important Information

- Implementation Schedule:
 - Fall 2024: Meetings and trainings with MCO entities and hospitals
 - July 2025: Finalize APR-DRG Rates and Regulation Changes
 - October 2025: APR-DRG Go Live

APR-DRG Implementation Challenges

- What is next in the following 12 months?
 - Create an implementation team in your hospital and include a representation of the physicians on it
 - Obtain from ASES the information as to your hospital base amount, and if possible, the supporting documentation as to how such amount was calculated.
 - Reconcile such information with your records (***note: ASES worked with claims not with your billings***)
 - Recruit medical coders
 - Acquire the APR-DRG software and related IT systems

APR-DRG Implementation Challenges (continued)

- What is next in the following 12 months?
 - Run test of billings under the new payment method and compare with the actual payment method to identify the winners and losers' diagnosis
 - Perform projections as to the effect of the APR-DRG implementation in your financials: budget, compliance with covenants, projected cash flows, etc.
 - Analyze the medical protocols, and introduce changes if applicable, in those services where the payment amount does not provide to cover the medical costs.
 - Monitor intensively the implementation process.

Important facts about the APR-DRG Methodology

- **Clinically Meaningful:** Classifies inpatient services based on clinical similarities and use of hospital resources by severity of illness and risk of mortality.
- **All Populations:** Developed to work across all populations including newborns, pediatrics, maternity, complexity and behavioral health.
- **Flexible:** Integrates with payment, quality and cost-efficiency programs to drive improvements in clinical outcomes and operational efficiencies.
- **Accurate:** Clinical categorical approach allows for accurate prospective payment that align with resource utilization.
- **Transparent:** Detailed clinical logic, hierarchies and specifications are published in APR-DRG definitions manual which is updated regularly by 3M's clinical experts.

APR – DRG Payment Formula:

Each inpatient hospital discharge receives a base payment:

$$\text{DRG Base Payment} = \text{Base Rate} \times \text{DRG Relative Weight} \times \text{Policy Adjusters}$$

- **Base Rate** – Standard dollar amount developed in program design. Can be a statewide rate, hospital-specific rates or peer group rates.
- **Relative Weight** – A factor that represents the average resource needs of the DRG. 3M develops national weights using data from all payers.
- **Policy Adjusters** – Options to enhance the base payment for specific providers and/or services, such as trauma providers or neonate DRGs.
- **Other dispositions as:**
 - Cost Outliers and Day Outliers
 - Transfer of patients
 - Short stays
 - Eligibility provisions
 - STAC payments transition provisions
 - Etc.



Puerto Rico Healthcare Resources

Facing the Real Data

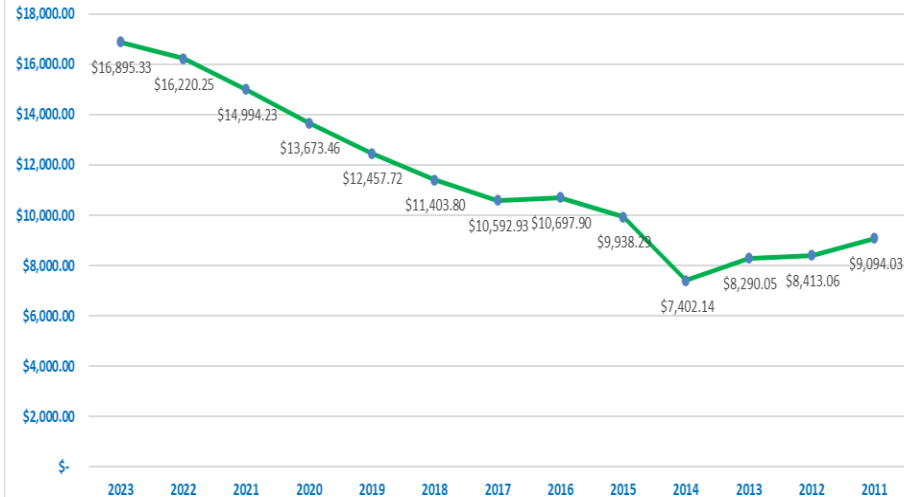


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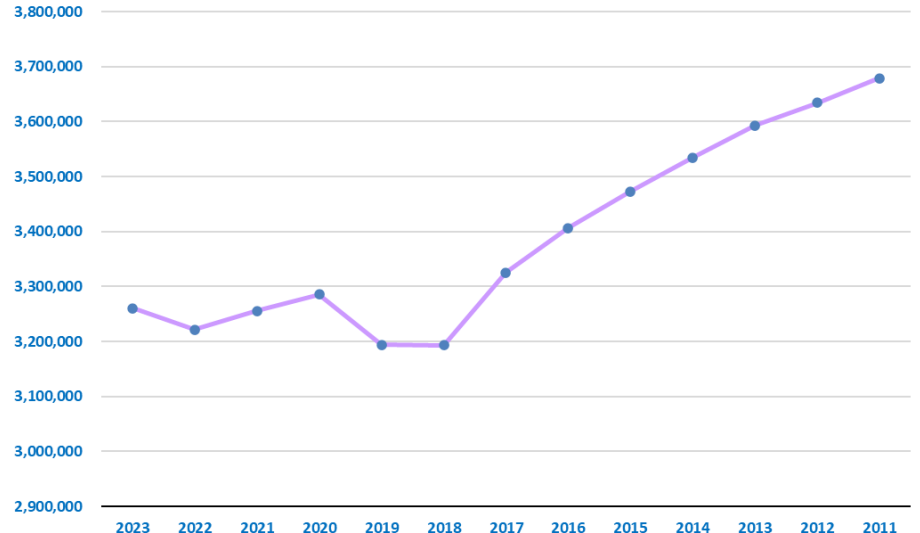
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Healthcare Resources vs Population in Puerto Rico 2011 to 2023

