Managed care: A Tool Kit for Survival and Success

H. Kenneth McNulty, VNA of Boston
Walter Borginis III, VNA of Greater Philadelphia
Paul Giles, Catholic Healthcare West

- This session will provide you with a set of tools to evaluate managed care contract opportunities and determine their true value to your home health agency.

Tool Kit: Overview

- Determine what type of managed care plan you are dealing with:
- Traditional
- Medicaid
- Medicare Advantage: two types—regular and fee for service plans.

Tool Kit: Initial Steps

- Medicare Advantage fee for service plans:
- Usually do not use contracts.
- Must deal with Medicare certified agencies
- Cover full scope of Medicare benefits
- Pay Medicare rates
- No authorizations required
- Need RAPS and Final Bills
- May establish copayments
- Confirm what they do with insurer directly

Tool Kit: Initial Steps

- All other managed care plans require contracts to be part of their network. Without a contract, you will not get paid.
- Need to evaluate each managed care insurer to determine if it is worthwhile to accept their patient or if a new rate structure is needed.

Tool Kit: Initial Steps

- <u>Evaluation of a Managed Care Plan:</u>
- How many patients do they insure?
- What is the enrollment trend for this plan?
- What is their plan for expansion in your service area?
- Is this plan accepted by your major referral sources?
- What do your marketers think about the need for this plan?

Tool Kit: Contracts

- How does the plan work?:
- What services are covered?
- Are prior authorizations required?
- Will they authorize more than one visit initially? Subsequently?
- Is the authorization process automated through a web access system?
- Will they give retroactive authorizations in the event of an insurance change?

Tool Kit: Contracts

- How does billing work for the plan?:
- Will they accept electronic billing?
- What are the deadlines for bills to be submitted? Some plans use 60 days.
- Do they reserve the right to audit billing after payment? Do they actually audit?
- What services are covered?
- Do they have copayments?
- How long does it take to pay a clean claim?

Tool Kit: Contracts

- Contract requirements:
- JCAHO or CHAP Accreditation
- Quality of Care Standards
- Dispute resolution
- Insurance required on agency
- Provider obligations
- Time to visit referrals- some require visits in 24/48 hours

Tool Kit: Contracts

- Payment Rates:
- Usually per visit payments
- Some MA plans now using episodic payment
- Develop a floor for negotiations like the Medicare LUPA rate (SN $112, PT $123)
- Insist on annual inflation updates on each contract anniversary date.

Tool Kit: Payment Rates

- For most managed care plans, home health payments represent less than .5% of their benefit payments.
- Be persistent and patient. They are slow to respond since expenditures are low.
- Capitalize on specialty programs that may be popular with their case managers. Ask them to help with contracts.
- Be ready to cancel contracts that fail.

Tool Kit: Negotiation Tips

- Ask for episodic payments, but be ready to hear how :
- Medicare pays too much.
- Our nurse case managers do the case management work Medicare pays the agency to do.
- PPS is too complicated for us to learn.
- Suggestion: offer to do a pilot project.

Tool Kit: Negotiation Tips

- Continue to seek contracts with favorable payment terms.
- Evaluate profitability by insurer and seek rate improvements.
- Keep insurers informed on status of demonstration projects.

Tool Kit: Tips

- Monitor effectiveness of authorization process and insurance verification.
- Monitor bad debts from insurance changes and lack of authorizations.
- Read Provider Bulletins to stay current on plan processing changes.

Tool Kit: Tips

- Be aware of changes in area market, like new plans and expanded marketing efforts
- Be careful with copayment requirements and notify patient of copayments. Set up a process to collect copayments.
- Work with clinical staff to expand visits per admission and eliminate unauthorized visits.

Tool Kit: Tips

- Prepare a cost presentation to show your actual cost per visit vs. their payments
- Plans often say they have no problem getting other agencies to accept their rates, so be persistent.
- Be selective and get the right payment terms to fit your agency
- Analyze payment rates to determine profitability.

Tool Kit: Payment Rates

Cost Accounting is not a science, it is an art.

Cost Accounting

Accountants and Financial Managers usually say that if revenue is covering direct cost and contributing to overhead, the project or product is a go.

Are things really that simple in our business with our varying payors, disciplines, and payment types?

