



advocacy | action | answers on aging

Preparing Community-Based Organizations for Successful Health Care Partnerships: How to Make the Business Case

Part of the National Aging and Disability Business Center Series – a
collaboration of n4a and ASA.

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National Association of Area Agencies on Aging

The “Business Center”

The mission of the National Aging and Disability Business Center (Business Center) is to successfully build and strengthen partnerships between community-based organizations (CBOs) and the health care system so older adults and people with disabilities will have access to services and supports that will enable them to live with dignity and independence in their homes and communities as long as possible.

www.n4a.org/businesscenter

National Association of Area Agencies on Aging

Partners and Funders

Partners:

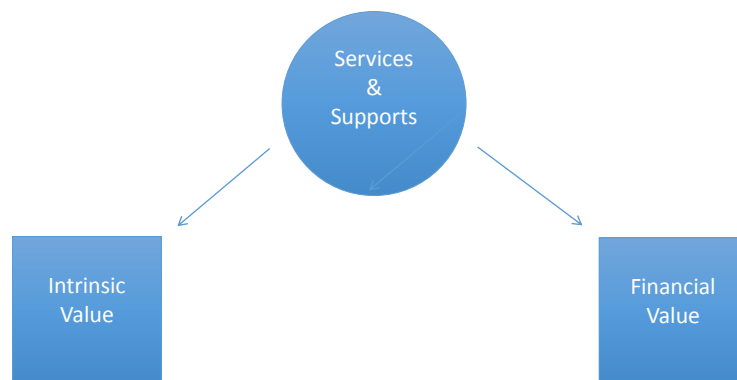
- National Association of Area Agencies on Aging
- Independent Living Research Utilization/National Center for Aging and Disability
- American Society on Aging
- Partners in Care Foundation
- Elder Services of the Merrimack Valley/Healthy Living Center of Excellence

Funders:

- Administration for Community Living
- The John A. Hartford Foundation
- The SCAN Foundation
- The Gary and Mary West Foundation
- The Colorado Health Foundation
- The Marin Community Foundation

National Association of Area Agencies on Aging

CBO'S Must Demonstrate Evidence of Financial Value to Medical Partners



The Definition of a Business Case

Justification of an organization's expenditure based on the positive economic consequences to that organization.



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Other Cases

- *The **health** case: The service has intrinsic value. It will achieve its stated health and well-being-related outcomes.*
- *The **social** case: A service creates social value. It results in economic benefits, irrespective of to whom they accrue, that exceed the costs.*

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The Distinction Between a Social and a Business Case

Revolves around economic consequences that are external to the organization making the investment.

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Economic Consequences

- The business and social cases involve cost-benefit analysis.
- Benefits must be denominated in dollars



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Examples

- Nursing home diversion programs
- Respite
- Care coordination
- Palliative care
- Person-centered care

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Reforms Incentivize Financial Accountability for the Total Cost of Care

- Capitation
- Medicare's Bundled Payments for Care Improvement (BPCI) Initiative,
- Hospital Readmissions Reduction Program
- Value- Based Purchasing

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Question the business case must address:
"Is there an adequate return on investment?"

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A business case typically begin with the existence of a financial burden if no investment is made.

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Examples of Economic Burdens Related to Health Conditions

- The cost to Medicare of a hospital readmission within 30's days of discharge is about \$18,000.
- More than 25% of Medicare expenditures are provided in the last year of life.
- Cost per hospital stay for those adults that die in the hospital is over \$112,000.
- The annual Medicare spending for an individual with three or more co-morbidities and with dementia is about \$50,000.

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**The bigger the burden, the bigger the
opportunity.**

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Sometimes a business case is built around the prospects of generating higher revenues.

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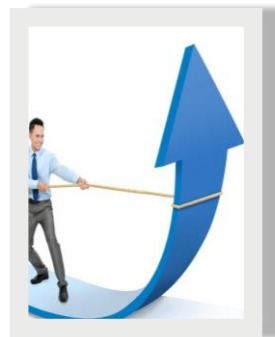
Benefits Can Fall Into Two Categories

S Lower Costs



Due to reduced medical utilization. Cost avoidance.

