HHFMA
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Managed Care Task Force
Presents
Successful Managed Care Negotiation Strategies
Using Accurate Costs and Win-Win Pricing

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Managed Care Task Force

• Increasing penetration of Managed Medicare/Advantage & Managed Medicaid
• Industry’s lack of knowledge of payment methodologies across the country
  – Variance of plans and payment schemes
  – Managing Cash, not Care!
• Industry’s general inconsistency when pricing is determined for negotiation
Cost & Pricing Tool

• The Goal: Provide a methodology and tool to identify the costs of those services to be provided for managed care negotiations
• Based upon Direct Costs by Discipline and the necessary Directly-related costs to calculate a billing rate that reflects the agencies desired gross margin
• The Direct Costs by Discipline are analyzed and calculated by type of visit, including all OASIS related component costs
• The necessary Directly-related costs are analyzed and calculated by type of activity and effort required, including all OASIS related component costs

Cost & Pricing Tool (cont.)

• Directly Related Cost Components
  – Medical Supplies
  – Telehealth is analyzed to calculate the cost per day per patient using a monitor
  – The Quality staff costs are analyzed to calculate their cost by each OASIS event
  – The Authorization staff costs are analyzed to calculate their cost for each patient, both initial and re-authorizations.
Gross Margins and Contribution Margin

- Gross margins reflect the difference between revenue and direct costs (cost of goods sold or COGS) usually presented as a percent of revenue or in financial terms on a per-unit (visit) basis

\[ \text{Gross Margin (\%)} = \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}} \times 100\% \]

- Contribution margin is another term to describe the financial value of in the difference between revenues and variable costs, usually per unit

Gross Margins and Contribution Margin (cont.)

- Contribution margin = Revenue/unit – Variable Cost/unit
- Contribution margin is often used in calculating the break-even analysis at the point where the $ from the units sold cover all the fixed costs
- The model intends to show where the direct and directly related costs are covered (a point where there will be a “contribution” to cover overhead)
- By choosing a targeted gross margin %, one can calculate the price that would need to be charged at that margin
Gross Margins and Contribution Margin (cont.)

• Gross margins are to be determined by each individual provider based upon their market and goals
• Some cost components may not apply (or you may not have available) but the model will still be valid
• The additional patients and visit volume are to be considered as additional opportunities that do not incur fully loaded costs, but as differential Direct and Directly-related costs only!

Costing Model Review

• The Cost & Pricing Tool contains
  – Complete definitions, explanations and instructions
  – Complete cost and pricing analysis for each type of visit by discipline, based upon each individual provider’s cost and desired or reasonable margin
  – Pricing ranges for each type of visit by discipline, including minimums
Costing Model Review (cont.)

- Excel Spreadsheet Model Review

The Visiting Nurse Association of Greater Philadelphia
The VNA of Greater Philadelphia – Successful Negotiations

- The VNA has a contract with inflation adjustments and two incentive plans. Incentive plans are, Opening patients within 48 hours and Hospital readmissions below the payer’s threshold.
  - The plan pays for visits by disciplines
  - The plan looks at their % of Hospital readmissions for all Home Health Companies
  - The plan pays an incentive for opening 98% of all admissions within 48 hours

The Visiting Nurse Association Of Greater Philadelphia

The VNA of Greater Philadelphia – Successful Negotiations

- Incentive plan for opening within 48 hours
  - Project intense for office staff
  - For each patient not opened within 48 hours:
    - Documented the reason for delay
    - Ex: Refused weekend - come back Monday
    - Ex: Patient no answer to call
    - Call payer and report issues daily

The Visiting Nurse Association Of Greater Philadelphia
### The VNA of Greater Philadelphia – EXAMPLE OF REPORT

<table>
<thead>
<tr>
<th>Execution Date</th>
<th>Time</th>
<th>Admission Date</th>
<th>Discharge Date</th>
<th>SOC Date</th>
<th>SOC Time</th>
<th>SOC Reason</th>
<th>Notes</th>
</tr>
</thead>
</table>

**Unable to reach patient at home**

**The VNA has no way of verifying data from payer**

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### The VNA of Greater Philadelphia – Successful Negotiations

- Incentive plan for Hospital readmission below the payer's threshold.
  - Payer runs internal report for a period of a year
    - Payer system could not report correctly % of opening on time
    - Payer accepted VNA's documentation of details surrounding the reasons for delayed openings
  - The VNA has no way of verifying data from payer
Liberty’s Application of the Tool

A Case Study

Liberty Overview

- Liberty is a post-acute company based primarily in North Carolina.
- Company is composed of skilled home care and hospice division, skilled nursing facilities, assisted living facilities, CCRC’s, and other related ancillary businesses.
Tool Applications

• Tool has been very valuable
• Shows relevant costs, not just average costs
• Which costs to use?
• Liberty has used it on numerous occasions
• Two illustrative case studies

Case Study #1

• Large Physician Group in a Liberty Office
• Analysis of The Impact of Their Patients’ Payor Mix
• Determined May Not Be Positive for the Office
• Always Consider Data and Analysis in a Broad Perspective
• Tool Advantages
Case Study #2

• Two Contiguous Branches with High Managed Care Case Loads
• Used to Understand Gross Margins in Their Current Relevant Range
• Trying to Develop Plans to Improve Performance in These Payors
• Tool Very Valuable in This Process