No

Cost Accounting

Some terms:

Direct and indirect costs
Fixed and variable costs
Incremental costs
Fully absorbed costs

Cost Accounting

Direct and indirect costs

Direct costs are those expenses incurred in producing a specific service. Nursing salaries are a direct cost of the Nursing discipline
Indirect costs are those expenses incurred in doing business but not specifically related to a given service. The billing department provides services to all disciplines

Cost Accounting

Fixed and variable costs

Fixed costs are those expenses that do not change with the level of service. Rent does not change with the number of visits performed

Variable costs do change with the number of units of service. Per diem nursing salary is a variable expense

Cost Accounting

Incremental costs

Incremental costs are those expenses which are incurred with each added unit of service. For example there may be no incremental cost of adding nursing visits if your current staff can absorb them

Fully absorbed costs

Fully absorbed costs are those that include all the expenses of the operation allocated to all the units of service

Cost Accounting

How can we get these various types of costs and use them in the business decision making process

Our "old friend"

The Medicare Cost Report is a place to begin

Cost Accounting

Lets begin with a group of expenses right out of our general ledger and follow them through the cost report into our unit costs

We can begin with a grouping of the various types of salary. Your general ledger should be set up to accumulate your expenses to support the Cost Report

Cost Accounting

		SALARIES	
	SUPERVISORS		
		SENIOR MGMT.	81,073
		MIDDLE MGMT.	120,038
		FIRST LINE MGMT. - A&G	346,292
		FIRST LINE MGMT. - LIAISON	41,617
		FIRST LINE MGMT. - MCH	40,583
		A&G	629,603
		FIRST LINE MGMT. - S.N.	916,786
		FIRST LINE MGMT. - P.T.	29,374
		FIRST LINE MGMT. - HHA	42,442
		DIRECT SUPERVISORS	988,602
		NURSES	
		LIAISON	661,967
		NURSE CONSULTANT	101,075
		R.N.	4,438,963
		PER VISIT R.N.	435,105
		SKILLED NURSING	4,874,068
	NURSES		5,637,110

General Services		Supv Salary	Nurses Salary	Aides Salary	Other Salary	Benefits	Travel	Purchased Services
						Bldg & Fixed Plant Operation Transportation		
A&G		629,603	661,967	0	1,307,776	583,469	12,702	3,160,515
Reimbursable								
SN		916,786	4,874,068	0		1,244,411	280,393	2,066
PT		23,977	0	0	1,297,387	155,408	12,750	57,302
OT		4,801	0	0	272,019	39,104	5,426	0
ST		596	0	0	50,699	11,514	1,993	0
MSW		0	0	0	87,476	19,636		1,541
HHA		42,442	0	0	0	9,527	0	671,324
	Supplies	0	0	0	0	0	0	0
Nonreimbursable								
	Mgmt Fees	0	0	0	0	0	0	0
Other								
	Nurse Consulting			101,075		22,688		
	Interest							
	TOTAL	1,618,205	5,637,110	0	3,015,357	2,085,756	314,805	3,891,207

WORKSHEET A	SALARIES	BENEFITS	TRAVEL	SERVICE	OTHER	COSTS	ADJUST	ALLOC
General Services								
Cap Rel - Bldg & Fixed	XXXXXX	XXXXXX	XXXXXX	XXXXXX	338,431	338,431	0	338,431
Cap Rel - Mov Equip	XXXXXX	XXXXXX	XXXXXX	XXXXXX	207,739	207,739	0	207,739
Plant Operation & Maintenance	0	0	0	0	71,191	71,191	0	71,191
Transportation	0	0	0	0	0	0	0	0
Administrative - General	**2,599,346**	583,469	12,702	3,160,515	264,363	6,620,395	(363,702)	6,256,693
Reimbursable Services								
Skilled Nursing Care	5,790,854	1,244,411	280,393	2,066	33,365	7,351,089	0	7,351,089
Physical Therapy	1,321,364	155,408	12,750	57,302	6,781	1,553,604	0	1,553,604
Occupational Therapy	276,820	39,104	5,426	0	0	321,350	0	321,350
Speech Pathology	51,295	11,514	1,993	0	0	64,802	0	64,802
Medical Social Services	87,476	19,636	1,541	0	0	108,653	0	108,653
Home Health Aide	42,442	9,527	0	671,324	0	723,293	0	723,293
Supplies	0	0	0	0	158,180	158,180	0	158,180
Nonreimbursable Services								
Nurse Consulting	101,075	22,688	0	0	0	123,763	0	123,763
Other Costs								
Interest	XXXXXX	XXXXXX	XXXXXX	XXXXXX	141,912	141,912	(141,912)	0
TOTAL	10,270,672	2,085,756	314,805	3,891,207	1,221,962	17,784,402	(505,614)	17,278,788