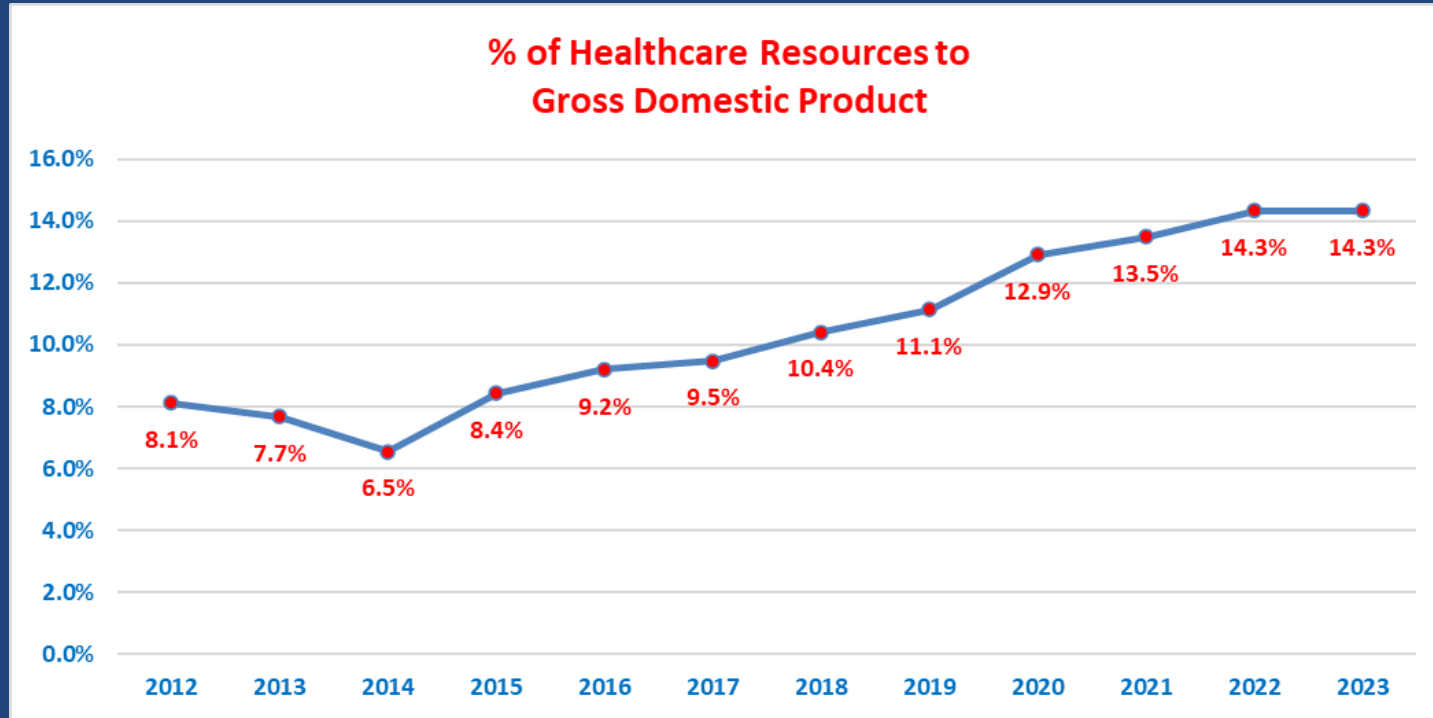
Estimated Puerto Rico Healthcare Resources
In Millions



Puerto Rico Population 2023 from 2011



Healthcare Resources in relation to Gross Domestic Product



Outlook of Health Insurance Companies

As reported to the Puerto Rico Insurance Commissioner

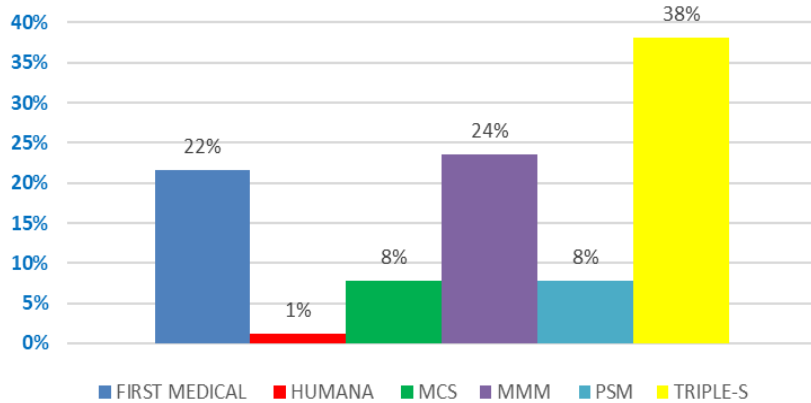


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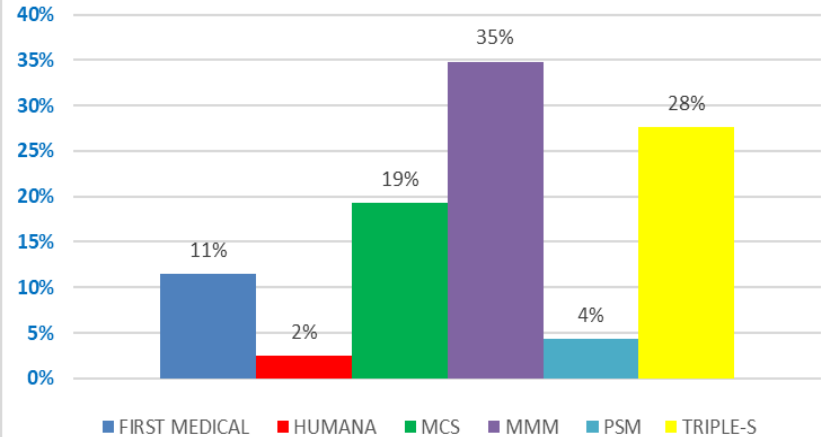
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Market Share

