#503 How to Benchmark from Soup to Nuts

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Faculty

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Objectives for this Session

• 1. Identify ways to implement significant cost changes through benchmarking.
• 2. Evaluate different benchmarks in order to understand your cost structure and operations.
• 3. Develop benchmark based report tools to monitor the implementation of significant cost reductions.

What is Benchmarking?

Webster Definition:

a : a point of reference from which measurements may be made
b : something that serves as a standard by which others may be measured or judged
c : a standardized problem or test that serves as a basis for evaluation or comparison
How is a Benchmark Calculated?

- Best Practices: Median of Available Data Points
- Remember it is not the **Average**.
- If you are performing at the median level you are in the middle of the pack.
- Goal should always to strive to be the best.
  - Top of the Class!
  - Elite Performers!

How is a Benchmark Calculated?

- When using presentations, articles or list serve benchmarks be sure to know
  - Data elements used
  - The calculation of the data
  - The timing of the benchmark data
    - Year, Month, Quarter
  - Who makes up the benchmark data
    - Types of agencies, regions, etc.
Benchmark Sources

• Cost Report Database
• Home Health Compare
• NAHC & NHPCO
• State Associations Survey
• Conference Presentations
• Benchmarking Vendors: OCS, SHP, Fazzi, Simione Financial Monitor, MVI, Healthcare Resources, Hospice Analytics

What is the right source for me?

• Need to see the complete picture!
  – Financial Data – Revenue & Costs
  – Clinical Data – Outcomes
  – Market Data – Competitor Analysis
  – Staffing Data – Payment Models, Staffing Ratios
• Recommendation:
  – Use multiple sources and vendors
• Benchmarking should be seamless and not an added burden to your staff
  – Integrated with your software's or easily to incorporate into your dashboards
• Ask your managers and staff what data they are looking for!
Financial Benchmarking

- Board – Update on the Industry
- Executive – Overall Health of the Agency
  - Profitability & Cash
- Middle Management – Hold Staff Accountable
  - Set Goals based on benchmark data – key revenue and cost drivers.
- Staff – Performance
  - Productivity
  - Admissions
  - Documentation

We Are Just Different!?!?

- There is always a reason:
  - Uncontrollable – Geography, Affiliation, Profit Status
  - Controllable - Performance
Geography

• Payer Mix
  – Medicare payer mix affects:
    • Reimbursement
    • Back Office Staffing (Billers, Intake, etc.)
    • Productivity
    • Cash Flow
  – Medicaid, Managed Care, Managed Medicare has different rates from state to state
  – Each state has different payers that create cash flow issues

Medicare Payer Mix

<table>
<thead>
<tr>
<th>Region</th>
<th>Patient</th>
<th>Revenue</th>
<th>Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>57%</td>
<td>63%</td>
<td>36%</td>
</tr>
<tr>
<td>Mid Atlantic</td>
<td>56%</td>
<td>66%</td>
<td>40%</td>
</tr>
<tr>
<td>South East</td>
<td>78%</td>
<td>84%</td>
<td>47%</td>
</tr>
<tr>
<td>Midwest</td>
<td>73%</td>
<td>79%</td>
<td>46%</td>
</tr>
<tr>
<td>West</td>
<td>72%</td>
<td>79%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Geography

• Cost Structure
  – Direct Service Costs
    • Payment Models
    • Salaries based on average wages
    • Availability (Therapist)
  – Marketing Costs - Competitive Market?
  – Urban vs Rural Settings
    • Productivity
    • Mileage

Direct Cost Per Visit

<table>
<thead>
<tr>
<th>Region</th>
<th>RN Cost Per Visit</th>
<th>PT Cost Per Visit</th>
<th>HHA Cost Per Visit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>$89</td>
<td>$97</td>
<td>$38</td>
</tr>
<tr>
<td>Mid Atlantic</td>
<td>$100</td>
<td>$88</td>
<td>$51</td>
</tr>
<tr>
<td>South East</td>
<td>$81</td>
<td>$93</td>
<td>$32</td>
</tr>
<tr>
<td>Midwest</td>
<td>$88</td>
<td>$95</td>
<td>$42</td>
</tr>
<tr>
<td>West</td>
<td>$116</td>
<td>$117</td>
<td>$50</td>
</tr>
</tbody>
</table>
Profit Status