WORKSHEET B	ALLOC	BLDG & FIX	DEPREC	PLANT	TRANS	A & G	TOTAL
General Services							
Cap Rel - Bldg & Fixed	338,431	(338,431)	XXXXXX	XXXXXX	XXXXXX	XXXXXX	XXXXXX
Cap Rel - Mov Equip	207,739	0	(207,739)	XXXXXX	XXXXXX	XXXXXX	XXXXXX
Plant Operation & Maintenance	71,191	0	0	(71,191)	XXXXXX	XXXXXX	XXXXXX
Transportation	0	0	0	0	0	XXXXXX	XXXXXX
Administrative - General	6,256,693	164,504	100,977	34,604	0	(6,556,778)	XXXXXX
Reimbursable Services							
Skilled Nursing Care	7,351,089	98,967	60,749	20,818	0	4,703,968	12,235,590
Physical Therapy	1,553,604	14,600	8,962	3,071	0	994,153	2,574,391
Occupational Therapy	321,350	7,144	4,385	1,503	0	205,632	540,014
Speech Pathology	64,802	6,008	3,688	1,264	0	41,467	117,230
Medical Social Services	108,653	0	0	0	0	69,527	178,179
Home Health Aide	723,293	0	0	0	0	462,836	1,186,129
Supplies	158,180	0	0	0	0	0	158,180
Nonreimbursable Services							
MGMT Resource, Inc.	0	47,208	28,978	9,930	0	0	86,116
Other Costs							
Nurse Consulting	123,763	0	0	0	0	79,196	202,959
TOTAL	17,278,788	(0)	0	0	0	(0)	17,278,788

WORKSHEET C

		Costs	Total/ Visits	Total/ Visit	Cost/ Visits	Cost	
	Medicare						
	SN		12,235,590	68,775	$177.91	42,276	7,521,219
PT		2,574,391		27,387	$94.00	19,761	1,857,543
	OT		540,014	5,484	$98.47	3,889	382,953
ST		117,230	681	$172.14	391	67,308	
	MSW		178,179	342	$520.99	255	132,853
	HHA		1,186,129	36,784	$32.25	19,807	638,692
	Total		16,831,533	139,453		86,379	10,600,568
	Medicaid						
	SN		12,235,590	68,775	$177.91	7,137	1,269,726
PT		2,574,391		27,387	$94.00	1,589	149,367
	OT		540,014	5,484	$98.47	337	33,185
	ST		117,230	681	$172.14	50	8,607
	MSW		178,179	342	$520.99	5	2,605
HHA		1,186,129		36,784	$32.25	10,159	327,585
	Total		16,831,533	139,453		86,379	1,791,074
	Managed Care						
	SN		12,235,590	68,775	$177.91	19,362	3,444,646
PT		2,574,391		27,387	$94.00	6,037	567,481
	OT		540,014	5,484	$98.47	1,258	123,876
	ST		117,230	681	$172.14	240	41,314
	MSW		178,179	342	$520.99	82	42,721
	HHA		1,186,129	36,784	$32.25	6,818	219,852
	Total		16,831,533	139,453		86,379	4,439,890

Cost Per Visit	SN	PT	ST	OT	MSW	HHA (visit)	H H A (hourly)
Salaries - Supervisors	$13.33	$0.88	$0.88	$0.88	$0.00	$1.53	$1.15
Salaries - Nurses	$70.87	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Salaries - Aides	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Salaries - All Other	$0.00	$47.37	$74.45	$49.60	$255.78	$0.00	$0.00
Total Salaries	$84.20	$48.25	$75.32	$50.48	$255.78	$1.53	$1.15
Employee Benefits	$18.09	$5.67	$16.91	$7.13	$57.41	$0.34	$0.26
Transportation	$4.08	$0.47	$2.93	$0.99	$4.51	$0.00	$0.00
Purchased Services	$0.03	$2.09	$0.00	$0.00	$0.00	$24.16	$18.25
Other Direct Costs	$0.49	$0.25	$0.00	$0.00	$0.00	$0.00	$0.00
Direct Costs	$106.89	$56.73	$95.16	$58.60	$317.70	$26.03	$19.66
Facilities	$2.62	$0.97	$16.09	$2.38	$0.00	$0.00	$0.00
Administrative & General	$68.40	$36.30	$60.89	$37.50	$203.29	$16.66	$12.58
Cost Per Visit	$177.91	$94.00	$172.14	$98.47	$520.99	$42.69	$32.25

Make sure you have all your expenses included:

Some expenses have traditionally been left out of the cost report but need to be back in for this purpose

Marketing expenses
Bad debt
Interest expense

Cost Accounting

Now we know what our direct and indirect expenses are on a fully absorbed basis

One would suggest your price for a nursing visit should be $177.91 plus some margin for profit