2023 Market Share Based on Membership of 2.7 Millions persons with Medical Insurance

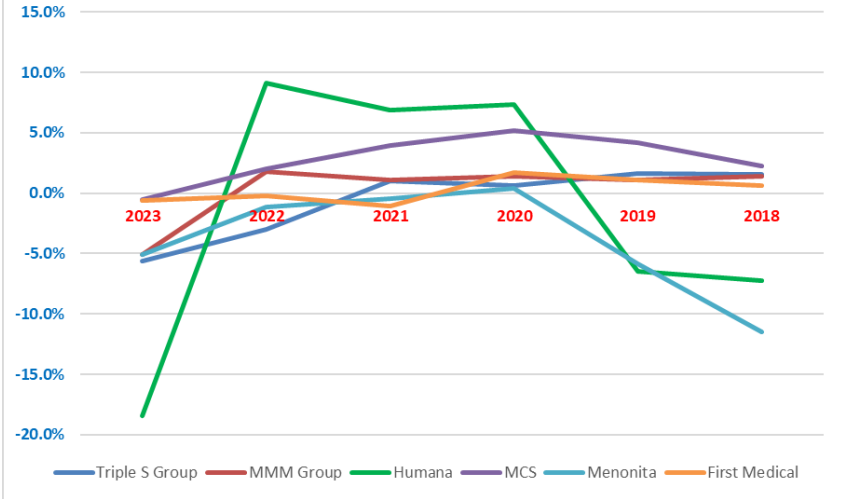


2023 Market Share Based on Revenues of \$14B

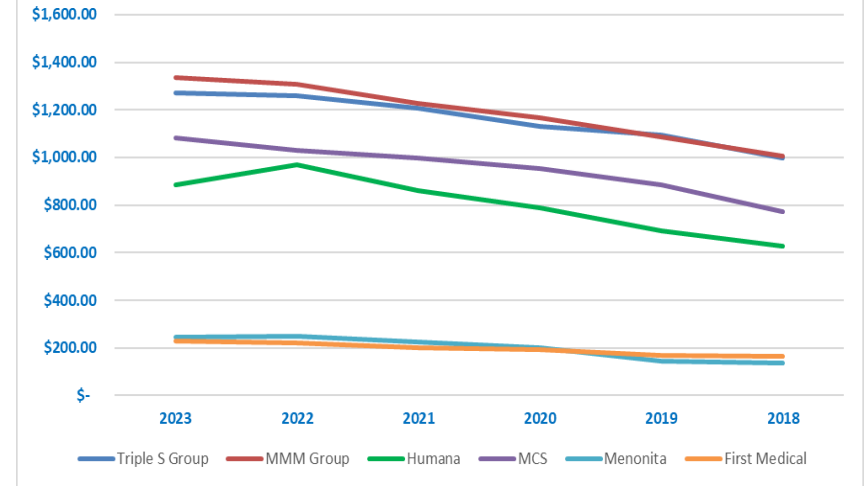


Net Margin % vs. Premium Growth

Net Margin as a % of Premium Revenue

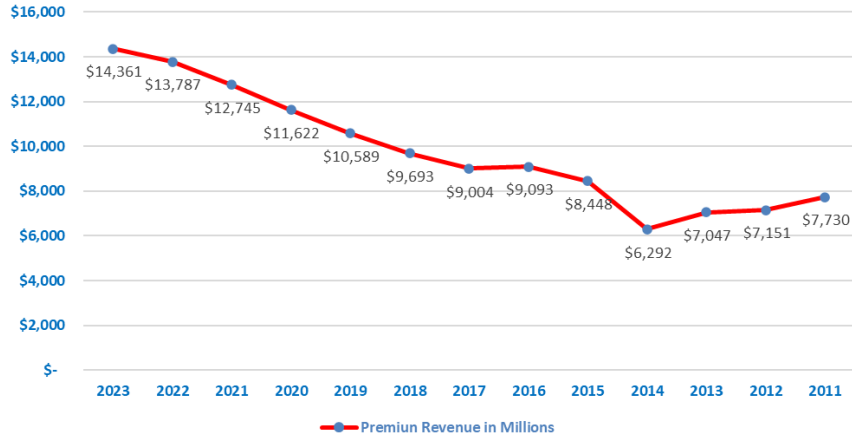


Average Monthly Premium (PMPM)

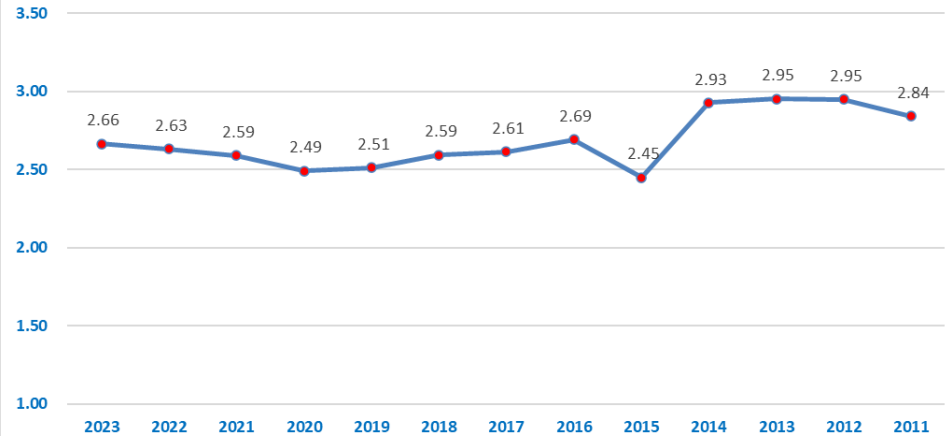


Total Premium Revenue vs. Population with Insurance

Premium Revenue in Millions

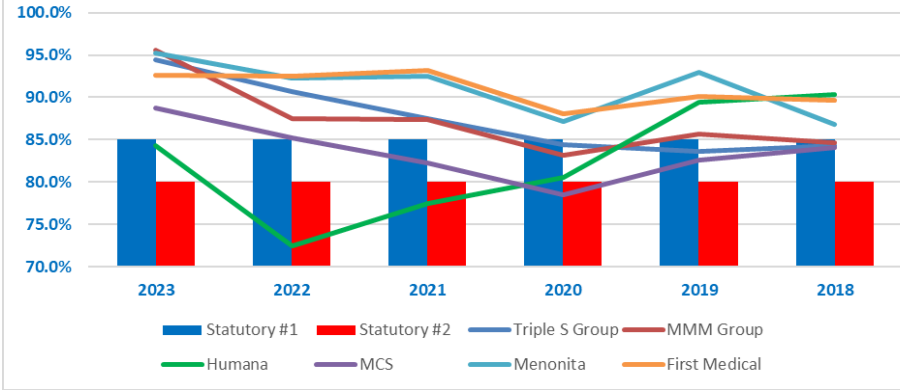


Population under insurance coverage (in millions)

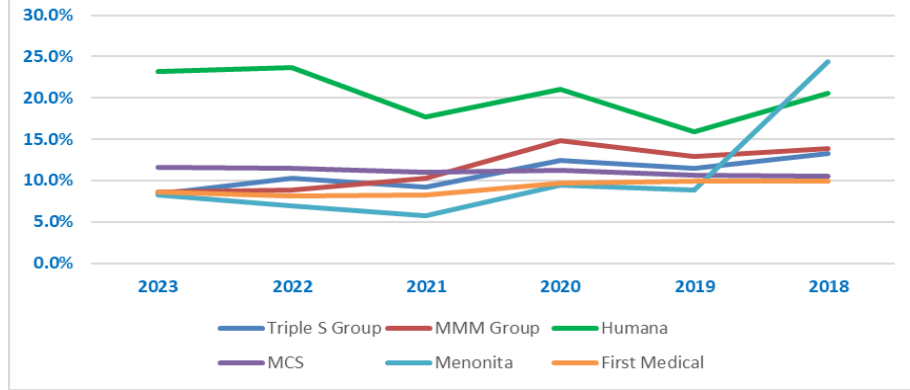


Medical Costs and A&G Expenses in relation to Premium Revenue

Hospital and Medical Costs as a % of Premium Revenue from \$8B in 2018 to \$13B in 2023



A&G as a % of Premium Revenue from \$1.1B in 2018 to \$1.3B in 2023



Outlook of Puerto Rico Acute Hospitals

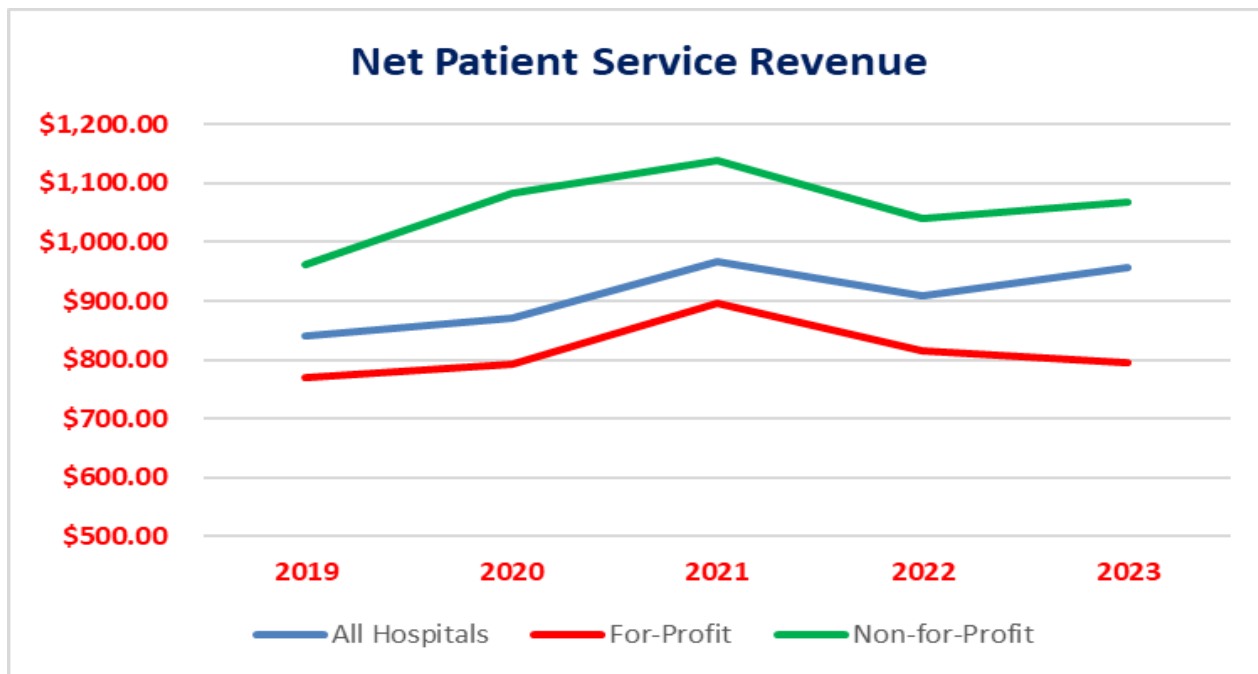
Key Financial and Utilization Indicators



