Session 703: How Benchmarking Techniques Can Be Used to Cut Millions in Expenses

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Objectives for this Session

• 1. Identify environmental issues reducing Medicare payments and increasing costs.
• 2. Identify best sources of benchmarking information.
• 3. Discuss how to select and implement benchmarking comparison of costs.
• 4. Discuss strategies for using benchmarks to implement significant cost reductions.

Environment

• Continued focus on bringing down the rate of growth of the Medicare budget will force Congress to continue to look at ways to reduce Medicare payments.
• Case Mix Creep cuts of 18.65% since 2008 and Rebasing cuts of 14% (3.5% starting in 2014 through 2017) create a huge threat to industry.
Environment

Other items could threaten Medicare payments:

• Imposition of home health co-pays.
• Increased conversion to Medicare Advantage.
• New programs shifting the dual eligible to new payment programs like Medicaid HMO’s.
• Bundling of ALL post acute providers for 30 to 90 days after a hospital stay.

Industry Challenges

“Show me someone who has done something worthwhile, and I'll show you someone who has overcome adversity.”
-Lou Holtz

• Decrease reimbursement – Decrease in Revenue
• Increase in regulation and technology – Increase in Costs
How do I overcome challenges?

• Can I grow my agency?
  – New Referral Sources
  – Expand Market Share
• Can I become more operationally efficient?
  – Can I increase my use of technology?
  – Can I provide staff with better training/education
• Can I cut cost in my organization?
• Which of these increases my bottom line enough to sustain my business and not sacrifice quality care?
• There is no right answer must determine what’s best for you!

Benchmarks Tell A Story

• Strengths
• Weaknesses
• Opportunities
• Threats

• What is your agencies story?

The price of light is less than the cost of darkness. - Arthur C. Nielsen
Analyzing data:
Key Considerations

- “What gets measure gets managed” – Peter Drucker
- FIRST…PRIORITIZE what you are evaluating
  - There must be a significant business reason for each metric and benchmark you use.
  - Your data should not be one person’s responsibility but a group effort!
  - Get consensus from:
    - Executive Management
    - Financial Directors
    - Clinical Directors
  - Address questions and concerns ahead of time.
  - Plan to prepare!

Establish Your Reporting Process

- What drives your processes?
  - Revenue
    - Home Health – Census, Case Weight Mix, Payer Mix
    - Hospice – Census, Length of Stay, Level of Care
  - Costs
    - Productivity, Staffing, Visits, Days
  - Cash
    - Intake, Documentation, Billing, Investments
- Determine Responsibilities
  - Assign report coordinator
    - Gives responsibilities to each team/department based on their expertise.
    - Understand important deadlines and timelines
    - Determines frequency of reports
Establish Your Reporting Process

- Assign report/benchmark coordinator
  - Management must define the objectives and goals of the organization
  - Can work with staff to understand time constraints and workloads
  - Roles:
    - Research benchmarking product/services/databases available.
    - Gives responsibilities to each team/department based on their expertise
    - Will meet important deadlines and timelines
    - Work with management to determine frequency
    - Work with staff to answer management questions

Benchmark Selection

- Benchmark Research
  - Health Information System
    - Does my software interface with the benchmarking?
    - Can I obtain the data easily?
  - Accounting Software
    - Are my revenue and cost items broken down to enough detail?
    - Can I obtain the correct financial data?
    - Does it interface with my GL software?
- Accuracy
  - How many agencies are reporting? Is the data consistent?
  - How is it verified?
- Timely
  - When will I receive the benchmarks and what time do they represent?
Benchmarking

• Benchmark Sources
  • CMS Cost Report Database
  • CMS Quality Measures
  • National/State Surveys
  • NAHC Website
  • Benchmarking Software

Choose Your Benchmarks

• What makes your agency unique?
  – Geography?
  – Payer Mix?
  – Cost Structure?
  – Revenue Size?
  – Profit Status?
  – Business Lines?
Choose Your Benchmarks

• What comparisons are meaningful and who are you showing the benchmarks to?
  – Board of Directors
  – Management
  – Directors
  – Supervisors
  – Staff

• Make sure you address question/issues with each level before presenting benchmarks.

