



Healthcare's First Cost Accounting Adoption Model Launched by HFMA and Strata Decision Technology

90% of Healthcare Executives are "Flying Blind" on the Cost of Care

New L7 Model Will Help Healthcare Providers Access Accurate Cost Data

CHICAGO, February 11, 2019 —The Healthcare Financial Management Association (HFMA) and Strata Decision Technology (Strata) today launched the HFMA-Strata L7 Cost Accounting Adoption Model™ (L7 Model), healthcare's first roadmap to help healthcare providers access accurate cost data via the use of advanced cost accounting. Originally designed for 200 leading healthcare delivery systems, the L7 Model is now being open-sourced, making it available at no charge to all healthcare providers.

Understanding the Cost Crisis in Healthcare and the Need for Advanced Cost Accounting

An estimated \$3.6 trillion, or over \$10,000 per person, is spent on healthcare in the United States every year, twice the average of comparable countries. However, a recent survey found 90 percent of those responsible for the delivery of care don't know the cost of it. Currently, less than 10 percent of hospitals and healthcare delivery systems have advanced cost accounting systems capable of providing accurate cost data across the continuum of care. While hospitals and health systems represent roughly \$1.8 trillion of the annual spend on U.S. healthcare, their average net operating margins have dropped below 3 percent, with close to 30 percent operating at a loss. The challenge they are faced with is how to reduce variation, waste, and inefficiency to invest in and improve care—without any access to trusted data on the cost of care. A 2013 *Harvard Business Review* article by Michael Porter and Thomas H. Lee shared the perspective that, "Without understanding the true costs of care for patient conditions, much less how costs are related to outcomes, health care organizations are flying blind in deciding how to improve processes and redesign care."

The need to understand cost is becoming even more mission critical as the business model of healthcare continues to shift from fee-for-service to more capitated and risk-based payment models. Traditional healthcare cost accounting methods were not designed for value-based payment. The lack of trusted cost information is driving the rapid adoption of more advanced cost accounting applications that make cost data more accurate, accessible, and actionable. The ability to drill down into the costs associated with bundled services, specific patient groups, or practice patterns can help decision makers better understand variation and costs related to variation—and make changes that will improve value.

Introducing the HFMA-Strata L7 Cost Accounting Adoption Model

In response to an unmet need for strategic cost accounting guidance as the healthcare industry transitions to value-based payment and to actively managing the total cost of care, HFMA and Strata are collaborating to release the L7 Cost Accounting Adoption Model. Analogous to the way the HIMSS Electronic Medical Record Adoption Model (EMRAM) served as a roadmap for accessing better clinical data, the HFMA-Strata Cost Accounting Adoption Model will help providers access accurate and more actionable data on the cost of care.

The L7 Model will help hospitals and healthcare delivery systems measure the adoption and utilization of advanced cost accounting methods, including time-driven and activity-based costing. The model provides an industry standard for helping hospitals and healthcare delivery systems:

- Assess their current cost accounting methodology, understand the level of accuracy of their cost data, and benchmark capabilities against peers, and
- Create a roadmap for the actions required to ensure their cost accounting approach meets their strategic needs

“As hospitals and healthcare delivery systems move toward value-based payment structures, they will need to leverage cost accounting in a much more strategic fashion,” said HFMA President and CEO Joseph J. Fifer, FHFMA, CPA. “To effectively improve their cost accounting capabilities in a rapidly changing and complex setting, health systems need a roadmap to ensure their approach meets their strategic needs.”

Each level of the cost accounting model builds upon the prior level, deploying more extensive data sets and dynamic methodologies to help an organization increase the extensibility and accuracy of their cost data. As an organization moves up to the next level, more sophisticated costing processes and workflows are deployed, generating more meaningful and accurate output. The model also assesses current gaps in source system data to help standardize and automate data capture. At the base of the model are healthcare organizations with a basic cost accounting tool that deploys ratio of cost-to-charge (RCC) methods. An organization that is at Level 7 has expanded the use of time-driven costing to all clinical areas and engages clinicians with the cost data to help drive performance improvements.

“All healthcare providers recognize that understanding the cost of care is mission critical and that a clear set of standards related to cost accounting is a requirement,” stated Dan Michelson, CEO of Strata Decision Technology. “We feel privileged to be able to play a part in helping healthcare providers better understand the cost of care so they can use that data to reduce waste and invest in what matters most to the patients they serve and the care providers they support.”

Strata has earned top honors as the KLAS Category Leader for Business Decision Support and Cost Accounting for five consecutive years and recently authored the book, *Margin + Mission: A Prescription for Curing Healthcare’s Cost Crisis*.

Using the HFMA-Strata L7 Cost Accounting Adoption Model

A webinar [on Tuesday, February 26, 1:30 PM – 2:30 PM CST](#), will be available for healthcare providers to review the structure of the L7 Cost Accounting Adoption Model and introduce the self-assessment tool. Best practices for developing an L7 Roadmap will also be discussed.

To download a copy of the model and register for the webinar, please go [here](#). You can also request a complimentary Cost Accounting Adoption Assessment to help your organization determine their current level and receive recommendations on building out a strategic roadmap.

About HFMA

The [Healthcare Financial Management Association](#) (HFMA) is the nation's premier membership organization for healthcare finance leaders. HFMA builds and supports coalitions with other healthcare associations and industry groups to achieve consensus on solutions for the challenges the U.S. healthcare system faces today. Working with a broad cross-section of stakeholders, HFMA identifies gaps throughout the healthcare delivery system and bridges them through the establishment and sharing of knowledge and best practices. The Association helps healthcare stakeholders achieve optimal results by creating and providing education, analysis, and practical tools and solutions. Its mission is to lead the financial management of health care.

About Strata Decision Technology

Strata Decision Technology provides an innovative cloud-based planning, analytics and performance platform that is used by healthcare providers for financial planning, decision support and continuous improvement. Founded in 1996, the

Company's customer base includes 1,000 hospitals and many of the largest and most influential healthcare delivery systems in the U.S. The Company's StrataJazz® application is a single integrated software platform that includes modules for strategic planning, capital planning, operational budgeting, management and productivity reporting, decision support and continuous improvement. The Company's headquarters are in Chicago. For more information, please visit www.stratadecision.com.

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