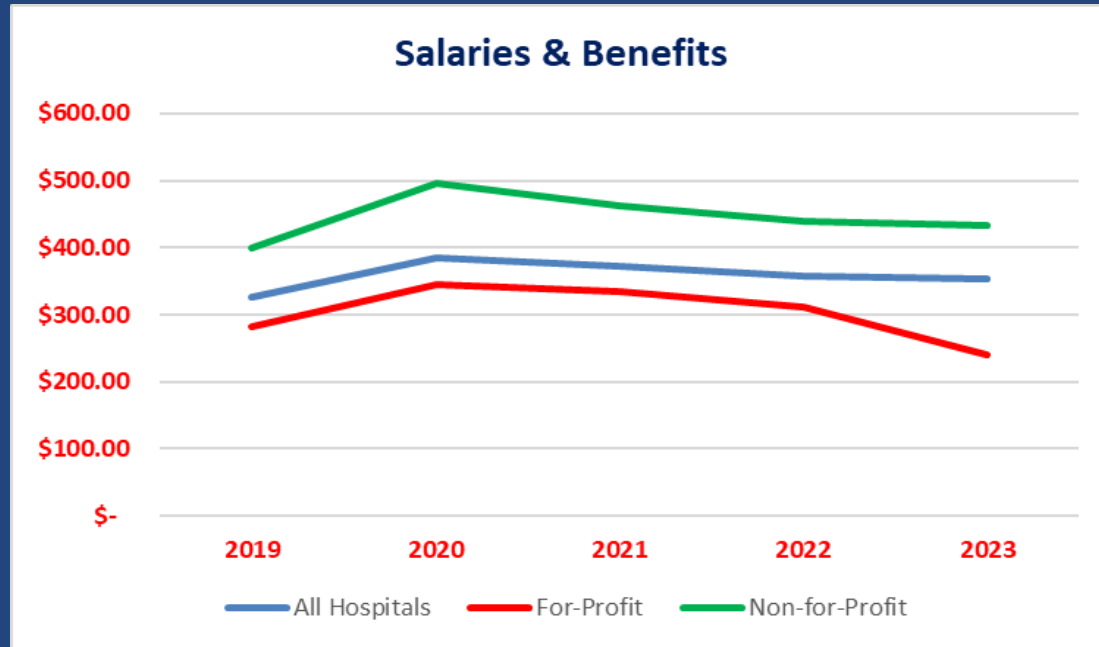
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Net Patient Service Revenue per EPD