Now the art sets in

Cost Accounting

We have different methods of being paid for our services
If you think about our business its not really different than and other business
We have product lines, products, markets and distribution channels
Nursing is a product line and MCH nursing is a product within the nursing product line
Our payors are our distribution channels
Our referrers are our markets

Cost Accounting

Our payors have different contracts and payment methods
Fee for service
Episodic
Capitation
Our payors and referrers also have other sources of our products – our competition

Cost Accounting

Cost Accounting

Long gone are the days when we could submit our Cost Report to Medicare and assume that was our price and our reimbursement

Now we have to win our business from the referrer through service

Now we have to negotiate our contracts and beat our competition for the managed care business both on service and price

We may even have to take the patients from our parent hospitals

Cost Accounting

What additional information do we need to do that

Besides our cost per visit we need to know our costs per hour of service

Many of our costs are billed out at episodic or per visit rates but the costs are actually incurred on a per hour basis

This may be specific to your organization

Most of the billing systems will give you both the number of visits by payor and the hours of service by payor, both within discipline

What makes things different between payors

What does the managed care entity demand that is different

Cost Accounting

Will the length of the visits be different between your various payors

Does the managed care entity want more data

Do you do OASIS

Do they give you fewer visits so the longer and more expensive admission visit cost is spread over fewer subsequent visits

Do they want additional reports

Do you have different mix of visits between disciplines or visit types (MCH, EMD, IV, etc)

Cost Accounting

Using the total cost per discipline we came up with way back in the cost report we can spread the costs using the hours of service
Simply divide the total costs per discipline by the number of hours of service
Then look at your various payors and visit types to see how the cost pattern changes

Cost Accounting

How can you split the costs between payors or even types of visits within payor
Looking at nursing only for now
We did 68,775 visits and took 40,200 hours to do them
That's 40,200/68,775 or .5845 of an hour or 35 minutes per visit
Using 40,200 hours we get 2,412,000 minutes
Our nursing costs were $12,235,590

Cost Accounting

Cost Accounting

So $12,235,590/2,412,000 is $5.07 per minute

Lets assume our managed care visits are 30 minutes long

We did 19,362 managed care visits but our cost on that basis was $2,944,960

Our cost is not the $177.91 per visit but $152.10 per visit

That, of course, means other payors cost more per visit than the $177.91

Cost Accounting

In addition you can determine what the cost is for various types of nursing visits

MCH visits tend to be much longer than regular geriatric visits

An MCH visit that is 1 hour long costs $304.20 at these rates

Obviously you need to be able to price your services in some detail

Cost Accounting

That will let us see if there is a significant difference between our payors
For example longer visits may mean fewer visits per episode of care or it may mean more paperwork per visit
Either way you should have this data to negotiate your various prices per episode or per visit

Cost Accounting

We have talked about direct and indirect costs, incremental costs, and fully absorbed costs. Where does fixed and variable come in
You need to think through what will happen to your various costs if you take on additional visits
If you have no excess capacity adding additional visits means adding additional costs, but how much

What about your capacity

Can you take on additional visits with your current staff

Do you have unused capacity

What is your productivity

What is your case load

Adding visits and patients to absorb unused capacity decreases all your unit costs because there is no incremental costs

Cost Accounting

Looking back at our direct and indirect analysis we can assume that adding visits will increase clinician salary but probably not supervision and certainly not overhead. That will have the effect of decreasing the fully absorbed cost per visit and benefiting all your other payors

Can you make business decisions to change expenses from fixed to variable

Outsourcing

Paying on a per visit basis

Cost Accounting

Think it through though

Reducing expenses in one discipline can increase your expenses in another with unforeseen effect

The overhead just gets reallocated to other disciplines

For example outsourcing may turn some fixed expenses to variable expenses but the fixed overhead will be reallocated to the other disciplines, increasing their cost

Fixing one discipline may upset your gains on another product

You should use the cost report process to test what happens to your profitability under different scenarios

Cost Accounting

So what are we saying

You should be very careful doing your cost report with the various expenses being allocated properly

You should know your costs per visit and per hour of service within discipline

You should calculate your costs for the services you provide within each payor

Using both your per visit and per hour costs you should calculate the cost of your episodes

Cost Accounting

- Hospital –Based system 14 HHAs and 6 Hospices West Coast
- Various Managed Care Contracts – larger contracts often System-wide; Others facility based
- Home Care: little attention in hospital system
- Reimbursement rates often set with hospital rates

A Case Study

- Organization needed to determine margins of major contracts
- Obtained Executive support to review and improve
- First step: obtained listing of all Home care contracts by facility
- First focus on major volume contracts, rates, terms etc.
- Review of internal systems to monitor

