Healthcare financename: institution essays example

Business, Management

Abstract

The ability to bring more revenues in the future is a major factor determining the choice of the type of project to invest in. The popular profitability metrics include NPV, PI, Payer Mix, and ROI. The above metrics were used to make a choice of investing into building a rehabilitation center, other than building a neonatal center. The benefits of investing into a project of constructing a rehabilitation center have more future financial benefits than investing into a neonatal center. This is because Medicare and Medicaid cover most patients in neonatal centers; therefore, there are a little financial benefits as compared to financial gains in rehabilitation centers where most patients pay from their pockets. Therefore, in terms of financial gains, it is more beneficial to invest in rehabilitation project than in neonatal project.

Net Present Value (NPV)

Net Present Value is the comparison of the amount of money that is invested today with the future cash that will be received from the investment that have been made (Rauscher, & Wheeler, 2010). NPV is very important for financial managers in every organization in the process of determining the overall or the general value of the project by putting into perspective future cash flows. In this case, before making the decision to invest into a project, he has to compare and evaluate the amount of financial investments to be made and the future cash returns. As the financial manager in this Metropolitan Hospital, I will use this tool (NPV) to determine the time value for the money to be invested between these two projects, and use it to determine the best project to invest in. With regards to this, I will subject the estimated cash flows of these two projects into a discounting process using an interest table, in order to determine the project with high NPV, which in this case is the Rehabilitation Center. This is because it is advisable to make investments into projects with positive NPV, other than those with negative.

Return on Investment (ROI)

Return on investment is also another financial evaluation metric that is used to determine the future outcomes of financial investments steps taken by an investor (Schmidt, 2014). In financial management, it is used to determine the Net Profit of the project. Therefore, ROI is also referred to as the net output of the project as compared to the total inputs that are made into the project during the initial investment in terms of percentage. In this case, the inputs refer to all costs, for example, cost of construction, cost of buying equipment and salaries to employees. Since this is a profit making organization, there is a need of investing in a project that will produce the highest amount of ROI possible. A project with 100% ROI means that the output is twice the amount of inputs. Therefore, as the financial manager, I will propose for the building of a rehab center because it has the highest ROI.

Profitability Index (PI)

The term profitability index is used in financial management in order to determine the total cost of an investment with the future benefits of the same investment, by dividing the current value of the future cash flow of the project with the initial investments of the project (Wilkinson, 2013). In financial management, PI is used to measure the attractiveness of the project. For example, if the result of the division is greater than 1, then the project is worth investing into because this shows that the profitability is positive, and there will be financial gains in future. In this case, I will choose the construction of a rehabilitation center because will serve more individuals who pay own their own, thus an increase in PI.

Payer Mix

This is the percentage of earnings that are received by a profitable health care centers in relation to the revenue that they receive from government and private insurance versus patients who pay on their own (Foehl, 2009). Payer mix is used by financial departments to determine the amount of income that would be received from patients who pay out of their pockets, private insurance, and government insurance. It is easier to determine the amount of revenue to be earned from patients who pay on their own. Since most patients in a rehabilitation center cater for their own expenses, it will prove more profitable a project than engaging in the construction of neonatal center because the health center can increase the profits by tracking and using the information, they have to adjust payments from individuals who pay on their own in order to realize more profits.

Conclusion

In a financial environment, all major projects compete for financial funding. Therefore, there is a need to evaluate the financial benefits of the project before investments are made. Therefore, financial departments should use results of ROI, PI, NPV, and Payer Mix to make investment decisions. Rehabilitation centers show more results that are positive from the above determinants; hence, it is a better investment project for this Metropolitan Health center.

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