Healthcare Financial Management Association

NORTHEAST NOTES

2002/2003 Issue Three

Current Managed Care Issues

by Bob Kaliszewski

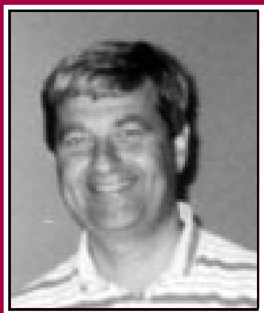
On October 31, 2002, the Northeast Ohio Chapter of HFMA presented a program entitled "Managed Care Issues Facing the Industry." The first two presentations provided an insight into the changing managed care environment and an Ohio Medicaid update on the state's progress in the managed care arena. The second half of the program was a discussion on the preparations for HIPAA from a provider, an insurer, and a vendor perspective.

The first speaker was Jim McCoy, National Director of Ernst and Young's Managed Care Practice. Jim discussed the changing Managed Care environment. In the beginning, providers feared being left out and were out to sign as many contracts as they could. Unsophisticated provider information systems and loose regulatory controls often resulted in unfavorable pricing. The balance of power is beginning to shift. There is increased regulatory scrutiny and better information systems are now tracking financial performance. Providers are becoming more sophisticated and more particular about which managed care groups with whom they will do business. Jim provided a template that providers could utilize when contracting. He identified common pitfalls to avoid and suggested specific analysis techniques that can be used to evaluate the true value of a contract to a provider's bottom line.

John Barley, PhD, Ohio Department of Jobs and Family Services (ODJFS), addressed the concerns of the state of Ohio and the States use of managed care contracting in an attempt to control health care expenditures. The average Medicaid expenditure growth is twice the overall average state revenue growth. The total Medicaid caseload is growing much faster then originally estimated. With managed care contracting, Ohio hopes to ensure more accountability for access, services, performance, and information regarding healthcare services. In addition Ohio's objective is to enhance member services, assure links to at home services, better care coordination, proper health service utilization,

(con't on page 4)

In This Issue...



President's Message

from James E. Hutchinson

Work Hard, Play Hard

One of my mentors in healthcare finance, Joe Pinczuk, had a saying. "We work hard, and we play hard". That pretty much sums up the HFMA and the Northeast Ohio Chapter. As far as work is concerned, nationally HFMA members are responsible for the finances of the $1.3 trillion healthcare industry. Fourteen percent of the gross domestic product of the United States is healthcare related. In Northeast Ohio, healthcare is a major part of the economy, and over 230 separate companies are represented in the Northeast Ohio HFMA chapter, including 40 hospitals. Even more than that, healthcare affects everyone's life. Most people don't appreciate it until they need it, but our members see how important it is everyday.

Members work long hours, striving to perfect processes in the revenue cycle, building provider networks, or generating investment returns to replace aging facilities. But, at the end of that long workday, members find time to enjoy the camaraderie of their friends and fellow professionals in HFMA.

As officers and leaders of HFMA, we take great pride in providing excellent educational opportunities, but the real fun is in providing networking and social activities. With the annual appreciation golf outing, holiday party, new member breakfasts and happy hours, program lunches, and our signature educational and networking event, the Gerry Haggerty Annual Leadership Institute, there is ample opportunity to socialize and network.

So, come join us at our next event. It will give you the opportunity to have fun, swap war stories, and maybe meet a mentor of your own.

Mark Your Calendars

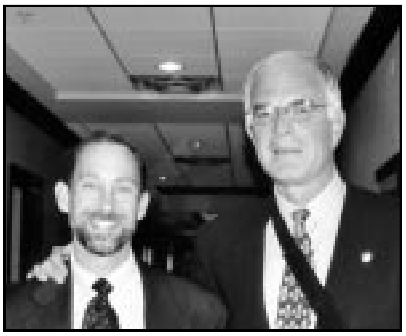
Listed below are the dates, events, and times for the 2002/2003 program year. Be sure to mark your calendars for these events!

Date	Event	Location
February 27, 2003	Patient Financial Services	Hilton South, Independence
March 27, 2003	Current Healthcare Issues	Hilton South, Independence
April 29, 2003	Post-Acute Care	Hilton South, Independence
May 27, 2003	Medical Group Practice	Hilton South, Independence
June 2003	Past Presidents and Volunteer Appreciation	TBD
July 2003	Program - Topic TBD	TBD

Smart Investing

by Sue Dwyer

The Northeast Ohio HFMA meeting on November 21, 2002 was a joint meeting of the NEO HFMA and The Center for Health Affairs. The first speaker was Vince Farrell, Jr.



