Rockefeller College of Public Affairs and Policy

PAD-656: Health Care Financial Analysis
Spring 2011
Monday 5:45 PM to 8:50 PM
Draper-246
Professors Fossett and Purtell

PLEASE READ THIS ENTIRE DOCUMENT

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COURSE OBJECTIVES AND DESCRIPTION: The course focuses healthcare policy and financial decision making in health-care organizations and third-party payers with special emphasis on the position of government in the health-care market. The course includes lectures, problem solving exercises, short papers and a term paper. The course is structured to integrate academic, practical and policy approaches and perspectives on current health-care financial problems.

Class Discussion: Student participation and discussion is expected. Come to class prepared to discuss issues raised in the class assignment or to explain your solutions to assigned problems to the best of their ability. To do this, you need to read the class assignments before the lecture.

TEXTS AND OTHER MATERIALS:

Required Texts

Financial Management for Nurse Managers and Executives by Steven A. Finkler and Christeen Kovner. This is referred to as Finkler 1 in the assigned readings. You can buy the text through Amazon or other online textbook vendors.

Optional Text

Financial management for Public, Health, and Not-for-Profit Organizations by Stephen A. Finkler. This is referred to as Finkler 2 in the assigned readings. This is the text from PAD-501. You do not have to buy the book but should have access to it if you feel you need to review any of the concepts from the first finance course.

Online Readings: There are references throughout the syllabus to readings that can be found online. Each online reading is accompanied by its related URL.

ERes Readings and Problems: In addition to the readings in the syllabus for which we have provided URL's, we will download a set of readings in PDF format and assignments in Word format to EREs. These readings have been drawn from various academic journals and Essentials of Healthcare Finance by William O. Cleverley and Andrew E Cameron, 5th Edition, Understanding Healthcare Financial Management by Louis Gapenski, 4th Edition and other sources. The password for the ERes site is pad656.
**Additional Readings:** Because this is a new course, we will be adding additional readings and assignments throughout the course. Be sure to check your Albany email accounts weekly.

**Class Notes:** The notes used in the lectures will be available on ERes.

**Financial Calculator:** You will need a calculator for the exams and to check your spreadsheet models. The one you purchased for PAD-501 will work for this class as well.

Professor: James Fossett  
Office: Rockefeller Institute of Government  
Telephone: 443-5846  
Email: fossettj@rockinst.org (the best way to reach me)  
Office Hours: By appointment

Professor: Bob Purcell  
Office: Milne -217  
Telephone: 442-5276  
e-mail: rpurcell@albany.edu (the best way to reach me)  
Office Hours: Tuesdays: 5:30 PM to 7:30 PM and by appointment

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**PREREQUISITES:** PAD-501 or the permission of the instructors

**GRADING**

1. 15% of your grade will be based on the assignment outlined in the body of the syllabus.
2. 25% of your grade will be based on a problem set which will be graded.
3. 30% of your grade will be based on the final examination.
4. The remaining 25% of the course grade will be based on your issue paper.

**Assignments:** The assignments are meant to help you gain practical experience using the tools that we will be discussing in class. They have been designed to replicate the types of situations and issues that you may face as a manager in the workplace. As such, you may find them to be complex. They may take a significant amount of time to complete.

**You must use a spreadsheet to solve the assigned problems.** We encourage you to work together on the problems. However, working together does not mean just copying each other’s answers. If you do so, you will not learn how to use the techniques and you will not be prepared for the exams. Do not just turn in the answers. Lay out your spreadsheets in a logical format. I can only give you partial credit if I can figure out how you approached the problems.

**Problem Set.** The problem set integrates material from the first seven classes. It is complex by design. **You must complete the problem set on your own and may not work with anyone else or compare answers.** It will be graded both for the correctness of your answers and for the quality of your model. The model should be designed in such a way that a reasonably trained manager would be able to follow your logic and use it to ask a reasonable range of “what if” questions. Be sure to: (i) place all of your inputs in a separate worksheet – no variables should be entered into formulae without first appearing in the input worksheet, (ii) protect all formulae from unwanted changes by subsequent users, (iii) enter appropriate comments throughout the worksheet to allow yourself or other users to follow the logic underlying your model, (iv) audit the spreadsheet for accuracy, and (v) check the spreadsheet for spelling errors. You must submit both your written solutions to the questions raised in the problem set in memo format as well as an electronic copy of your spreadsheet.

