



## FOUR FACTORS WHICH AFFECT CONTRACT PERFORMANCE

Your managed care team may have negotiated for significant increases, with excellent rates and contract terms, yet the contract may not be performing as expected. What matters is not what's on the paper, but what you are actually paid relative to your internal goals and external benchmarks. The contract may start out performing as expected, but can gain or lose market position for any number of reasons. You can often control and adjust for internal factors; and, while you can't control most external factors, you can certainly be aware of them and adjust your strategy accordingly. PDS can help you do both.

Among the factors that contribute to changes in contract performance are:

1. **Improved Quality of Care:** There are a number of quality initiatives that affect utilization, which in turn affects revenue. Whether these improvements in patient care hurt or help revenue depends on the contract. For example:
  - a. **Reduced LOS in the ICU:** If you had above market ICU per diems and below market med/surg per diems, this could reduce revenue. If you are paid on a case rate, this improvement can help the bottom line.
  - b. **Fewer Readmissions:** If you are seeing a drop in volume for those cases with the best rates, the loss of these patients can negatively impact revenue. If your contract terms anticipated this shift and included above market reimbursement for outpatient care, you may have been able to offset these losses.
  - c. **Fewer Complications:** Whether this hurts or helps revenue depends on the stop-loss provisions in the contract, whether the case are paid on a per-diem or a case rate, and more.
2. **Payments to Your Competitors:** While you may only be competing with local hospitals for patients, you are competing with every hospital in the state for payer dollars. If other hospitals negotiated high rates than you did, you could be losing market position.
3. **Collections:** If your patients have high deductible plans but can't afford their co-pays, you may only be able to collect the payer portion of the payment due. Or, if your Business Office is short of resources, it may be difficult for them to ensure that they are collecting everything that's owed.
4. **New/Expanded Service Lines:** As you add volume to existing service lines, and open new ones, volume will increase. If reimbursement for these new cases is below market, relative market position will decline. However, if this service commands high payments relative to your peers, market position will improve.

**PDS shows you contract performance over time relative to your peer group, and allows you to drill down by contract and service line to understand the causes of any variances.** Performance trends for three of your hospital's major contracts are on the next page. For more information, contact your Managed Care team, or email Leslie Gold at [lgold@hasc.org](mailto:lgold@hasc.org)