Carl Ebner and speaker Vince Farrell Jr., chairman of Victory Capital Management Inc.

Mr. Farrell is currently chairman of Victory Capital Management Inc., headquartered in Cleveland, and also chairman of Victory SBSF Capital Management, a subsidiary firm based in New York. Mr. Farrell has an extensive background in investments, and is a frequent speaker on CNN and CNBC. His topic, "A Look into the Economic Crystal Ball", provided a perspective on where the financial markets are going.

Mr. Farrell discussed the overall concern about the equity markets today. People are still clinging to the idea that technology stocks will make a comeback. The bubble in mid-2000 to 2001 was not normal, and was based on overly inflated profits, and businesses that didn't really exist. He believes that we've seen the worst and that the markets are reverting to the norm now. The NASDAQ norm is around 1450, and it's currently trading very close to that now.

Mr. Farrell explained that the general public isn't optimistic about the markets because they see that their pensions and 401K's are losing money. Consumer confidence recently plunged, but this seems to be contradictory because people are still buying. Unemployment rates are up, however wages are rising, so it appears that the consumer is still in "okay shape". The real estate market is doing well, and most individual's principle asset is their home. Housing is as affordable as it was ten years ago. This is partially related to the drop in interest rates, but is also correlated with stable income levels.

Mr. Farrell believes that consumers should continue to invest in the equity markets. He displayed a slide of the S&P 500's annualized 5-year returns from 1930-2001. The markets have experienced negative returns during times of depression and war, but otherwise have consistently shown positive returns. If we can avoid deflation and hyperinflation, then we should continue to see long-term positive returns. Mr. Farrell concluded by saying that the next couple of years in the markets may be pretty good. The risk is deflation and severe international competition. The government needs to spend money during times of economic distress. They should respond by cutting taxes, so consumers can spend money, thus stimulating the economy.

The second speaker of the program was Stuart Flerlage, Executive Vice President and Head of Institutional Sales for Quadriga. Prior to joining Quadriga, he was with the Treasury Department and the Bank of Toyko. His topic was the benefits of alternative investment strategies.

Stuart Flerlage, Executive Vice President and Head of Institutional Sales for Quadriga.

Investors are looking for alternative sources of investments due to the uncertainty of the market. Some are finding that hedge funds are the answer. Mr. Flerlage explained the

(con't on page 4)

Managed Care... (cont'd from front page)

and to improve cost predictability. ODJFS hopes to be able to eventually extend the current managed care operations to the Aged, Blind, and Disabled (ABD) category of Medicaid recipients. Services to this category of Medicaid recipients, currently is provided on the historical fee-for–service basis. Although these recipients represent only 29% of the states Medicaid beneficiaries, they consume about 77% of the Medicaid health resources.

After a short break, the program continued with presentations by Dan Glessner, Director of Legal Services at Akron General Hospital; Amy Gilchrist, Legal Counsel for QualChoice; and John Pendergast Vice President of Operations for Per Se Technologies. The three presenters provided the audience with their unique points of view regarding issues their organizations face in preparing for HIPAA. Mr. Glessner provided the provider point of view; Ms. Gilchrist provided the insurers point of view, and Mr. Pendergast provided the vendors point of view.

Investing... (cont'd from page 3)

differences between mutual funds and hedge funds. Hedge funds are more flexible than a standard mutual fund because they aren't subject to the same regulations. Mutual funds aren't allowed to use derivatives, or to have concentrated positions. Mutual funds are not allowed to market to keep large cash positions. In general, hedge funds aren't allowed to market to the general public, while mutual funds can. Managers of hedge funds and mutual funds are also compensated very differently.

Mr. Flerlage discussed the characteristics of today's hedge funds. Hedge funds have active management, with incentive fees closely linked to fund performance. There is more discretion with a hedge fund in the investment style, asset classes and investment vehicles. Typically, investors in hedge funds are institutions, accredited investors with greater than $1 million net worth, endowments, a fund of hedge funds, pension plans, and family offices.