**We will not accept raw spreadsheet output.** You must format your solutions using a word-processing program and provide sufficient narrative to both explain how you arrived at your answers and answer the questions posed at the end of each problem set. Be sure to support those answers with data. All assignments must be printed out and handed in at the beginning of the class session. Immediately after the class when the assignments are due, we will post the solutions to ERes. After the solutions have been posted, we will not accept any more assignments.

**Issue Paper.** (25 points) - The Issue Paper is due at the beginning of class Twelve. This paper should address a major rate policy problem or attempt to use the rate setting process as a policy tool in Medicaid, Medicare, or the on-going national health reform. You will be expected to define the problem that needs addressing, review attempts to solve it in various ways, and evaluate its demonstrated or likely effectiveness. You should consult with one of us as soon as possible about the particulars of this assignment. This is a time consuming assignment. Do not put it off until the last minute. **Late papers will be penalized one-half grade for every two days they are overdue.**

**Time Commitment:** Like most finance courses, this one is likely to be time consuming. It will also be fast paced. Please be sure you make the time you need. Be sure to stay up with the work and start all of your assignments early.

**Course ERes Page:** All students will be automatically given access to the course ERes page. All students should check their e-mail at least once a week throughout the term. This is your
responsibility. The password is cres656.

CLASS 1: INTRODUCTION TO THE COURSE AND ITS OBJECTIVES: In class one, we will set the stage for the course and talk a bit about the competing objectives of healthcare providers and payers with special emphasis on the role of various levels of government in the healthcare payment system.

CLASSES 2-4: RATE SETTING AND RATE POLICY IN THE AMERICAN CONTEXT. These classes will examine the major health care rate setting systems currently in play in the American context and review attempts to use payment systems as a means to achieve major health policy objectives.

Class 2 Readings:

1. Medicare Payment Advisory Commission: Medicare payment basics
   a. in-patient hospital
   b. out-patient hospital
      (http://www.medicare.gov/documents/medpac_payment_basics_10_opd.pdf)
   c. doctors--
4. Deborah Bachrach, “Payment Reform: Creating a Sustainable Future for Medicaid”

Class 3 to 4 Readings:

1. Mary Beth Pfeiffer “Money Pit, Money Maker” Series in Poughkeepsie Journal
   http://www.poughkeepsiejournal.com/apps/pbcs.dll/artikel?NoCache=1&Dato=999999999&Kategori=NE_WS01&Lopen=100719011&Ref=AR&template=theme&theme=wassaic. The readings below are all linked to this series of articles.
   a. “New York State statement on reimbursement rates
2. Hackathn, Aligning Incentives in Medicare
   http://www.medicare.gov/documents/20100623_EndC_Testimony_AlingIncentivesinMedicare.pdf

Due for Class 4: In the essay assigned for this class, Uwe Reinhardt argues that our obsession with reducing hospital in-patient usage may have contributed to increased overall health care spending rather than reducing it as claimed. Write a reaction paper of no more than two pages in which you summarize and review Reinhardt’s argument. Is he right? If so, is there any reasonable way to modify per diem or prospective reimbursement schemes to address his concerns?

CLASS 5: COST CONCEPTS AND PRICING: In class five, we will review basic cost definitions and introduce techniques that can be used to measure and analyze the cost structure of an organization. Our emphasis will be on choosing the correct or “relevant” costs to apply to a specific decision making situation. We will also begin to talk about three distinct but related process streams in healthcare: administration, care and treatment. Then, we will discuss how these process streams complicate the cost-finding process and make cost control difficult for third-party payers, hospital administrators and policy makers. We will talk about the step-down costing methods that are used to establish Medicaid and Medicare rates; discuss developing appropriate bases for allocation; explore the use of relative-value-units in costing; and look at product-line costing.

Class 5 Readings:
1. Finkler 1 - Chapter 7 pages 123 to 152 - Cost analysis
2. Finkler 1 - Chapter 8, pages 153 to 186 - Determining healthcare costs and rates

Due for Class Five: Assignment 1 on ERes.

