

## **CHAPTER 3: FINANCING THE PROVISION OF CARE**

### **INSTRUCTIONAL AND LEARNING OBJECTIVES FOR CHAPTER 3:**

After completing this chapter, the student should be able to:

- Define commonly used terms, abbreviations, and acronyms
- Identify the options for funding various types of facilities.
- Enumerate the differences between for-profit, not-for-profit, and public health facilities.
- Evaluate the impact of the facility's relationship with third-party payers.
- Describe the various methods of payment received from third-party payers.
- Explain how case mix and occupancy rates can be used to balance the budget of a health care facility

### **Chapter Outline**

Introduction

Business Structure

Third-party Payers

Third-Party Payer Reimbursement

Sources of Funding

Budgeting

Chapter Review

Safian, Instructor's Manual, Fundamentals of Health Care Administration.  
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## **RESOURCES**

- Student textbook, Chapter 3
- Instructor's Manual with Lesson Plans
- Chapter 3 PowerPoint Lecture
- MyTest

### **Lesson Plan**

<b>Learning Objective 3.1:</b> Define commonly used terms, abbreviations, and acronyms.	<b>Teaching Notes</b>
<p><b>Text Pages:</b> <a href="#">48-65</a></p> <p><b>Concepts for Lecture:</b> The key terms listed at the beginning of the chapter are important concepts for students to know and are bolded throughout the chapter.</p>	<p><b>Teaching Resource:</b> <i>Fundamentals of Health Care Administration</i>, Chapter 3</p> <p><b>PowerPoint Lecture Slides:</b> <a href="#">01-09</a></p> <p><b>In-Class Activity:</b> Review each of the key terms and have students use them in a sentence or theory statement to show they understand the meaning.</p> <p><b>Teaching Notes/Tips:</b> Caution students to pay careful attention to spelling as well as pronunciation.</p> <p><b>Homework Assignment:</b> Review and become familiar with the key terms for this chapter.</p>
<b>Learning Objective 3.2:</b> Enumerate the differences between for-profit, not-for-profit, and public health facilities.	<b>Teaching Notes</b>
<p><b>Text Pages:</b> <a href="#">49-49</a></p> <p><b>Concepts for Lecture:</b> There are three types of business structures from which a health care facility may choose. For the most part, this designation affects the bookkeeping of the revenue coming into and out of the organization and the company's relationship with the Internal Revenue Service (IRS). However,</p>	<p><b>Teaching Resource:</b> <i>Fundamentals of Health Care Administration</i>, Chapter 3</p> <p><b>PowerPoint Lecture Slides:</b> <a href="#">12-15</a></p> <p><b>In-Class Activity:</b> Students should discuss the differences, from an administrator's point of view, between for profit and not-for-profit.</p> <p><b>Teaching Notes/Tips:</b></p>

depending upon the structure, different sources of funding will be available for growth Activity.	Encourage them to think about the benefits and challenges to funding services  <b>Homework Assignment:</b> Choose one type of health care facility (i.e., hospital, nursing home, etc.) then create a list of the benefits and challenges of this facility being for profit and another list of the benefits and challenges of the facility being a not-for-profit.
<b>Learning Objective 3.3:</b> Evaluate the impact of the facility's relationship with third-party payers.	<b>Teaching Notes</b>
<b>Text Pages:</b> <a href="#">49-51</a>  <b>Concepts for Lecture:</b> Present an overview of the benefits third-party payers provide to the health care system as a whole. Review the relationship between various types of health care facilities and these third-party payers. Posit: how can a health care facility balance the power with these third-party payers regarding revenue?  Discuss the pros and cons of being a participating provider with each of the major third-party payers (Medicare, Blue Cross Blue Shield, Humana, Aetna, etc.).	<b>Teaching Resource:</b> <i>Fundamentals of Health Care Administration</i> , Chapter 3  <b>PowerPoint Lecture Slides:</b> <a href="#">16-18</a>  <b>In-Class Activity:</b> Break students into teams and have each team research a different type of third-party payer, then present the information to the class.  <b>Teaching Notes/Tips:</b> Urge students to look deeply into each type of payer and remind them to evaluate from the provider's point of view, not the patient's.  <b>Homework Assignment:</b> Write a 2-page essay on whether or not health care third-party payers have value to a facility's ability to provide for their patients. If they do, what specifically is that value; if not, why does the industry continue to involve them?
<b>Learning Objective 3.4:</b> Describe the various methods of payment received from third-party payers.	<b>Teaching Notes</b>
<b>Text Pages:</b> <a href="#">52-57</a>  <b>Concepts for Lecture:</b> Review each of the payment methodologies used by third-party	<b>Teaching Resource:</b> <i>Fundamentals of Health Care Administration</i> , Chapter 3  <b>PowerPoint Lecture Slides:</b> <a href="#">19-24</a>