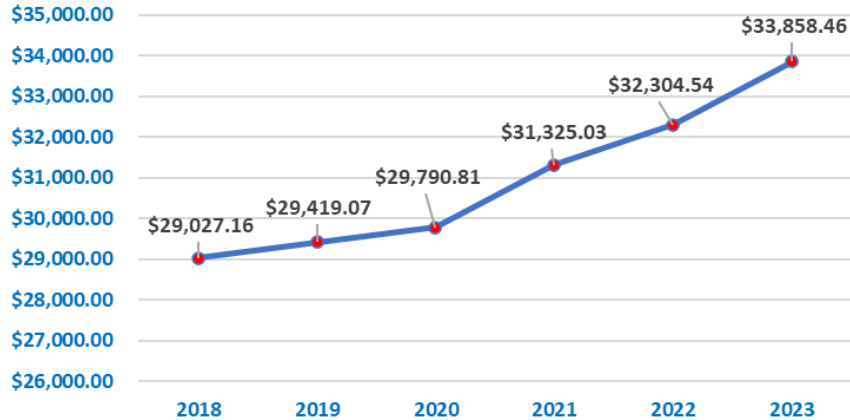


Salaries and benefits per EPD

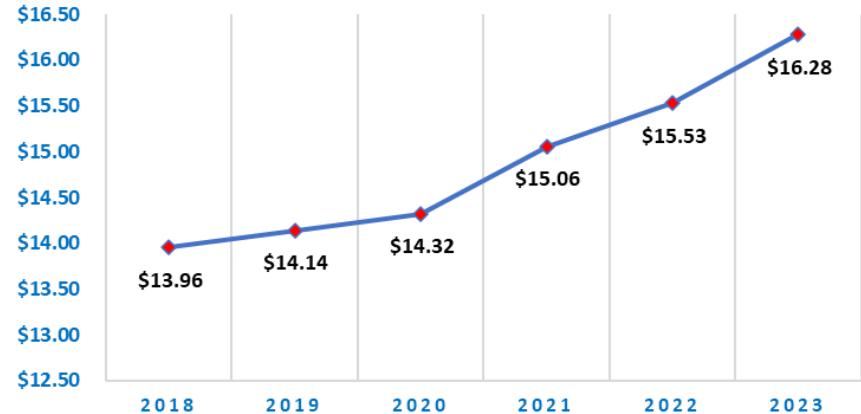


Labor cost (excluding professional fees) – all hospitals

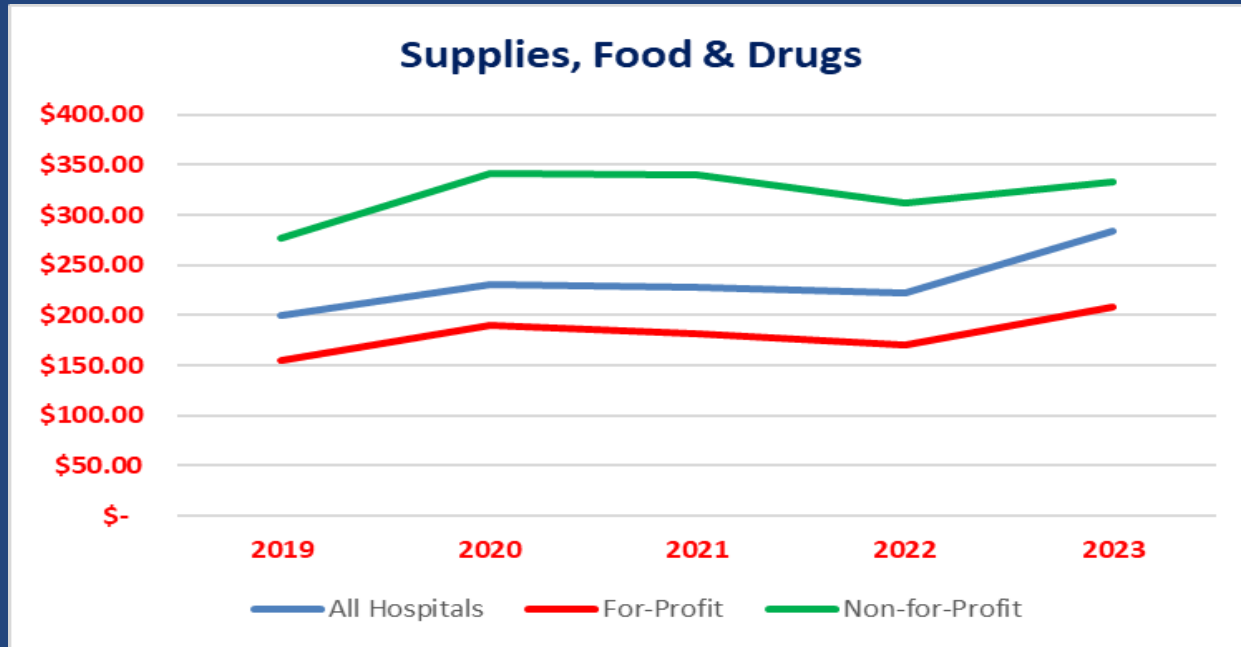
Average salary per FTE



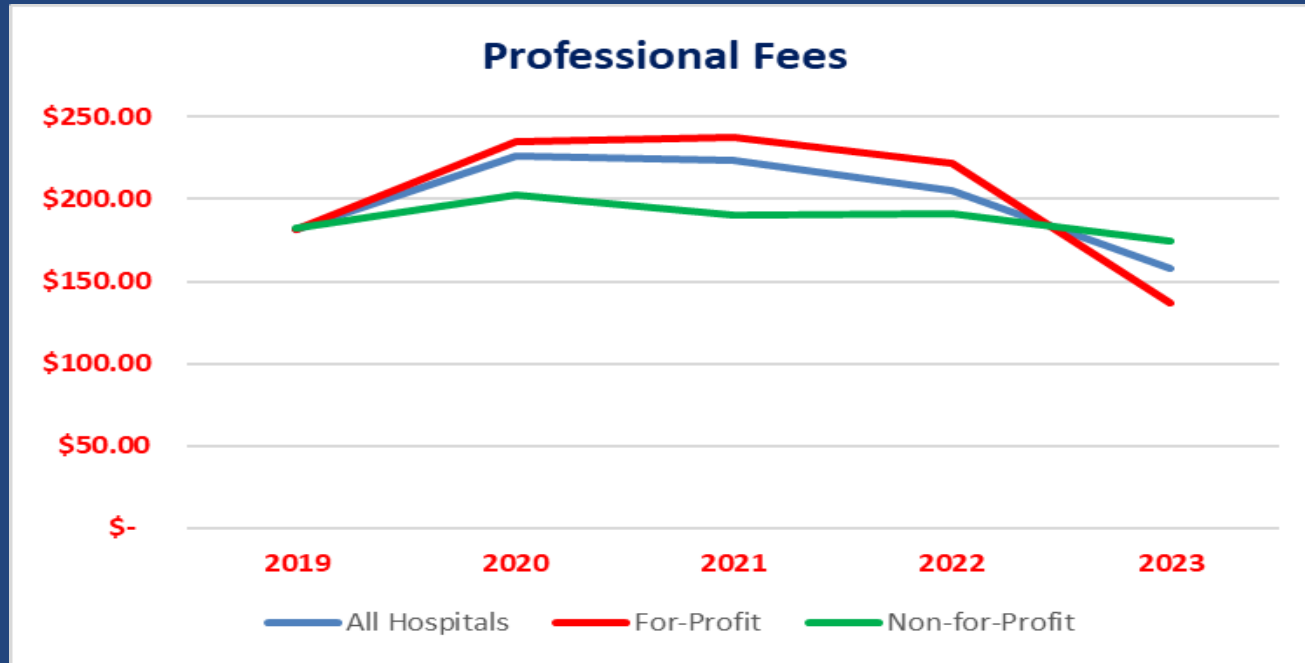
AVERAGE SALARY PER HOUR



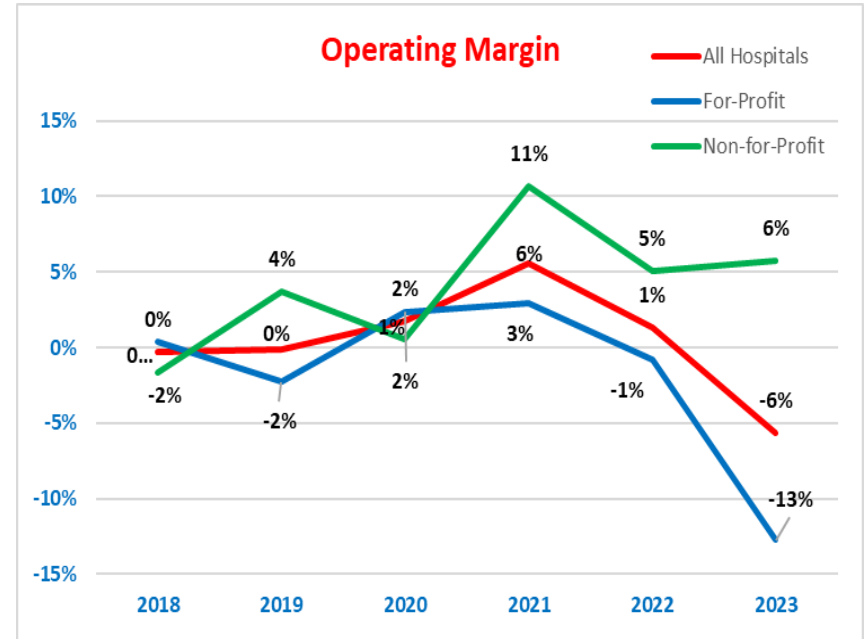
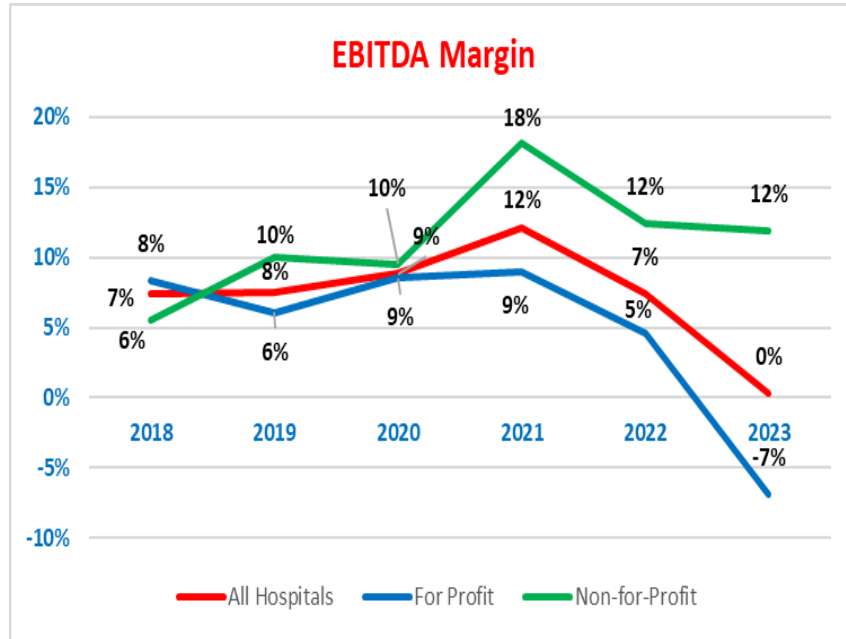
Supplies, food and drugs per EPD