There has been consistent growth in the hedge fund industry with 25% average annual growth between 1991-2002, and managed assets have gone from $8 billion to over $600 billion. Mr. Flerlage feels that this is because hedge funds provide certain qualified investors with what they want; a more sophisticated investment strategy including arbitrage and managed futures, the best portfolio managers, an enhanced risk and performance profile, alternative assets, and most importantly investors want absolute returns over relative returns. Only absolute returns can be spent!

Mr. Flerlage explained what investors should understand in evaluating a hedge fund. It is important to know the fund's manager and understand their investment strategy, and the market conditions in which the strategy was implemented. Potential investors need to evaluate the historical performance of the hedge fund and compare results to its peer group. They should know the depth and quality of a hedge fund's infrastructure. Hedge fund investors need to understand a fund's returns, including knowing the assets under management

(con't on page 5)

Investing... (cont'd from page 4)

and how it affects performance, the use of leverage and the liquidity of the fund.

Mr. Flerlage concluded his presentation with an explanation of the benefits of managed futures. The managed future industry is made up of commodity futures. Trade is in highly liquid, strictly regulated markets such as the global futures exchanges, and the mercantile exchanges. He believes that the managed futures markets offer lower portfolio volatility risk, with potential for enhanced portfolio returns. They offer diversification, and the ability to participate in global markets. Mr. Flerlage indicated that recent history shows when traditional assets perform poorly, the managed futures markets performed well. It is important that investors enter into hedge funds and managed futures understanding what is involved. There is a risk of loss, as well as the opportunity to gain, when investing in managed futures or funds.


Richard Lynch is Executive Vice President of investmgt.

The final speaker of the program was Richard Lynch and his presentation was entitled "Practices that Define a Prudent Investment Process". Mr. Lynch is Executive Vice President of *investmgt*, Executive Director of the Foundation for Fiduciary Studies, and teaches at the University of Pittsburgh's Katz Graduate School of Business.

Mr. Lynch discussed the current environment of post-Enron initiatives. There have been numerous accounting scandals and breaches of fiduciary responsibility. He feels that we don't need more regulations, but the existing regulations (ERISA, UPIA, MPERS) should be clarified and followed. More education and training is necessary for plan participants, plan sponsors and investment advisors.

Mr. Lynch is one of the founders of the Center for Fiduciary Studies. The Center works closely with the Foundation for Fiduciary Studies in establishing fiduciary practice standards that define a comprehensive investment management process. The Foundation has developed and promotes a best-practice matrix approach for investment fiduciaries. These practices impact greater than five million people who have (a) legal responsibility for managing investment decisions and (b) provide investment advice. The practices were designed to apply to all types and values of investments. There are seven fiduciary standards that exist in some form in all three federal regulations. The best practices were constructed of those standards and a five-step investment management process.

Mr. Lynch explained the benefits of having some form of practice standards for investment fiduciaries. They can reduce fiduciary liability, provide an education outline, improve long-term performance, enable fiduciaries to compare practices and procedures, assist in prioritizing projects, establish a benchmark, and ease negotiations for lower errors and omissions premiums. A fiduciary doesn't need to be an expert in the stock market, but should have an interest and understanding of the basics of capital markets. A fiduciary should have a commitment to develop consensus and policies, and patience to evaluate long-term trends. A successful fiduciary should understand their organization's strengths and weaknesses, and be able to get the right things done effectively. It is critical in today's business environment that fiduciaries and their organizations develop and follow a fiduciary "code of conduct".

Kudos

Kudos and congratulations goes out to **Rich Wisniewski**, formerly with Summa Healthcare. Rich is the new CFO & Sr. V.P at Centre Community Hospital in State College, PA. Congratulations also to **Bob Kaliszewski** who has accepted the position of Director of Reimbursement & Revenue at UHHS/CSA - Cuyahoga, Inc. Kudos to **Karen Visocan** with Calfee, Halter & Griswold, LLP. Karen has been appointed Adjunct Professor at Cleveland State University's John Marshall College of Law where she will teach Health Law.

Have you accepted a new position, published an article or received an award? Let your colleagues know what you're doing! Send YOUR news by email, phone, fax or letter to lori.mitchell@eclipsys.com, phone (440) 285-2565 or fax (440) 285-3113. Mail address is Lori Mitchell, Eclipsys Corporation, 12070 Country Oaks Trail, Munson, OH 44024. Please include your name, title, employer and phone or email address.