<p>payers and include pros and cons of each.</p>	<p><b>In-Class Activity:</b> Compare and contrast, from the perspective of an administrator, the pros and cons of each type of reimbursement methodology.</p> <p><b>Teaching Notes/Tips:</b> Include discussion on control over income/revenue – what can be done if one payer changes rates and reduces your revenue for the same service?</p> <p><b>Homework Assignment:</b> Write a 3-page paper on the benefits of case mix balance with regard to payers.</p>
<p><b>Learning Objective 3.5:</b> Identify the options for funding various types of facilities.</p>	<p><b>Teaching Notes</b></p>
<p><b>Text Pages:</b> <a href="#">57-61</a></p> <p><b>Concepts for lecture:</b> Review the various types of funding, with pros and cons. Present details on the many ways that a health care facility can find funding for expansion, additional equipment, updating equipment, additional staff, etc. Consider bringing in a guest speaker from a bank or investment firm with a healthcare specialization team.</p>	<p><b>Teaching Resource:</b> <i>Fundamentals of Health Care Administration</i>, Chapter 3</p> <p><b>PowerPoint Lecture Slides:</b> <a href="#">25-26</a></p> <p><b>In-Class Activity:</b> Have students go to grants.gov and discuss the various types of grants available.</p> <p><b>Teaching Notes/Tips:</b> Explain the differences between loans, grants, stock issuance, secured and unsecured bonds.</p> <p><b>Homework Assignment:</b> Have students download a grant application and write a summary of what information is needed in each section and the source for that information. For example, where would you get specific details about the numbers in a particular patient population, to be served?</p>
<p><b>Learning Objective 3.6:</b> Explain how case mix and occupancy rates can be used to balance the budget of a health care facility.</p>	<p><b>Teaching Notes</b></p>
<p><b>Text Pages:</b> <a href="#">61-65</a></p>	<p><b>Teaching Resource:</b> <i>Fundamentals of</i></p>

<p><b>Concepts for Lecture:</b> Explain what a balanced budget is and why a balanced budget is important. Review how payer case mix, diagnosis case mix, and occupancy rates can contribute to balancing a budget or throwing it out of whack.</p>	<p><b>Health Care Administration, Chapter 3</b></p> <p><b>PowerPoint Lecture Slides:</b> <a href="#">27-31</a></p> <p><b>In-Class Activity:</b> Students should discuss ideas for growing a health care facility vertically and ideas for growing horizontally.</p> <p><b>Teaching Notes/Tips:</b> Emphasize that even free clinics need money to function.</p> <p><b>Homework Assignment:</b> Identify the various line items that should be included in a health care facility budget.</p>
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## CORE TEXTBOOK ANSWER KEY

### Multiple Choice

- Revenue is the term used to identify money that is
  - coming into the organization.**
- A health care facility may be structured as
  - All of the above**
- IRS designation 501c(3) indicates that the facility
  - does not have to pay taxes.**
- Which type of business structure can pay dividends to stockholders when there is profit?
  - For-profit organization**
- Unsecured bonds are also known as
  - debentures.**
- Which entity may be known as a third-party payer?