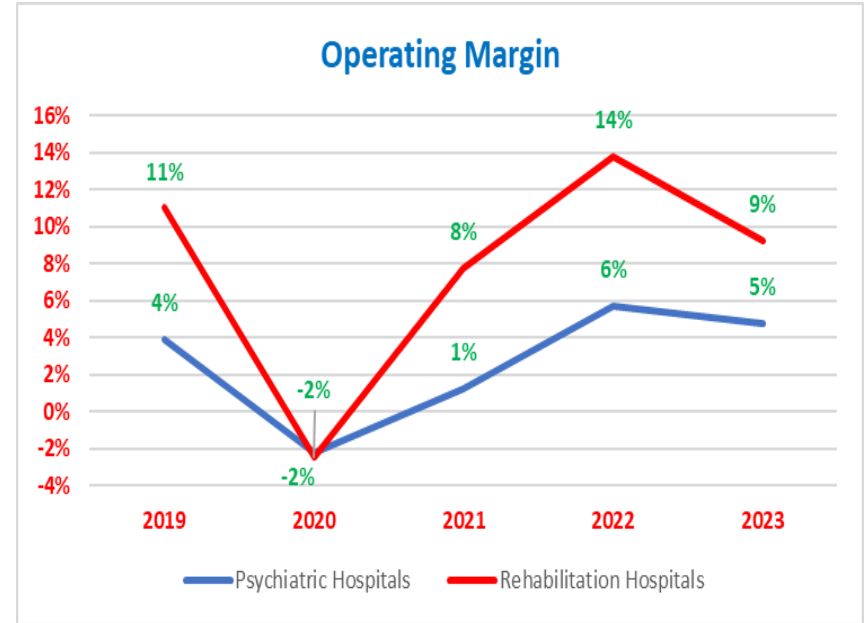
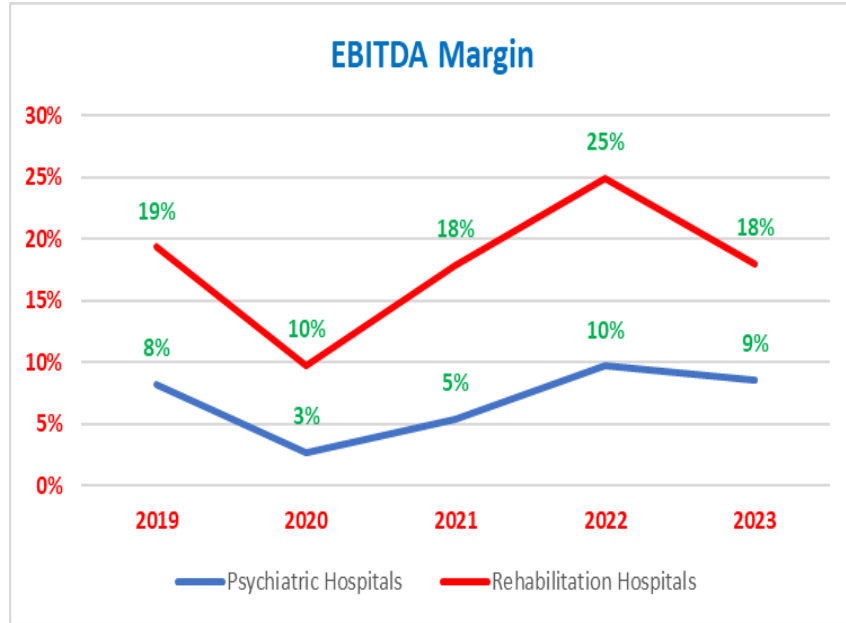
Professional fees per EPD



