Overview and Progress Update: Medicare Performance Initiative (MPI)

Britt Reynolds, President
Hospital Operations

Scott Richardson, Senior Vice President
Operations Finance and Performance Management & Innovation

John Short, Vice President
Performance Management & Innovation

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Non-GAAP Information

This presentation includes certain financial measures such as Adjusted EBITDA, which are not calculated in accordance with generally accepted accounting principles (GAAP). Management recommends that you focus on the GAAP numbers as the best indicator of financial performance. These alternative measures are provided only as a supplement to aid in analysis of the Company. Reconciliation between non-GAAP measures and related GAAP measures can be found in the Company's first quarter earnings release issued on May 8, 2012.
What we will cover today

- MPI strategy
- Evolution of MPI
- Examples of MPI successes to-date
- MPI resources
- Expanded focus and targeted results
- Key takeaways
- Discussion
Tenet’s MPI Strategy

• A “cornerstone element” of Tenet’s strategic vision – **accelerate, expand, and scale up the strengths of MPI for cost transformation** – to improve margin performance

• With increasing ACO development and introduction of several pay-for-performance and gain sharing models by both government and commercial payers – **Healthcare Reform is upon us**

• Federal and State deficit reduction actions will **“squeeze” hospital payments with or without near-term passage of comprehensive health reform**

• To successfully compete in a “payment reform market,” we must:
  
  • Apply a sophisticated analytics capability - **linking rich cost and quality data, in a single analytic platform**
  
  • Aggressively pursue **alignment with our physicians**
  
  • Drive down all categories of cost **reducing the cost of care to patients and payers**
  
  • Deliver a compelling value proposition, **comprised of quality, cost and innovation**, to all of our stakeholders
When MPI was first launched, our focus was

- Preparing for healthcare reform
- Reducing variable cost per case on a DRG by DRG basis by focusing on those Medicare DRGs with the largest loss
- Selecting 10 - 15 Medicare DRGs per hospital during each Wave
- Using home office based MPI clinical consultants to work with hospital management teams to create multi-disciplinary teams and action plans to lower variable cost per case
- Using data analytics to identify the physician practice variation at the DRG level that would be shared with the physician for possible modification of their behavior
- Driving down supply costs through better pricing and standardization of physician preference items
- Providing the tools, processes, and education to hospital management so that they are able to repeat and sustain
Physician Practice Variation Bubble Chart
ALOS & Variable Cost Per Case – MS-DRG 871 Sepsis (Medicare only)

Note: The size of the bubble corresponds to the number of Medicare patients for each physician measured over the time period.
• Other performance improvement initiatives driving down costs:
  – Labor productivity management via enhanced tools, data, and concepts
  – Medication utilization management through pricing and standardization
  – Reducing excess length of stay
  – Capitated supply strategies, product substitution, product elimination
  – Patient throughput improvements – i.e. Emergency Room
This focus served us well

*MPI has driven $145 million in cumulative benefits in its first three years*
Working with our orthopedic surgeons, we gained support for a capitated pricing strategy for total knee and hip replacement implants, resulting in significant cost efficiencies.

Sequential Quarter Change in Average Supply Cost per Case – Total Joints (All Payers)

CAGR = -8.9%
Example: Congestive Heart Failure & Pneumonia
Percent change in ALOS & Variable Cost per Case – All Payers

Average length of stay and variable cost per case have both declined for congestive heart failure and pneumonia, since 2010 when most hospitals became active in MPI throughout the year.

Congestive Heart Failure: MS-DRGs 291-293
Pneumonia: MS-DRGs 193-195
In This Issue of MPI Focus Point: Platelet Rich Plasma

Realize significant cost savings by discontinuing use of Platelet Rich Plasma

Eliminate use to yield a $500 to $1500 reduction in variable cost per case

Identify specific vendors and branded products for immediate elimination

Understand lack of clinical evidence for continued use of this class of products and the claims vendors make

Our focus on platelet rich plasma resulted in $1.2 million in annual savings
This focus served us well

- Cumulative cost savings benefits of $145 million have been driven by MPI in 2009-2011
- Achieve significant cost per case improvements in several key, high volume MS-DRGs
- Developed and disseminated companywide “effective practices” that improve cost effectiveness across our system, whether part of a hospital’s focused MS-DRG group or not
- Developed and continued to develop our data tools to enhance our ability to drive MPI
- Establish an “MPI Focus and Culture” that has carried this cost discipline deep down into how our management teams search to identify opportunities to eliminate waste
MPI continues to evolve

- As we rollout MPI we learn more
- Breadth and depth of data and resulting analytics continues to grow
- Increasing access to data for better quality and cost decisions
- Home office support teams with skill sets and competencies continue to expand
- Broadening the focus beyond one DRG at a time
- Broadening focus to all payors not just Medicare
- Creating more initiatives to drive down variable cost per case
- Hospital teams are identifying and implementing their own cost reduction initiatives that are shared companywide
An integrated set of robust home office resources supports and enables hospitals to successfully execute MPI.
Expanding our focus to hospital-wide patient throughput will drive even greater benefits by eliminating waste and inefficiencies that impact all medical or procedural MS-DRGs.

- **Surgical services**
  - Cancelations and efficiency
  - Preadmission testing
  - Surgeon preference cards

- **Emergency services**
  - Registration and collections
  - Admission LOS
  - Discharge LOS
  - Ancillary turnaround times
  - ICU efficiency
  - Right Care Right Place
  - Post acute transfers
Regionally dedicated, senior clinical experts lead hospital MPI teams to identify and eliminate unnecessary variation and waste, also coordinating other Tenet home office MPI resources.