• This may impact which metrics and which comparisons to use in your analysis.

Identify Levels of Reporting

<table>
<thead>
<tr>
<th>BOD / Owners / Hospital</th>
<th>Agency Management:</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Overview of key financial measurements</td>
<td>– Provides context</td>
</tr>
<tr>
<td>– Provides comparison to industry trends</td>
<td>– Identifies strengths and weaknesses</td>
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<td>– Assists with decision-making</td>
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<td>– Helps appropriately prioritize</td>
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<table>
<thead>
<tr>
<th>Staff</th>
<th>Industry:</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Feedback on performance</td>
<td>– Accurate and timely information</td>
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<tr>
<td>– Possible incentives programs</td>
<td>– Information informs discussions, decisions, policy, and practices</td>
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<tr>
<td>– Establish benchmarks as goals</td>
<td>– Advocacy efforts</td>
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<tr>
<td>– Track performance against budget</td>
<td>– Understanding the data that is being used to make decisions</td>
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<tr>
<td>– Demonstrate quality of care</td>
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Where do I start?

- What’s important to my financial performance?
  - Quality Outcomes
  - Cash
  - Revenue
  - Productivity
  - Costs
  - Census
  - Length of Stay

Quality

- Benchmark your quality scores to ensure you are in compliance and have high patient satisfaction scores.
- Without quality care you risk losing patients, compliance penalties and audits.
- This will increase your costs while lowering your revenue!
Cash is King

– Can we meet our expenses?
  • Salaries, Rent
– Can we provide staff with incentives to meet goals?
– Can we invest in growth?
  • New staff
  • New Technology
  • New Locations
  • Acquisitions

Cash Flow Benchmarks

– Days Sales Outstanding –
  • Home Health - 59 Days
  • Hospice – 52 Days
– AR Over 90 Days –
  • Home Health - 14%
  • Hospice – 7.06%
– Days Cash on Hand – 37 Days
– Days to RAP – 16
– Days to Final – 21
– Bad Debt as a % of Total Revenue - .90%

Source: Simione Financial Monitor
Grow Revenue or Cut Costs?

• Do not call it “Cost Cutting”.
  – Cause low employee moral
  – Risk losing their loyalty
  – More staff working individual than as a team!
• Call the objective “Growing Our Agency”
• Use combination of cost savings objectives and growth objectives to meet goal.

Gross Profit Margin

• Gross Margin (Operating Margin)
  – Direct payer revenue minus direct costs
• Direct Costs include staff performing visits only
  – Salaries
  – Benefits, Payroll Taxes, Workers Compensation,
  – Contract Employees
  – Mileage
  – Routine/Billable Supply costs
Gross Profit Margin

- Controllable by performance
- Best apples to apples comparison to benchmarks
- Can be used by all levels of the organization

Everyone Affects Gross Profit Margin

- Marketing – Admissions/Census
- Billing – Collections/Cash
- Clinical – Productivity/Costs
- Finance – Cost Control
- Management – Staffing
- Intake – Census/Cash/Operations
- Technology – Work flow efficiencies
Gross Profit Margin Benchmarks

- Gross Profit Margin
  - Home Health
    - Overall – 39.13%
    - Medicare – 49.20%
    - Medicare Advantage – 42.49%
    - Medicaid – 8%
    - Other – 25%

Gross Profit Margin Benchmarks

- Gross Profit Margin
  - Hospice
    - Overall – 41.59%
    - Medicare – 40.71%
    - Medicaid – 41.47%
    - Other – 29.30%
Direct Costs

• Home Health Direct Cost Per Visit
  – SN - $87.15
  – PT – $89.85
  – OT - $93.36
  – ST - $102.78
  – MSW - $148.04
  – HHA - $35.15
  – Supply Cost - $2.18

Direct Costs

• Hospice Direct Cost Per Day (In Home Hospice)
  – Total Direct - $113.26
    • Routine Day - $82.72
    • General Inpatient - $760.77
    • Respite Inpatient - $137.85
    • Continuous Care per Hour - $93.76
  – Ancillary Cost (In Home Hospice)
    • Total - $19.06
      – DME, Oxygen – $6.42
      – Drugs Infusion - $8.52
      – Medical Supplies - $2.92
      – Other - $1.20
If Your Gross Margin is Low