R Higher Revenues



Due to lesser penalties and higher medical payments,

Subtract Costs **C**

For a **business** case you must show that benefits from the investment exceed the costs.

$$S + R - C > 0$$

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Steps to Create a Business Case

- Measure and add up the expected benefits in terms of cost savings plus any revenue enhancements to get gross benefits
- Estimate the total costs of the program
- Subtract these costs from the gross benefits to get net benefits
- Often, the net benefits are expressed as a percentage of the program costs - and called "return on investment" or ROI, for short
- The ROI is compared to a "hurdle" rate - a minimum percentage that any investment must generate to be considered
- If the ROI is above the hurdle rate, then the program investment is worthwhile

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A Sample ROI Calculation

Program Gross Benefit	\$250,000
Program Cost	\$200,000
Program Net Benefit	\$50,000
ROI	25%

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ROI Estimates For Two Care Coordination Programs

Program	Annual Cost Per Member	Annual Savings	ROI
Transitional Care Model	\$1,492	\$5,334	257%
GRACE	\$2,201	\$4,291	95%

Source: Avalere Health LLC: Effective Management of High-Risk Medicare Populations, September 2014.

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Common Failings in Conducting Business Cases

- Considering irrelevant costs in calculating benefits
- Failure to consider multiple periods
- Using ROI inappropriately to select between projects
- Using average rather than incremental ROI's

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1. Considering Irrelevant Costs in Calculating Benefits

- If your program reduces medical utilization, the resulting saving (and therefore benefit) is best measured by the variable and not the average cost of the avoided services.
- Average cost includes fixed as well as variable costs.
- You are unlikely to be able to reduce fixed costs as utilization falls.

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2. Failure to Consider Multiple Periods

- Many programs involve delayed & continuing outcomes
- Program benefits therefore are often deferred and can extend into the future for several years
- Need to consider and add up the benefits (and costs) over multiple periods and not just those accruing during the period of investment
- Issue: future values need to be discounted to a “present value” equivalent

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3. Using ROI Inappropriately to Select Between Projects

- Consider mutually exclusive investments - A versus B
- You need to decide which one is preferred

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ROI & Net Benefit Criteria Yield Conflicting Conclusions

	Program A	Program B
Gross Benefit	\$250,000	\$350,000
Cost	\$125,000	\$200,000
ROI	100%	75%
Net Benefit	\$125,000	\$150,000

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4. Using Average Rather Than the Incremental ROI

- Often, the question is how large the program's scale ought to be?
- When confronted with an extent or scale decision, you must use incremental analysis
- Otherwise you may overinvest in the program
- Example: Risk stratification of a population to determine who should receive a service

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Numerical Example

	Cost	Benefits	Net Benefits	ROI
Highest Risk (Top 10%)	\$100,000	\$140000	\$40,000	40%
Top 20%	\$200,000	\$235,000	\$35,000	17.5%
Moderate Risk (Second 10% only)	\$100,000	\$95000	-\$5000	-5%

The marginal rate for an expanded program is negative!

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Helpful Hints to Create a Business Case

- Be mindful of perspective
- Check for cost effectiveness: are there better ways?
- Conduct sensitivity analysis
- Overcoming skepticism

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1. Be Mindful of Perspective

- There may be “externalities”
- Be sure to adopt the perspective of the investing party
- Consider only the benefits and costs which are meaningful from its perspective

Note: External benefits may create an opportunity for an organization to seek a subsidy or compensation from the external beneficiary of its investment.

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2. Check for Cost-Effectiveness

- Just because you can demonstrate a high ROI, does not mean the business case is compelling.
- Are there other ways and means to achieve the goal?
- If so, is your initiative or program the most “cost effective” way?
- Must compare the alternatives' costs per unit outcome.

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3. Conduct Sensitivity Analysis

- The values of the key variables in the business case assessment will be subject to uncertainty and debate
- To avoid accusations that your ROI is dependent on questionable assumptions, try a reasonable range of values
- Can you demonstrate that even were the ROI calculation to assume pessimistic values the ROI would be favorable?
- If so, your business case can be considered more “robust”.

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Sensitivity Analysis Example

	Pessimistic	Most Probable	Optimistic
Gross Benefit	\$325,000	\$350,000	\$375,000
Cost	\$225,000	\$200,000	\$175,000
ROI	44%	75%	114%

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Conclusion

- Result is a range: 44% - 144%
- The low end represents the least ROI you will enjoy
- If that low end ROI is still satisfactory, your business case is robust
- Sensitivity analysis can help you fend off critics

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Another Benefit from Sensitivity Analysis

- Quantification of the degree of influence each variable
- Influential variables
- Variables with lesser impact

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4. Overcoming Skepticism

- Stress non-financial outcomes
 - Worth doing for the person/client
 - Physician satisfaction
 - Staff satisfaction
- Use “threshold analysis”

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Threshold Analysis

- Start with a target ROI
- What must happen for that target to be achieved?
- Similar to breakeven analysis
- Not proof but plausibility!

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Concluding Remarks

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**Questions & Answers:
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Questions about the National Aging
and Disability Business Center?

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