• All agencies should have a goal to make a profit margin.
  – For Profits – higher Medicare payer mix
  – For Profits – invest more in marketing costs
  – For Profits – lower indirect costs (Home Office)

Profit Status

• For Profit –
  – Medicare Revenue % - 83%
  – Gross Margin – 49%
  – Net Profit Margin – 12%
• Not For Profit –
  – Medicare Revenue % - 72%
  – Gross Margin – 43%
  – Net Profit Margin - 4%
Profit Status

• For Profit
  – Marketing Costs – 7.8% of Revenue
• Not For Profit
  – Marketing Costs – 1.4% of Revenue

Provider Affiliation

• Payer Mix Differences

• Indirect Cost Differences:
  – Freestanding
    • Incur all indirect costs
    • Receive No Allocation
  – Hospital Based
    • Hospital Based Allocation (most agencies)
  – Freestanding Part of Chain
    • Most indirect costs are in a Home Office
Provider Affiliation

• Indirect Cost Differences:
  – Freestanding
    • Gross Margin -43%
    • Net Margin – 3.5%
    • Total A & G – 39.5%
  – Hospital Based
    • Gross Margin - 34%
    • Net Margin – 3.5%
    • Total A and G – 30.5%
  – Part of a Chain
    • Gross Margin – 50%
    • Net Margin – 15%
    • Total A and G – 35%

Where can I use benchmarks?

• Realistic Performance Targets for Staff
  – Gross Margin
  – Productivity
  – Referral/Admission Conversion Ratio
  – Payer Mix
  – Case Weight Mix

• Evaluation of Management Goals & Staffing Decisions
  – Net Margin
  – Indirect Costs by Department
  – Back Office Staffing
Where can I use benchmarks?

- **Budget**
  - Where am I today and where should I be?
- **Forecasting**
  - How will changes affect Home Health in the future?
- **Dashboards**
  - Used as a measurement to compare
- **Advocacy**
  - National and State level

### Agency Summary

#### Gross Margin

<table>
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<tr>
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<tbody>
<tr>
<td>Margin</td>
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#### Net Margin

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<tbody>
<tr>
<td>Margin</td>
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</tbody>
</table>
Service Line Comparisons

Home Health

Hospice

Home Health Payer Comparison

Distribution by Payer

Visits

Revenue

Costs

[Graphs and charts showing comparisons and distributions]
Home Health Visit Cost Analysis

Average Direct Cost per Visit
- Skilled Nursing
- Occupational Therapy
- Medical Social Service
- Physical Therapy
- Speech Therapy
- Home Health Aides

Average Supply Cost
- Average Supply Cost per Visit
- FreeStand
- Non-Profit
- PA
- 2014 Q2
- 2014 Q1
- 2013 Q4
- 2013 Q3

Average Supply Cost per Unduplicated Patients

Home Health Visit Productivity

Home Health Average Visits per Day
- Skilled Nursing
- Occupational Therapy
- Medical Social Service
- Physical Therapy
- Speech Therapy
- Home Health Aides

Home Health Average Patients per FTE
- Visiting Nurse
- Any Other Visiting Staff
- Any Non-Visiting Staff (Administrative Staff)
Home Health Marketing Analysis

Benchmarking Tools
VNA Philly Highlights

- Reduced annual expenses by over $2 million in 3 years
  - Revenue
    - Decreased 8%
      - Medicare cuts
      - Increased patient conversion to Medicare Advantage
      - Home health admissions only decreased 2%
  - Direct Expenses
    - Decreased 6%
  - Indirect Expenses
    - Decreased 10%

VNA Actual Cuts

- Direct Costs
  - Hospice HHA services $430k
    - Drastically reduced contract usage and hours per visit
  - Overtime reductions for all disciplines $300k
  - Two PCM positions $160k
  - Medical supplies/Pharmacy $108k
    - Aggressive negotiations
  - Mileage expense $100k
    - Odometer reading/random audits
  - Home health HHA services $91k
VNA Actual Cuts

- Indirect Costs
  - Marketing and Intake positions $250k
  - Overtime reductions for all admin support $192k
  - QI and Orders tracking positions $120k
  - Human resources position and fees $117k
  - Two clerk positions $100k
  - Bad debt $75k
  - Admin supplies $67k (aggressive negotiations)
  - Finance position $60k
  - Telephone services $50k

