The business of caring: What every nurse should know about cutting costs

By Rose Sherman, EdD, RN, NEA-BC, FAAN; and Mary Bishop, DNP, RN, NEA, BC, FACHE

KATE PETERSON, an intensive care unit (ICU) director, starts her monthly staff meeting with sobering news: "Our hospital is losing money despite the increase in patient volume," she states. "Reimbursement for care has been declining, and we're seeing more uninsured patients who can't pay their bills. So our unit's request for new monitors has been put on hold for this year. And we'll need to carefully watch our staffing, overtime, and use of supplies. We're all in this together. I need your help and creative ideas to help reduce our expenditures."

Announcements like this are being made in nursing staff meetings across the United States. Like it or not, health care is a business—one that's under tremendous pressure to cut costs. Healthcare costs in the United States have skyrocketed to an average of $8,000+ per person each year. Left unchecked, they could rise to $13,000+ per person by 2018.

The phrase "No money, no mission" is sometimes overused. But sound financial management is important in all healthcare environments, whether for profit, not for profit, or publicly financed. To advocate successfully for the resources needed to staff and operate their units, nurses need to become more financially savvy and increase their understanding of healthcare costs.

Learn how you can help make a difference in your unit budget.

Who pays for care?

Payment for health care in the United States is a complex web involving insurance companies, government agencies, and out-of-pocket payments by consumers. More than half of healthcare costs are paid by private insurers or individuals. The federal government is the single biggest payer, through Medicare, Medicaid, and the Department of Veterans Affairs.

Some healthcare costs aren't paid at all, due to lack of an adequate healthcare safety net. Currently, 47 million people in the United States lack health insurance. Many go without preventive care, but everyone is entitled to (costly) emergency care under the Emergency Medical Treatment and Active Labor Act regardless of their ability to pay. If no further changes are made to the Affordable Care Act (ACA), coverage will expand to 32 million of the currently uninsured population. A large percentage of these persons will be insured under expanded state Medicaid programs. While this should help reduce the amount of unreimbursed care, significant changes are coming in the payment structure that will affect hospitals and other care providers as insurers attempt to decrease healthcare costs.

Trend toward pay for performance

Recent discussion of healthcare reform has focused on how costs can be reduced. Historically, healthcare providers and hospitals have been paid based on the volume of care they provide. But with the ACA, this system is changing. Payment incentives are moving away from a volume basis toward a greater focus on value of services and health outcomes, including fewer hospitalizations. A 2011 report to Congress titled National Strategy for Quality Improvement in Health Care stated that the overall goal for healthcare is "to ensure that all patients are provided with the right care, at the right time, in the right setting, every time."

These changes are putting more pressure on nurse

leaders and other managers to increase efficiency while improving quality and patient outcomes. Reimbursement will be tied more closely to performance on various care measures (including the patient experience)—many of which are nurse-sensitive. The value-based trend in hospital reimbursement will benefit from nursing support.

Outcomes and the bottom line

As a nurse, you need to understand how patient care outcomes affect your employer's financial bottom line. For example, starting in 2013, more than 2,000 U.S. hospitals will lose Medicare reimbursement money because too many of their patients are being readmitted within 30 days of discharge. Also, certain types of patient situations are now considered "never" events—events that shouldn't happen during a hospital stay, such as pressure ulcers, falls, and hospital-acquired infections. Hospitals are no longer being reimbursed for care related to these events.

Are hospitals being targeted unfairly? Perhaps, but a key part of the healthcare financing puzzle is how dollars are being spent. Hospital care is the single biggest spending category (31%) of the healthcare dollar pie. Not surprisingly, when cuts are proposed, this big-ticket item is eyed first. In our opening scenario, Kate Peterson is wise to educate her staff about what's happening to their hospital financially and how it will affect their unit. When you understand the nuts and bolts of budgets at the unit level, you're more motivated and involved in reducing costs. Each nursing unit is part of the larger organization, which depends on qualified nurses to manage the business and understand the bigger picture.

Items in a unit budget

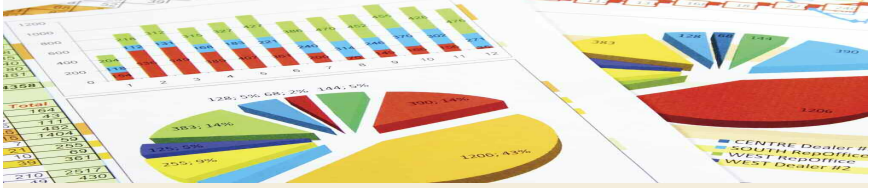
A budget is an annual plan that includes the organization's goals and objectives, lists all planned expenses and revenues, and guides the organization on the best use of human and material resources. Budgetary planning promotes use of the best methods to achieve financial objectives while ensuring patients receive high-quality, cost-effective services. During budgetary planning, expense and revenue projections are reviewed and compared. If they're not in balance, the budget is reviewed to seek ways to reduce expenses without impairing the services that support revenues.