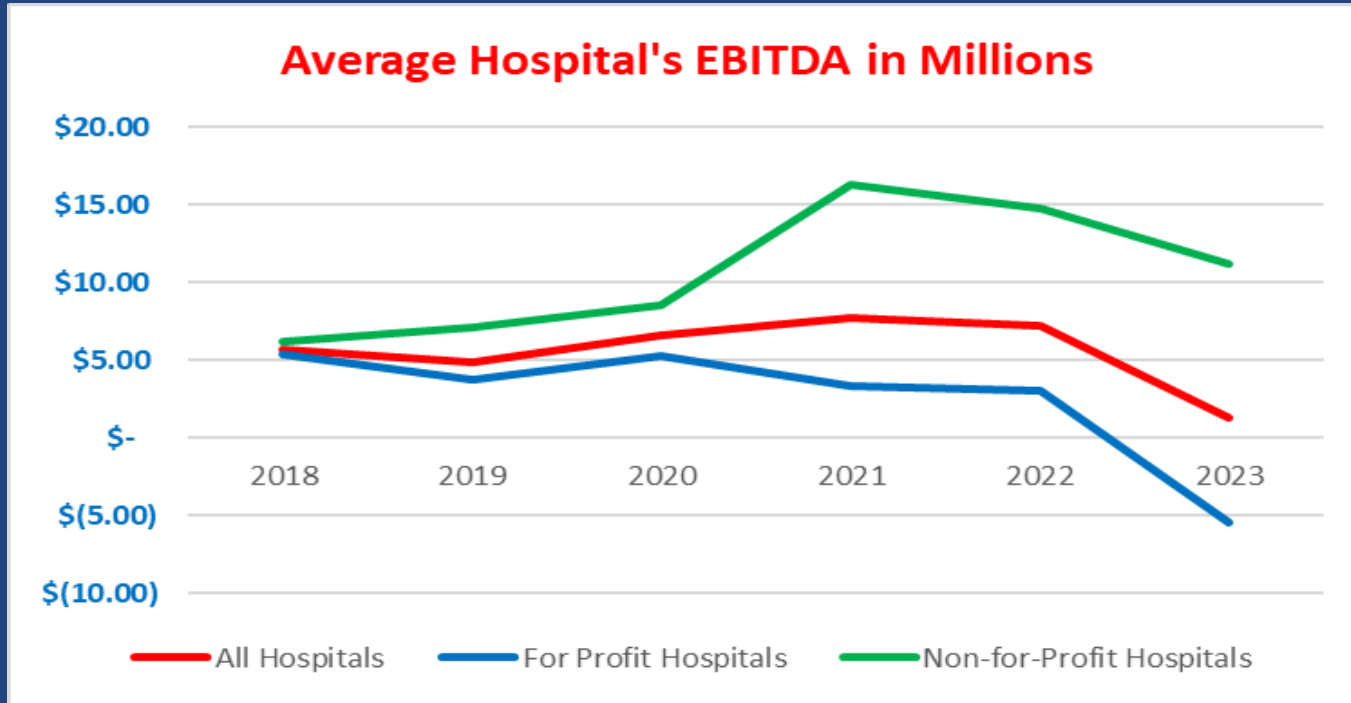
Profitability – Acute hospitals



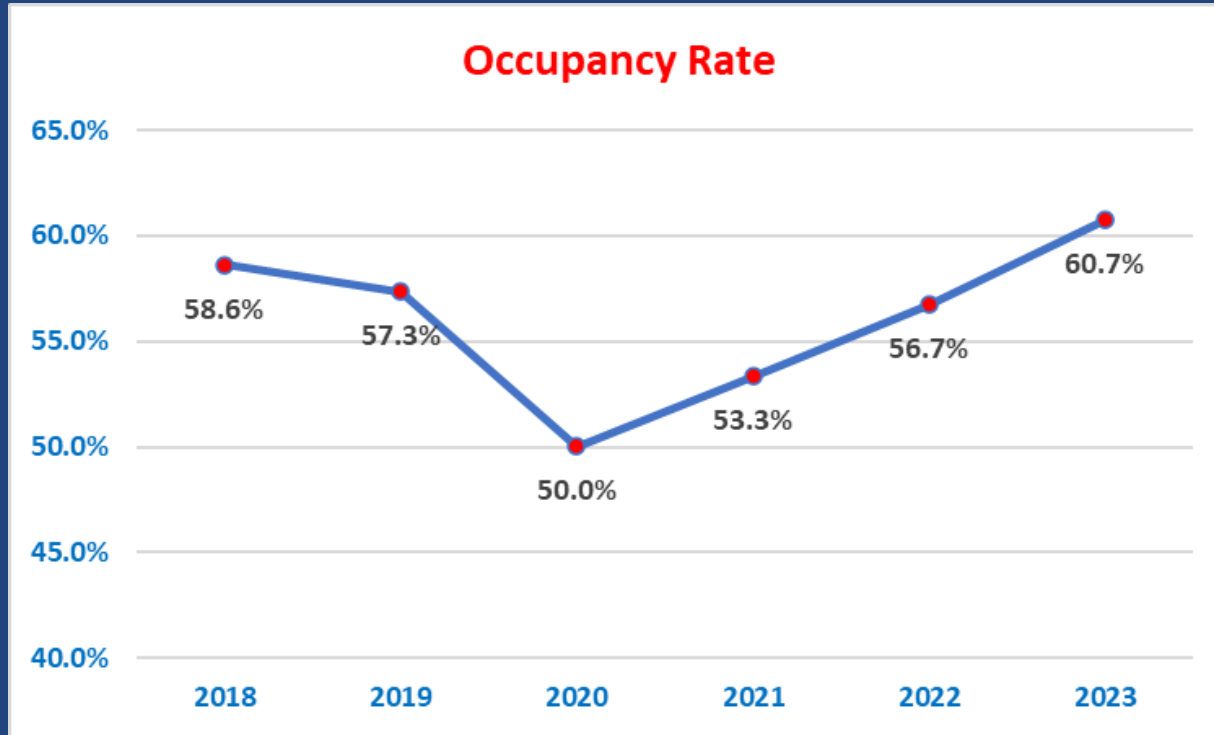
Profitability – Psychiatric and Rehabilitation Hospitals (Stand-Alone)



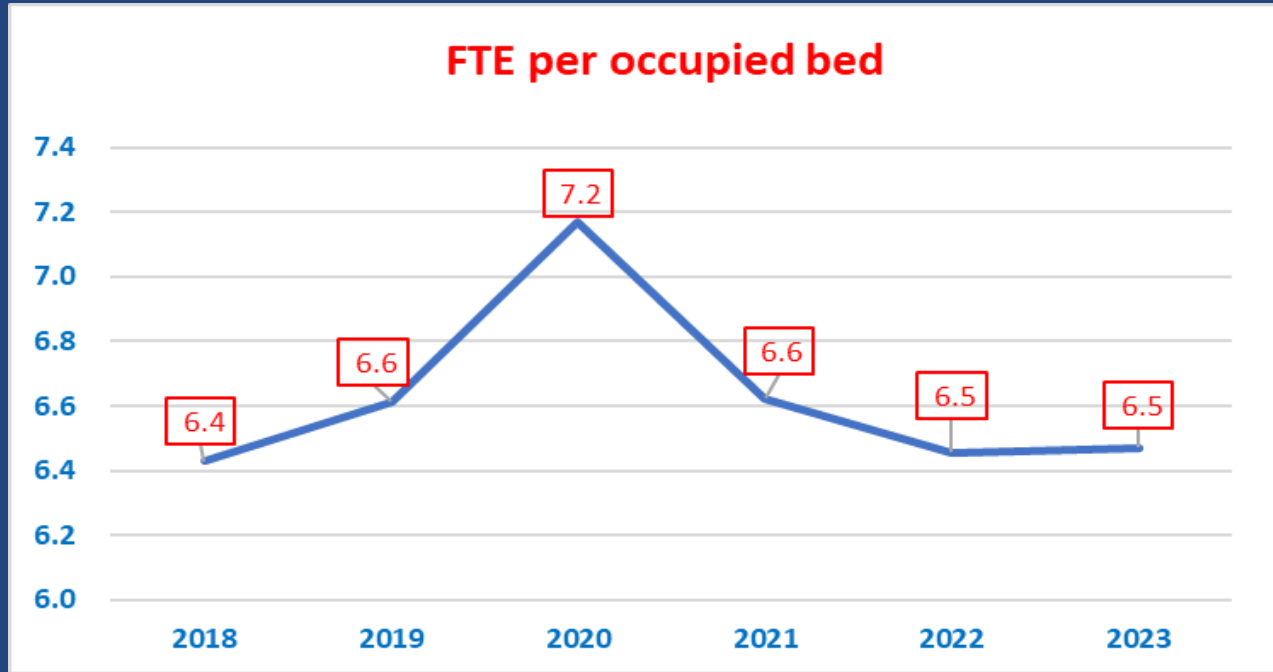
Average EBITDA
(based on approximately 42 acute hospitals)



