

# AHMC Healthcare discovers model approach to leveling the playing field with payors

## Challenge

Hospitals are constantly under pressure to increase operational efficiencies and generate new revenue while recouping losses wherever possible. Many fail to maximize a critical opportunity to improve their financial situation through contract negotiations with payors.

After acquiring multiple hospitals with diverse computer systems, California hospital system, AHMC Healthcare Inc., needed an effective, consistent methodology to analyze and predict the real financial impact of contract negotiations with health plans. Without it, the system's managed care department was at a disadvantage every time contracts came up for renewal. The health system had implemented a centralized contracting system with the health plans, but didn't have an effective modeling or contracting module to capture net revenue. AHMC's Director of Managed Care, Lawrence Nowell, and his team relied on the individual hospital CFOs to ascertain the financial impact of their existing business with the health plans. Obtaining the information at the onset took months, and back-and-forth negotiations were neither efficient nor effective due to the number of challenges involved in securing accurate and reliable data.

To take control in payor negotiations, AHMC has embraced a best practice approach to contract management that has paid off. By modeling proposed changes prior to and throughout negotiations AHMC is able to successfully quantify the specific net yield from each payor product. The hospital system now reports that it wouldn't consider going through contract negotiations without such a capability.

## Solution

To streamline the contract negotiation process, AHMC implemented nThrive Contract Modeling, a Web-based revenue management solution designed to help hospitals and health care systems accurately forecast, calculate and capture all net revenue contractually owed to them.

AHMC uses nThrive Contract Modeling for analysis to help gain leverage in contract negotiations. Now the hospital system can easily see both the current and projected financial impact of their contracts with health plans, allowing Mr. Nowell and his team to develop a game plan well in advance of negotiations. Specifically, Mr. Nowell's team can quickly and easily access a year's worth of historical data that shows utilization patterns and other critical information such as the hospital system's current net revenue per day. Armed with this information, all parties from the business office and the managed care department can see the cause and effect of any reimbursement or issue and work together to resolve them.



I am continually impressed with nThrive Contract Modeling. The results have stood up against the test of the individual hospitals' CFOs and the health plan actuaries. Now, I can't imagine negotiating a contract without the support of the modeling system."

**LAWRENCE NOWELL, DIRECTOR OF  
MANAGED CARE, AHMC  
HEALTHCARE INC.**

Individual hospital CFOs prefer the system because it gives them valid and timely information that allows them to make informed decisions –without the need for ongoing back-and-forth internal dialogue. “Our CFOs no longer question the numbers,” said Mr. Nowell, adding that he can now walk through the negotiation process with internal staff in just one conversation versus the several it used to take.

The ability to plan ahead has had a tremendous payoff. In negotiations with one payor, AHMC was facing a possible \$1 million loss. Rather than taking the loss as might have happened in the past, Mr. Nowell and his team came back with a counter proposal based on real numbers calculated from the modeling system, and AHMC was able to successfully negotiate significantly better pricing by refuting the plan’s selectively reported data.



Reduced contract negotiation  
time from several months to  
**less than three weeks**

The long-term benefits for these negotiations are tremendous, but AHMC also benefits from nThrive Contract Management on a daily basis for underpayments. The organization’s Explanation of Benefits (EOBs) are reviewed to compare the actual versus expected payment. If there is an underpayment, the organization produces a denial letter from nThrive Contract Management to appeal the variance. Proactively, they place calls to payors and utilize nThrive Contract Management’s worklists to review accounts for underpayments. The savings on underpayments are also reported to be noteworthy.

AHMC also looked for a way to improve its month-end reserves and reporting processes, which were causing a strain on its financial system. nThrive Reserve Management was introduced to AHMC. nThrive Reserve Management works closely with nThrive Contract Management to automate the accurate recognition of reserves at month end and identify excess and lost revenue. An online dashboard guides the user through the month-end process to ensure that all steps are completed, thus providing the most accurate accruals on each account.

nThrive Reserve Management has delivered significant benefits to AHMC. Monthly reserves are now significantly better than what they were two years ago, and the month-end close process is down from approximately seven days to just two days.

## Results

With the new technology system in place, AHMC now has reliable numbers it can project to their hospitals and the corporate office. The organization benefits from ongoing reimbursement integrity, verifying accuracy of all payments received according to payor contract terms—actually being paid for what the team worked so hard to negotiate. The credibility that the new internal auditing and modeling processes have brought has carried into all other aspects of contracting and changed AHMC’s entire outlook when it comes to contract negotiations.

“Modeling has become a strength of our contract negotiations rather than a weakness,” said Mr. Nowell. “Thanks to the new and improved process, we know how to maximize reimbursement on average length of stay as well as our revenue per day based on the services or type of services being provided through in-patient stays. We finally have credible numbers to show our CFOs, which puts us on a level playing field with the health plans’ actuaries and gives us more leverage to successfully renegotiate contracts.”

It also has given them a new proactive approach to working with payors. “We have moved from lagging behind and waiting on the health plans to request our proposal to a proactive position of initiating the calls to health plans and driving the negotiation process,” said Mr. Nowell.

Although modeling is detailed work, AHMC’s results speak for themselves. Since implementing the new process, the hospital system has reduced its contract negotiation time period from an average of several months to less than three weeks in some cases.



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