The Evolution of Funds Flow

A Migration Toward Service Line Structure and Incentives

Neil Ravitz
November 15, 2019
Service Line Working Framework

Market Position/Business Development Strategy:
- Market Share Strategies
- Payor Relations
- Regional Care Strategy, Network and Affiliations
- Branding/Marketing

Service Line Development

Patient Care Operations:
- Access, Patient Flow, Throughput
- Ambulatory and Inpatient Care Continuum
- Transitions with Post Acute
- Clinical Research

Program Alignment & Integration:
- Program Definition
- Quality Imperatives
- Funds Flow
- Program Management by Metrics
- Continuum of Care Cost Management
- Research Thematic Alignment
MSKR Departments to Diseases

- Orthopaedics
- Rheumatology
- Pain Med
- PM&R
- Radiology
- Family Med

- Degenerative Arthritis
- Inflammatory Arthritis
- Acute Trauma & Fracture Care
- Sports & Performance Injury
- Systemic Rheumatic Diseases
- Bone Diseases
MSKR Disease Teams & Pathways

### Degenerative Arthritis
- **Major Lower Joint Replacement**
  - Physician Lead: Eric Hume
- **ShARP**
  - Physician Lead: Nabil Elkassabany
- **Rapid Recovery Joints**
  - Physician Lead: Neil Sheth
- **KARE**
  - Physician Lead: Nabil Elkassabany

### Inflammatory Arthritis
- **Rheumatoid Arthritis**
  - Physician Lead: Sharon Kolasinski
- **Gout**
  - Physician Lead: Sharon Kolasinski
- **Spondyloarthropathy**
  - Physician Lead: Alexis Ogdie

### Trauma & Fracture
- **Geriatric Hip Fracture**
  - Physician Lead: Samir Mehta
- **Distal Radius Fracture**
  - Physician Lead: Ben Gray

### Sports & Performance Injuries
- **Stress Fractures & Female Athlete Triad**
  - Physician Lead: Kate Temme
- **ACL Injuries**
  - Physician Lead: Brian Sennett
- **Rotator Cuff Repair**
  - Physician Lead: Brian Sennett
Incentive Design

- Service Line Incentive renewed for a new three-year term (FY20-22)
### Contribution Margin Incentive

#### Contribution Margin

- **20% of Year over year contribution margin growth with**
- **Additional 5% each in Y2 and Y3 if contribution gain is maintained**

#### Service Line/Department distribution

- **Department Share**
  - 50% of CM portion

- **Service Line Share**
  - 50% of CM portion

#### Further allocation of funds

- Allocated to participating departments based on % of margin with 5% minimum

### Allocation Details

<table>
<thead>
<tr>
<th>Service Line</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ortho</td>
<td>$9</td>
<td>$19</td>
<td>$12</td>
</tr>
<tr>
<td>Radiology</td>
<td>$11</td>
<td>$13</td>
<td>$12</td>
</tr>
<tr>
<td>Rheumatology</td>
<td>$12</td>
<td>$16</td>
<td>$15</td>
</tr>
</tbody>
</table>

- Ortho = 56% of margin
- Radiology = 20% of margin
- Rheumatology = 7% of margin
## Quality & Cost Efficiency Incentive

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Quality</th>
<th>Cost Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Amount Available</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Metrics determined by</td>
<td>Service Line Executive Committee</td>
<td>Service Line Executive Committee</td>
</tr>
<tr>
<td>Payout to</td>
<td>SL Executive Committee</td>
<td>SL Executive Committee</td>
</tr>
<tr>
<td>Example Metrics</td>
<td>• Complications</td>
<td>• Length of Stay</td>
</tr>
<tr>
<td></td>
<td>• Patient Experience</td>
<td>• Readmissions</td>
</tr>
<tr>
<td></td>
<td>• Readmissions</td>
<td>• Completion of Wave Plan initiatives</td>
</tr>
<tr>
<td></td>
<td>• Adherence to Pathways</td>
<td>• Access</td>
</tr>
<tr>
<td>Review for alignment with System priorities</td>
<td>• Penn Medicine CMO</td>
<td>• Penn Medicine CFO</td>
</tr>
</tbody>
</table>
Spending Overview

- Regardless of recipient (department, service line, or disease team), incentive payments are not intended to fund ongoing operating or infrastructure costs.

- Incentive funds are not included in projections, targets, or final budgets for service lines or departments during the annual operating budget process.

- Service lines should develop and maintain spending plans for unspent funds as part of the annual budget planning process.
# Allowable Uses for Incentive Funding

<table>
<thead>
<tr>
<th>Incentives can be used to fund:</th>
<th>Svc Line</th>
<th>Dept</th>
<th>Dis Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research Costs including: scientific investments (e.g., TCE) and bridge or “start-up” funding for research costs and new recruits</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Academic development funding, recruitment, and retention packages</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Pilot programs with operating costs on a trial basis</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>- One or two-year commitment with an opportunity to renew</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Requires a clear path to permanent funding at the conclusion of the pilot</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD &amp; Staff engagement and/or wellness initiatives</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Targeted investments in support of program development</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>One-time costs such as website development or consulting engagements</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Incentives cannot be used to fund:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing, budgeted operating expenses</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Physician salaries</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Ongoing research infrastructure for which there is no planned ongoing revenue source</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>