Healthcare organizations use various types of budgets, including operating budgets and capital budgets, to plan and monitor their financial status. (See *What's in a capital budget?*) The *operating budget* is especially relevant to nurses because they're closest to the patients and know what's needed to provide appropriate care and services on a daily basis. Each nursing unit is considered a cost center and has an operating budget, whose major components are revenues and expenses. The operating budget monitors anticipated day-to-day activities, resources, personnel, and supplies—typically over a 1-year period.

Revenue is based on charges. It's the money the organization receives for patient visits, procedures, and inpatient hospitalizations from Medicare, Medicaid, private insurers, or patients themselves. Of course, not all charges are paid in the full amount. Some may be discounted depending on the payer. Many insurers pay a flat rate per day for an inpatient hospital stay. For a nursing unit, budget revenues are projected from the total number of days patients spend on the unit or the average daily census. As Kate Peterson pointed out to her staff, during these challenging times, a hospital might be losing revenue even if a unit has a full census. Be aware that nursing services aren't considered revenue-producing; instead, they're included in overall room and board charges.

Expenses include the cost of nursing staff, activities, supplies, and other items used to run the nursing unit. An operating budget has two main types of expenses: employment costs and non-salary expenses.

- *Employment costs* (the largest part of the unit budget) include salaries and wages for hospital employees and contract staff, including overtime, shift differentials, holidays, orientation, education, in-service sessions, and benefits.
- *Non-salary expenses* include medical supplies used for patient care (such as I.V. tubing and dressings), pharmacy costs for stock medications and syringes, office supplies, equipment rentals (such as copy machines), repairs and maintenance of equipment used on the unit, and staff travel for educational purposes.



What's in a capital budget?

Usually separate from the operating budget, the capital budget is a projection of the planned costs of major purchases, including equipment, maintenance, renovations, and new construction. Each capital budget item is listed as the price of the item or project, along with the duration of its expected use.

Organizations use a designated point (such as $500 or $1,000) as the cutoff point above which an item belongs in the capital budget rather than the operating budget. Capital budgeting has gotten more difficult as healthcare technology has become more complex and costly. During tough times, requests for capital items are more likely to be denied. The chief financial officer must analyze each item's financial implications to determine if the hospital will have a sufficient number of patients needing procedures related to that item, and if reimbursement for these procedures will pay for the cost of the new item. Any needed renovations, supplies, and staff required to operate the equipment and care for patients also must be taken into account when deciding on capital equipment purchases.

How nurses can help reduce healthcare costs

After a unit budget is approved, it must be monitored continuously to ensure expenses stay within projected budgetary limits. The nursing manager gets feedback on actual expenses—data that show any discrepancies between budgetary projections and actual results; these are called variances. Unit managers work to modify expenses and thus correct variances, ensuring that each department stays within budget for the year and expenses are controlled.

Nursing is the largest professional group in the hospital—and usually the most expensive. As a nurse, you can play an important role in helping reduce costs. Based on the unit census and patient acuity, a targeted number of hours per patient day (HPPD) is designated. When nursing hours exceed the HPPD needed by patients, nurse managers typically are required to submit a report explaining the reason. Nurses can help make a difference in their unit budgets by not overstaffing their unit when they are in charge, avoiding excessive use of unscheduled leave that could require overtime, and monitoring the use of supplies.

With declining healthcare reimbursement and growing numbers of patients unable to pay for their health care, nurses are expected to do more with less. Meeting this challenge will take innovative thinking and involvement of all staff. The business of caring is perhaps more important today than ever. Your involvement, interest, and support can help ensure patients receive high-quality care, and can go a long way toward promoting your organization's healthy financial future. ✭

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Rose O. Sherman is an associate professor of nursing and director of the Nursing Leadership Institute at the Christine E. Lynn College of Nursing at Florida Atlantic University in Boca Raton, Florida. You can read her blog at www.emergingrnleader.com. Mary Bishop is an assistant professor of nursing at the University of West Georgia School of Nursing in Carrollton.