Remember KUDOS is YOUR news!

The Mystery Math Contest

Enter our Mystery Math Contest! One lucky entrant will receive a $25 American Express Gift Certificate. Each character in the equation below represents a different digit from 1 to 9. Substitute the letters with numbers to make the equation work. Can you figure out what the equation would be? All correct entries will be included in a drawing. Good luck!!!!

$$\begin{array}{rcc} & A & B \\ \times & & C \\ \hline & D & E \\ + & F & G \\ \hline & H & I \end{array}$$

Congratulations...

to Karen Grabel from Parma Community General Hospital for correctly answering the contest that was featured in 2002/2003 Issue Two of Northeast Notes. Karen received a one-night weekend stay at the Hilton South and a dinner for two at Shula's Steakhouse. Keep sending in those entries! You could be our next lucky winner!

A	B	C	D	E	F	G	H	I

Send or fax your answer to:
HFMA Northeast Notes, Lori Mitchell, Eclipsys Corp., 12070 Country Oaks Trail, Munson, OH 44024
or Fax: (440) 285-3113

HFMA Northeast Ohio

Chapter Officers 2002-2003

President
James E. Hutchinson

President-Elect
David T. Kilmer

Vice President
Barry L. Franklin

Secretary
Frank M. Klaus

Treasurer
Susan R. Flaherty

Chapter Coordinator
Kathleen A. Much

Board of Directors 2001-2002

Chairperson
Richard J. Fox

William J. Bogdan
Christopher Milligan
Lori A. Mitchell
Michael A. Scocos
Suzanne Marie Tschetter
Maureen A. Wood

Visit HFMA National at:

www.hfma.org

Visit HFMA Northeast Ohio at:

www.neohfma.org

HFMA Northeast Ohio Newsletter Committee 2002-2003

Co-Chairpersons

Lori Mitchell

Cyndee Shirk

Susan Dwyer	Kim Pytlak
Gina Dyke	Joe Rigler
Robert Kaliszewski	Betty Royce
Brian Nestor	Stephen Thome
Randy O'Donnell	Ted Ursu

Address communications to: ***Northeast Notes* editor:**
Lori Mitchell
Eclipsys Corp.
12070 Country Oaks Trail
Munson, OH 44024
Phone: (440) 285-2565 - Fax (440) 285-3113
Email: Lori.Mitchell@eclipsys.com

Please contact National HFMA with address, employer or title changes:
1-800-252-HFMA, ext.350

PUBLICATION SCHEDULE 2002-2003

Issue	Deadline for Articles	Publication Date
One	August 6, 2002	September 7, 2002
Two	October 11, 2002	November 15, 2002
Three	November 27, 2002	December 23, 2002
Four	December 20, 2002	February 1, 2003
Five	March 28, 2003	April 30, 2003

Northeast Notes strongly encourages submission of material for publication. Articles should be typewritten and double spaced, and submitted to the editor by the deadlines listed above. The editor reserves the right to edit materials and accept or reject contributions whether solicited or not. HFMA Founders points are granted for any articles published in *Northeast Notes*.

Chapter Sponsors

Platinum Level

Advantage Consulting, Inc. • CGI • CodeCorrect • Deloitte & Touche • Ernst & Young LLP
Fifth Third Bank • KPMG • Long-O'Shea & Co. LLC • Unicare Corporation

Gold Level

JP Recovery Services, Inc. • McDonald Hopkins Burke & Haber
Squire, Sanders & Dempsey • Wise Management Services, Inc.

Silver Level

Center for Health Affairs/CHAMPS • Engelhardt & Emrhein
First Credit International • The Hunter Group • IntegraSolutions
NatCity Investments, Inc. • OSI Strategic Receivables • Professional Receivables Control
State Credit Financial Management Group • United Collection Bureau

Bronze Level

Advantegrity • Arter & Hadden LLP • Bruner-Cox LLP • Calfee, Halter & Griswold LLP
Cambio Health Solutions • CERTUS • HMC Group • Howard Wershbale & Co. • NCO Group
NOVUS Financial Services, Inc. • PNC Bank • The Wellington Group LLC • Wolfskill & Associates, Inc.

HFMA Northeast Notes
c/o Lori Mitchell
Eclipsys Corp.
12070 Country Oaks Trail
Munson, OH 44024

A Newsletter Serving Northeast Ohio