A Case Study

- Implementation of cost accounting system for all
- Ability to monitor both direct and indirect cost per visit for each discipline and each facility, monthly and YTD
- Ability to match net revenues for major contracts against average cost of services provided
- System allows costing on per visit or episode basis

A Case Study

- Findings: 90% of contracts – negative margins
- Findings: 50% of contracts not paying for full Direct cost of services provided
- Much internal discussion over results
- New set policy: Reimbursement rates must be a minimum of 120% of Direct cost of services / supplies provided
- Exceptions may apply if approved by Hospital CFO

A Case Study

- In review of contracts and payments practices found one Medicare Advantage Plan high volume
- Carrier had both commercial and senior products
- Paying both at same rates but senior product was not renewed in past
- HHAs receiving this notice:

A Case Study

- Notice:

As Medicare Advantage Organizations (MA) strive to meet regulations set forth by the Balanced Budget Act of 1997, collaborative relationships between MA, carriers, intermediaries and providers have become increasingly important. Beginning in 1999, your local Medicare fee schedule is needed to determine appropriate payment rates for services provided by non-contracted providers to MA enrollees.

A Case Study

A Case Study

- Notice came from obligation to reimburse non-contracting providers at the same rate the non-contracting provider would collect if the member were enrolled in Original Medicare
- Part 42 Code of Federal Regulations, Section 422.214
- In working with one Hospital CFO submitted notice to demand episode rates

A Case Study

- Demand for future and previous calendar year
- Plan suddenly paying different rates, some $80/vt others at full charge
- Problem with billing: were billing by visit
- To substantiate demand, rebilled claims as episodes
- After 6 months of unanswered phone calls to resolve, legal department became involved and negotiations started

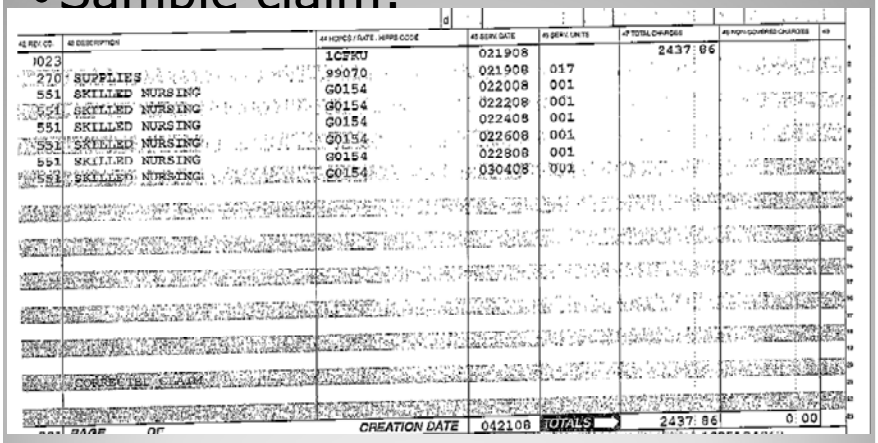
- They offered LUPA rates indicating their payment systems cannot handle episode payments
- After 9 months of negotiations, settled at high % of Medicare episode rates first 2 years and 100% of Medicare episode rates for past year
- Required detailed spreadsheets by patient claim

A Case Study

- Entered into new contract with Plan, senior at Medicare episode rates
- No loss of volume
- Compromised on claim format due to their system inability to handle Medicare format for episode billing
- Claim to indicate Medicare reimbursement without other charges
- Example

A Case Study

- Sample claim:



42 REV CD	43 DESCRIPTION	44 HCPCS / RATE / HIPPS CODE	45 SERV DATE	46 SERV UNITS	47 TOTAL CHARGES	48 NON-COVERED CHARGES	49
1023		1CFKU	021908		2437.86		
270	SUPPLIES	99070	021908	017			
551	SKILLED NURSING	G0154	022008	001			
551	SKILLED NURSING	G0154	022208	001			
551	SKILLED NURSING	G0154	022408	001			
551	SKILLED NURSING	G0154	022608	001			
551	SKILLED NURSING	G0154	022808	001			
551	SKILLED NURSING	G0154	030408	001			
	CORRECTED CLAIM						
	PAGE OF		CREATION DATE	042108	TOTALS	2437.86	0.00

A Case Study

- Overall results of system changes:
  - More accurate / timely management information
  - Improved internal communication among stakeholders
  - Now OK to say "NO" to poor reimbursement rates
  - 50% improvement in margins

A Case Study

- QUESTIONS ???

Tool Kit: Questions