![Quarterly Net Margin FY12 and FY14 (FY end June 30)](chart.png)
Aligning Costs

- Make sure you are comparing the same costs
  - Accuracy is crucial when submitting data if you want to utilize the results to reduce costs

- Verify information
  - Review with management
  - Ask vendor questions

Aligning Costs

- Most general ledgers are unique
- Options to adjust submission data
  - Improve general ledger
    - Makes future data submission more efficient
    - Often difficult to accomplish
  - Manually adjust the submission data
    - Custom payroll report for time period
    - Make sure adjusted data reconciles with financials
    - Increases time required to submit and verify data
Reporting Benchmarks

“...pause for a moment so you can let this information sink in.”

Reporting benchmarks

• Customize based on target audience

• Customize based on desired reaction
  – Extract most important information
  – Focus on the inefficiencies in that period
  – Create urgency!

• Advanced PDF software
  – Many options (Foxit PhantomPDF Standard)
**Finance Committee**

December 20, 2011

1. Plan to get back to budgeted FY12.............................................. p. 2-4
2. Administrative and General Cost Benchmark Data.......................... p. 5
3. Administrative and General Cost Reductions............................... p. 6
4. Details of the Administrative and General
   Breakout as a Percent of Total Revenue...................................... p. 7-10

**Benchmark Data - Quarter ending September 30, 2011**

Indirect Cost Analysis as a Percent of Total Revenue

<table>
<thead>
<tr>
<th></th>
<th>Total A &amp; G</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td></td>
</tr>
<tr>
<td>Non-Profit</td>
<td></td>
</tr>
<tr>
<td>Natl</td>
<td></td>
</tr>
<tr>
<td>2011 Q1</td>
<td></td>
</tr>
<tr>
<td>2011 Q2</td>
<td></td>
</tr>
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<td>2011 Q3</td>
<td></td>
</tr>
<tr>
<td>2011 Q4</td>
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</table>

**Administrative and General Cost Reductions**

Expenses needed to cut to reduce 2% in A&G cost are $167,059

<table>
<thead>
<tr>
<th>General Cost reductions planned</th>
<th>Remaining FY12</th>
<th>Quarterly savings</th>
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<tbody>
<tr>
<td>s. premiums $10K vacant VP positions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$25K, marketing position $50K, reduced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>reorganization $7,500, HR reduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>nd salary analysis $3K, Eames</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$26,000</td>
<td>$14,000</td>
<td></td>
</tr>
<tr>
<td>$25K</td>
<td>25,000</td>
<td>12,500</td>
</tr>
<tr>
<td>$25k</td>
<td>35,000</td>
<td>14,000</td>
</tr>
<tr>
<td>s. of Process Manager $16K</td>
<td>16,000</td>
<td>6,400</td>
</tr>
<tr>
<td>Total Savings</td>
<td>$442,506</td>
<td>$179,059</td>
</tr>
</tbody>
</table>

**Next quarter’s benchmark result:**

Indirect Cost Analysis as a Percent of Total Revenue

<table>
<thead>
<tr>
<th></th>
<th>Total A &amp; G</th>
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<tbody>
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<td></td>
</tr>
<tr>
<td>Natl</td>
<td></td>
</tr>
<tr>
<td>2012 Q1</td>
<td></td>
</tr>
</tbody>
</table>
Monitoring Progress

- Include benchmark goals on monthly financial reports

- Create dashboards
  - Daily/Weekly based on need
  - Keep very straightforward
  - Compare goal to estimate based on current data
    - Check accuracy after close—within 5%

Actual Monitoring

- Hospice caseload

<table>
<thead>
<tr>
<th>As of Payroll Ending 8/2/2014</th>
<th>Actual Caseloads per FTE</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurse</td>
<td>12.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Adsrs</td>
<td>11.9</td>
<td>10.12</td>
</tr>
<tr>
<td>MSNC</td>
<td>27.3</td>
<td>28.0</td>
</tr>
<tr>
<td>Chaplain</td>
<td>48.9</td>
<td>32.0</td>
</tr>
</tbody>
</table>