**d. Health insurance company**

7. All of the following are government third-party payers EXCEPT

**a. Humana.**

8. Which of the following is a type of payment that would come to the facility from a patient?

**d. Co-insurance**

9. DRG's are a type of \_\_\_\_\_ paid by Medicare to acute care hospitals.

**b. Episodic care**

10. *Breaking even* means that the facility has

**c. revenues and expenditures that are equal.**

11. Analysis of the facility's case mix means that the administrator is evaluating

**d. Both a and b**

12. Evaluation of the facility's occupancy rate may reveal that

**a. the facility is not working to its full potential and revenue is being lost.**

13. Medicare beneficiaries may

**d. All of the above**

14. Which statement is true about Medicaid?

**b. This program covers health care costs for those who are indigent.**

15. The general business rule is that no single customer should ever provide \_\_\_\_\_ of the facility's revenue.

**b. more than 30%**

16. Which of the following is an example of a variable expenditure?

**c. Salaries**

17. Which of the following is an example of a fixed expenditure?

d. **Furniture**

18. Which of the following is the formula for the definition of profit?

c. **Profit = total revenues minus total expenditures**

19. A grant or commercial loan may be used to fund

d. **All of the above**

20. A facility might increase revenue by

d. **both B and C**

### **Fill-in-the-Blank**

21. For a health care facility to grow their revenue **horizontally**, they would increase the types of services they provide to their current patient population.

22. Diagnosis-related groups (DRG) is an example of a(n) **episodic** care payment plan.

23. A community hospital and a state health department clinic are examples of a(n) **public health** care facility.

24. The Shriner's Hospital and a United Cerebral Palsy clinic are examples of a **not-for-profit** health care facility. [Also accept **non-profit**.]

25. Each year, Dr. Jebber's office receives a list of how much this third-party payer will reimburse him for each and every procedure, service, and treatment provided to one of their insureds. Dr. Jebber is being paid under a(n) **fee-for-service** agreement.

26. A **co-payment** is a fixed amount paid by the patient to the provider, regardless of what is provided during this visit.

27. You, as the administrator, instruct your staff to keep an eye on the third-party payers from whom the facility receives reimbursement so that no single payer represents more than 30% of the total revenue stream. This concept is known as **case mix**.

28. The three parts of the RBRVS formula for total RVU calculation is: physician work, practice expense, and **malpractice**. [Also accept **malpractice expense**]

29. Unreimbursed indigent care, staff salaries, and medical supplies are known as **variable expenditures**.

30. A bond that is backed with some type of asset is called a **secured bond**.

### ***When You Are The Administrator...***

#### **Critical Thinking and Analysis**

##### **Case Study 1. Case Mix Stability**

*Evaluate the data in Figure 3-5. If you were the administrator of this health care facility, what actions would you recommend to ensure your organization maintains financial good health? Support your recommendations with specific statistics from the table.*

**KEY POINTS:** Have students cite specific statistics and interpret them into potentially profitable/successful ideas and actions. Students should be certain to include the answer to “why” in all aspects.

##### **Case Study 2. Determining Opportunities to Increase Revenues**

*Evaluate the data available in Figure 3-6, which is from the Health, United States, 2010 report from the US Department of Health and Human Services, available in Figure 3-7.*

*If you were the administrator of a health care facility, what actions would you recommend*



*to ensure your organization can increase revenues? Support your recommendations with specific statistics from Figure 3-6.*

**KEY POINTS:** Again, this exercise is designed to help students perform critical evaluation and connect programs to provide services to patients that are supported by facts. This data can be used to help students remember that while providing healthcare services are important, and it is good to be altruistic, the facility still must keep an eye on the finances.

### Case Study 3. The Cost of Providing Care

*Read through the allegation and the disposition of this case. From the point of view of the state of Colorado, create a list of pros and cons for paying for the services this woman needs to stay in her own home. How much money would you need to add to the budget to provide these services for one year?*

*Take into consideration:*

- *The average salary for a certified nursing assistant (CNA) in Fort Collins, CO (city picked randomly for purposes of this exercise) is \$27,039... roughly \$104 (one-hundred and four dollars) per 8-hour shift day.*
- *Typically, those in the National Guard must complete duty of one weekend a month and two weeks during the summer.*

**KEY POINTS:** Help students analyze both sides of this service. It is important that they all see that there is an obligation to care for this patient while the analysis must be made for the answer to the question... “At what cost?”