CLASS 6: PRICING (Cont’d): In class six will complete our discussion of costs and take a quick look at the Institutional Cost Report. Then we will move on to talk about the general theory and practice of healthcare rate setting. We will focus some of our time on the problem of determining what “nominal” or list prices a hospital should set when third party payers vary in their payment formulas and where an increasing portion of the patient base is subject to prospective payment.

Class 6 Readings:
1. Finkler 1 – Chapter 8, Appendix, pages 192-202 – Institutional Cost Report
2. ERes: Cleverley - Chapter 2 pages 13 to 34 - The Financial Environment of Health Care Organizations
3. ERes: Gapenski - Chapter 2 pages 39 to 70 - The third-party payer system

Due for Class Six: Assignment 2 on ERes.

CLASS 7: RATE SETTING, RATIO OF CHARGES TO COSTS AND THE CHARGE MASTER: In classes seven, we will complete our discussion of healthcare pricing and talk about the ratio of charges to costs that most healthcare providers use to generate their “charge masters” -
Class Readings:

1. ERes: Note on using the ratio of charges to costs method to develop prices shown on hospital charge masters.
2. ERes: Reinhardt, U. (1996), Our Obsessive Quest to Gut the Hospital, Health Affairs, 15(2) 145-154

Due for Class Seven: Readings only

CLASS 8: RCC AND THE CHARGE MASTER (cont’d): In class eight, we will complete our discussion of the ratio of charges to costs and review the solutions to the problem set. As part of that review, we will use a version of the rate setting model to investigate what would happen to pricing were various payers to alter their deals with the hospital.

Due for Class Eight: Problem set and the related spreadsheet model. The problem set will be available on ERes the week before it is due. The solutions must be submitted in memo format. The model must be submitted by email. Be sure to include your name in both the spreadsheet title and at the top of each worksheet.

CLASS 9: CAPITATION AND RISK: In class twelve, we will discuss capitation and compare it to fee-for-service payment alternatives. Our discussion will center on contrasting the economic and behavioral implications of both systems and looking at how capitation affects financial decision-making. Time permitting, we will also discuss whether capitation is a viable pricing mechanism in a healthcare system with disjointed process control.

Class Readings:

1. Reading Packet: Gapenski - Chapter 17 pages 575 to 606 - Capitation, rate setting and risk sharing
2. Reading Packet: Boles and Fleming, “Breakeven Under Capitation”
3. Optional Reading: For an alternative look at managed care, capitation and capitated price setting, read Chapter 4 in the Fifth Edition of Cleverley’s “Essentials of Health Care Finance”. The book is on reserve in the Library.

Due for Class Nine: Assignment 3 on ERes

CLASS 10: BUDGETING AND CONTROL: In class six, we will look at the concepts of full-time equivalents, daily staffing requirements, and patient acuity mix. We will use these concepts to develop a staffing budget for a nursing unit with a variety of job skills over multiple shifts employing both full and part time employees.

Class Readings:

1. Finkler 1 - Chapter 11 pages 239 to 256 - A review of general budgeting concepts
2. Finkler 1 - Chapter 12 pages 262 to 286 - Operating Budgets

**Due for Class Ten:** Assignment 4 on ERs

**CLASS 11:** **VARIANCE ANALYSIS AND ORGANIZATIONAL CONTROL:** In class seven, we will consider how budgets relate to management control system. Topics will include employee motivation, incentives, and the role of communications in the control process. We will also learn about variance analysis and extend the basic variance-analysis concepts from P11.1021 to include the partial (flexible) variances due to volume, quantity, price and accuracy.

**Class Readings:**
1. Finkler 1 - Chapter 13 pages 287 to 320 - Controlling operating results
2. **Optional Reading:** Finkler 2 – pages 226 to 236 and Appendix 7-A pages 250 to 256

**Due for Class Eleven:** Assignment 5 on ERs

**CLASS 12:** **ISSUE PAPER PRESENTATIONS:**

**Due for Class Twelve:** Issue Paper (20% of Course Grade)

**CLASS 13:** **FINAL EXAMINATION - 30% OF FINAL GRADE:**

The final examination will cover all topics in the course. Sample questions will be posted on Blackboard at the beginning of class 12. The final exam will focus on the materials in the class notes, assignments, the problem set and class discussions. You will be permitted to bring two pages of notes, 8 1/2 x 11, double sided to the final exam. International students may also bring a dictionary to the test.