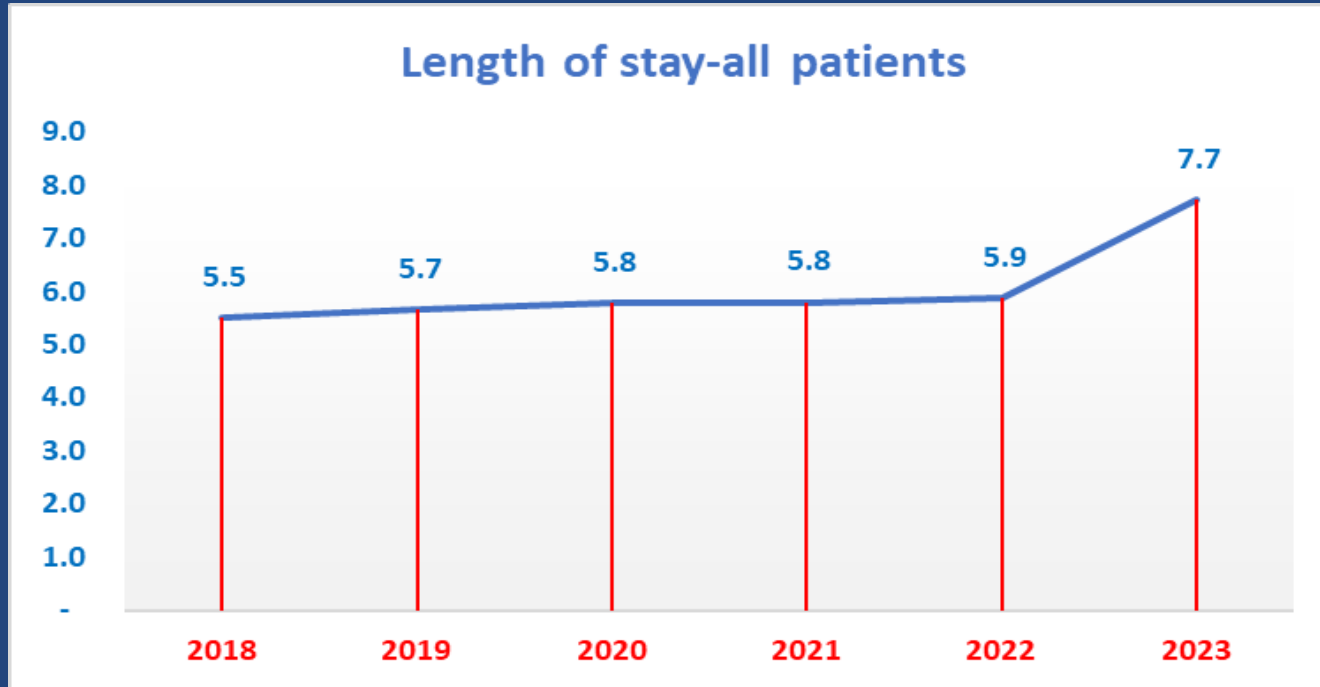
Occupancy



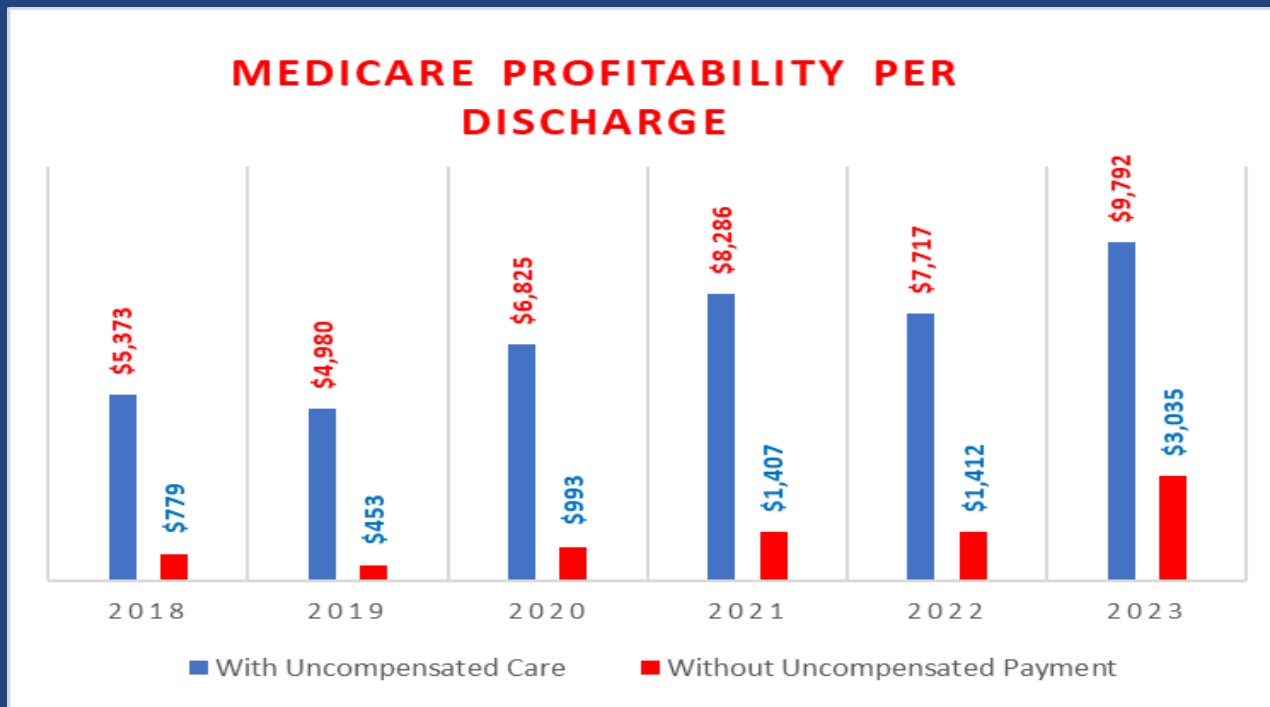
FTE per Occupied Bed



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Profitability – Traditional Medicare





What CEOs and CFOs of hospitals in Puerto Rico have to say?

CEO's Survey: Challenges and Opportunities

Challenges:	Opportunities:
Availability of Medical Specialist	<ul style="list-style-type: none"> -Expanding Medical Educational Programs -Malpractice reform -New compensation models
Recruitment of other Healthcare Professionals	<ul style="list-style-type: none"> -Professional development and wellness programs -Partnership with universities -Recruitment bonuses
Adapting to new reimbursement models amid rising costs	<ul style="list-style-type: none"> -Optimizing operational processes -Strategic alliances with other institutions -Assuming Risk-Based Contracts -Expand services to other high-demand areas
Limited access to financing sources	Require government to implement financing programs address to healthcare institutions.
Reduction in the volume of patients, then in revenues to afford high costs	Expand services to post-acute services and mental health.
Denied Days	Require government to implement the uniform utilization review manual approved since 2016.
Lack of public policy and intervention by the Department of Health or the State in matters related to the industry.	The state should assume an active role to regulate all the components and players of the industry.

CFO's Survey: How to improve the operating margin?

Area:	Task or Action:
Strengthen the Revenue Cycle	<ul style="list-style-type: none"> - Have top notch personnel in all cycle's positions. - Have weekly meetings to monitor metrics, such meetings should include representation of the medical faculty and utilization director. - Compensate personnel in relation to metrics.
Purchasing and Contrating	<ul style="list-style-type: none"> - Contracts with physicians should be a win-win scenario. -Avoid long-term guaranteed contracts. -Negotiate prices ensuring timely payment. -Perform cost-benefit analysis in all contracts. - Focus in financially high impact issues. - Medical faculty requests must come with a commitmmnt to services.
Financial Responsibility	<ul style="list-style-type: none"> - Everyone must be responsible for issues affecting their budget. - Involve physicians in the medical supplies management. -Physicians priveledge should be renewed for those in compliance with the policies and procedures as to utilization and medical documentation. - Have strong system to monitor and reduced denials days.
Cost Control	<ul style="list-style-type: none"> - Keep variable costs proportional to volumen of services. Ex. FTE, inventory manangement, etc.
Third-Party Payers	<ul style="list-style-type: none"> - Maintain a cordial relationship with insurers while also applying the necessary energy in the claims processes and annual negotiations.

Thanks!

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