- Mileage per visit

<table>
<thead>
<tr>
<th>Visits</th>
<th>Average before announcement</th>
<th>Pay period ending 4/27/11</th>
<th>Pay per oncall 5/11/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miles exp.</td>
<td>$14,997</td>
<td>$12,711</td>
<td>$1</td>
</tr>
<tr>
<td>Cost per visit</td>
<td>$1.69</td>
<td>$1.67</td>
<td>19.2%</td>
</tr>
</tbody>
</table>
Hospice In Home Program
Dashboard
For the Month Ending June, 2014

<table>
<thead>
<tr>
<th>Actual Per Day</th>
<th>Budget Per Day</th>
<th>Variance Per Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmacy/Drugs</td>
<td>12.48</td>
<td>9.08</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>2.28</td>
<td>2.14</td>
</tr>
<tr>
<td>DME</td>
<td>6.36</td>
<td>6.09</td>
</tr>
<tr>
<td>Ambulance</td>
<td>0.47</td>
<td>0.47</td>
</tr>
<tr>
<td>Cost Per Day-Direct</td>
<td>86.32</td>
<td>85.52</td>
</tr>
<tr>
<td>Cost Per Day-Indirect</td>
<td>61.62</td>
<td>64.30</td>
</tr>
<tr>
<td>Cost Per Day-Total</td>
<td>148.05</td>
<td>150.29</td>
</tr>
<tr>
<td>Average Length of Stay (discharged patients)</td>
<td>59.00</td>
<td></td>
</tr>
<tr>
<td>Average Daily Census</td>
<td>187.19</td>
<td>182.30</td>
</tr>
<tr>
<td>Conversion Ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Referrals</td>
<td>1,078</td>
<td>1,140</td>
</tr>
<tr>
<td>Admissions</td>
<td>856</td>
<td>914</td>
</tr>
<tr>
<td>Conversion Ratio</td>
<td>80.3%</td>
<td>80.2%</td>
</tr>
</tbody>
</table>

Daily Reports

August IPU Census

-- Daily Census -- Census needed remainder of month to break-even -- Actual average daily census
Implementation Strategies

**Warning:**
Cost reductions are just one part of a comprehensive plan to deal with these Medicare payment reductions and unfunded mandates.
You must build revenues in order to avoid a death spiral on continual cost reductions.
Implementation Strategies

**Steps to Improve Revenues:**
- Increase number of Medicare referrals.
- Increase conversion rates on existing referrals.
- Continue OASIS education for clinicians.
- Improved staff productivity.
- Manage visits per episode.
- Increase recerts. Decrease LUPA’s.

Implementation Strategies

**Steps to Improve Revenues:**
Set goals in each of these areas and create good monitors to measure progress toward goal.
Individual nursing report cards work.
Implementation Strategy

**Steps to lower expenses:**
- Flex direct care expenses in response to volume changes.
- Seek ways to lower overhead expenses.
- Avoid overtime and agency staff usage.
- Freeze open budgeted positions.

Implementation Strategies

**Create a plan to reduce expenses:**
- Must convince management team of need to contain costs by modeling the impact of present and future Medicare cuts on your agency.
- Measure how these cuts impact your agency’s profitability and use that as a target for cost reductions.
Implementation Strategies

**Using Benchmarks:**
- Identify appropriate benchmarks.
- Convince management team that the benchmarks are valid and achievable.
- Know how costs are grouped in the benchmark and who is in the comparison group.

Implementation Strategy

- **Using Benchmarks:**
  - Review relevant benchmark data against actual costs in order to identify potential problem areas for review.
  - Meet with each member of the management team to review variances from benchmarks.
  - Determine specific areas for reductions.
Implementation Strategies

Using Benchmarks:
• Collect a list of proposed reductions in order to determine how you are closing the gap between budgeted revenues and expenses.
• Keep team informed of progress toward goal.
• Create monitors for insuring that cost reductions are actually met.

Implementation Strategies

• Using Benchmarks:
• Get management team concurrence on all reductions. “Buy in” is important to success.
• Be realistic in your reduction plan.
• Remember that not all benchmarks can be met due to environmental differences.
Implementation Strategies

• **Caution:**
• Try to implement all staff reductions at one time and express the belief that these cuts will address the situation.
• It is important for employee morale to establish stability after the staff reduction and not give the impression that more reductions are pending.

Questions?

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