- Peer-to-peer physician practice variation by MS-DRG
  - ALOS
  - ICU utilization
  - Variable cost per case
  - Test/procedure utilization
- Execution and monitoring of all Tenet supply cost initiatives
- Application of industry recognized and internal best practices
- Ongoing development and implementation of clinical intervention standards (e.g., blood utilization, treatment of sepsis)
- Teaching and hardwiring use of analytics and process improvement with hospital staff
- Follow-through and accountability of hospital teams executing action plans
Supply chain resources play a major role in MPI and focus on pricing, substitution and product utilization strategies that touch many MS-DRGs.

A combination of clinical and supply chain experts support MPI resources in the hospitals by bringing scale to many supply and service opportunities and through ongoing evidence-based research.

- Physician preference items
- Unit and capitated pricing
- Vendor consolidation
- Evidence-based medicine:
  - Utilization of lower cost substitutions
  - Elimination of non-value add products
  - New product/technology value assessments
- Medication use management
- Contract compliance
- Service contracts
  - Food & nutrition
  - Environmental services
  - Perfusion services
Labor management team assists hospitals in managing the single largest cost component of all MS-DRGs

- Labor performance reporting tools
  - Labor Management Reporting System (LMRS)
  - Position control and staffing grids
  - Comparative productivity benchmarks
- Productivity and work flow consulting
- Scheduling
- Pay practices
Senior clinicians are regionally dedicated for both case management operations and medical necessity education, supporting MPI efforts through ALOS management, medical necessity and level of care.

- Medical necessity and level of care
- Comprehensive InterQual education
- Observation status management
- Discharge planning
- Reducing excess days
- Inpatient throughput
- RAC and MAC denials
Rich data analytics and best practice tools are key to executing on MPI

Development of a deep data analytics platform and best practice library is a prerequisite for MPI success and being prepared to identify and evaluate future opportunities. Dedicated MPI analytics team supports MPI efforts of home office and hospital teams.

- Detailed utilization and costing at the DRG, payer, test/procedure and physician level
- Wage-adjusted benchmarking capability across all of Tenet by DRG and physician
- Evidence-based medicine library compiled from nationally renowned external sources
- Documented internal effective practices disseminated through “MPI Quick Wins” and “MPI Focus Points”
- Ongoing development of clinical intervention standards
This resource platform has not only driven our success to-date, but also gives us a competitive advantage and the necessary agility to adapt and expand to continuously pursue new opportunities.
With success and learning to-date, we continue to expand and adapt MPI to accelerate and take full advantage of opportunities.

- Move from Medicare only to all payers
- Move from individual DRG groups to broad service line groupings
- Expand process improvement efforts to large operational processes that touch large groups of DRGs
- Expand supply utilization across the entire enterprise, especially surgical services, including preference cards and vendor consolidation
- Standardize clinical interventions in key care processes that impact large numbers of DRGs and service lines
- Expand team focus to other controllable costs through restructuring service contracts and rental agreements
- Support hospital-specific actions, independent of coordinated efforts by the home office, arising out of the hardwiring of an MPI mentality with our hospital operating teams

In fact, we have started to think about MPI as a Margin Performance Initiative.
Adapting our data analytics platform will drive greater physician alignment and cost improvements

- Enhancing our already robust procedural cost and benchmarking data by implementing a new decision support tool – **links cost and quality at the patient level in a web-based application easily accessed and used by physicians** – all Tenet hospitals targeted to be on system by end of year.

- Building daily efficiency dashboard reporting for the OR and ED into our decision support systems – **providing for more real-time management of these critical cost-driving operations**

- Implementing new case management system beginning in December, 2012 - **enabling more effective level of care assignment, and more standardization around discharge planning, utilization management, denials and appeals, readmissions, and inpatient throughput**

- Continuing roll-out of Computerized Physician Order Entry (CPOE) will expand our physicians’ use of electronic order sets – **will help further reduce practice variation and reduce duplicate testing**

- The availability of rich clinical and cost data, accessed by the tools we have developed or acquired, and analyzed by our team of subject matter experts leads to identification of cost savings opportunities and allows for the tracking of success.
Investing and delivering education and training to our hospital associates will expand local capabilities to execute and sustain:

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<td>- Root-cause problem solving</td>
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<td>- Evidence based medicine</td>
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<td>- Change management</td>
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<td>- Creating a performance driven culture</td>
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<td>- Influencing with data and integrity</td>
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<td>- Feedback and coaching</td>
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<td>- Meeting and time management</td>
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<td>- Physician engagement</td>
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Adapting the scope of MPI will build upon our results to-date and drive the continued realization of benefits, targeting $375 million cumulatively over the seven-year period 2009 - 2015.
Key Takeaways

- MPI is our cornerstone strategy for margin improvement and success under healthcare reform
- MPI is not simply a program; it is a continuous strategy that is agile and will continue to adapt to drive value
- MPI is comprised of people, data, tools, competencies, skills, and education
- MPI has evolved from its initial scope and will add new areas of focus to continue driving incremental savings
- We are enhancing our business intelligence tools to support MPI efforts and facilitate greater physician alignment
- MPI has driven more than $145 million in cumulative savings in its first three years, 2009-2011 and we expect an additional $230 million from 2012-2015
- We believe MPI gives us a competitive advantage to succeed under new payment models emerging from health reform and deficit reduction efforts
DISCUSSION