– Review your Payer Mix
  • Less Medicare Revenue/Patients
– Review your Case Weight Mix
– Review Your Length of Stay
– Trend your volume
  • Has your volume decreased but your cost remain the same
– Review your direct costs
  • Renegotiate your contract rates
  • Salaries vs Contract
  • Benefit Plans
  • Mileage Costs
  • Supply Contract

Net Profit Margin

• Net Profit Margin is Management responsibility:
  – How to staff my organization?
  – Are my staff and technology efficient?
  – Should I look into my contract or leases for a cost cutting?
  – Where are their strength and weaknesses in my operations?
  – Look at cost at the department/classification level.
Net Profit Margin

• Net Revenue minus direct costs & indirect costs.
  – Direct Expenses
  – Indirect Expenses
    • Overheard and Administrative Costs
      – Salaries
      – Benefits
      – Rent, Office Supplies, Professional Fees, etc.

Net Profit Margin Benchmark

• Home Health National
• Overall  –1.36%
  • Medicare – 14.64%
  • Medicare Advantage – 7.29%
  • Medicaid – (42.27%)
  • Other – (22.02%)
Net Profit Margin Benchmark

• Hospice National Benchmarks
• Overall –9.36%
  • Medicare – 10.10%
  • Medicaid – (4.13%)
  • Other – (12.39%)

If Your Net Margin is Low

• Review the type of agency you are comparing with i.e. Freestanding or Hospital Based, Non Profit or For Profit, Urban or Rural.
• Review your cost by department
  • Where your cost exceed benchmarks, ensure your operations are also performing at a higher level.
    – i.e. Billing – DSO, Marketing – Market Share, Conversion Ratio
  – Improve your operational efficiencies
    • Technology
    • Staffing
  – Grow your market
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%

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

Understand the Details

• We are just different!
• Why are my margins/measures different?
• What drives my margins/measures?
• Ask these questions:
  → Who am I comparing to?
  → What data elements are used?
  → What is the calculation?
• Conduct Root Cause Analysis to determine reasons
Where are there issues?

• Cash
  – Days Cash on Hand
  – Days Sales Outstanding
  – Bad Debt Write Off as a % of Revenue

Where are there issues?

• Gross Profit Margin
  – Revenue Issue – is reimbursement low?
    • Payer Mix
    • Case Weight Mix
  – Are costs high?
    • Direct cost per visit
    • Census
    • Productivity
Where are there issues?

• Net Profit Margin
  – How am I staffed?
    • Indirect costs
  – Does my staff meet expectations in performance?
    • Marketing, intake, supervisors, finance, etc

Indirect Cost Benchmarks

• Clinical Support and Supervision 10.6%
• Executive Management 3.9%
• Intake 3.7%
• Sales and Marketing 2.6%
• Information Systems 2.7%
• Office support 2.6%
• Space Occupancy 2.5%
• Accounting/GL/AP/PR/Finance 1.8%
• HR, Recruiting, Education 1.0%
Indirect Cost Benchmarks

- Depreciation and Amortization 1.1%
- Legal/Audit/Reorganization 0.6%
- Bad Debt 0.8%
- Medical Records 0.5%
- Development and Fundraising 0.4%
- Liability Insurance 0.4%
- Equipment purchase/leases .3%
- All other admin 2.6%

Reporting Benchmarks

"I'll 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)

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%
Basic Response Strategies

- **Improve revenues** by increasing referral volumes and providing extensive staff education on OASIS preparation.
- **Control your expenses**: flex direct care expenses in response to volume changes and always lower overhead expenses whenever you can. Avoid overtime and agency staff usage.

Reducing Expenses

- In order to reduce our expenses in response to lower Medicare revenues, we implemented benchmarking to identify areas where we could examine ways to be more efficient.
Reducing Expenses

• The first step is to identify appropriate benchmarks. This means that you are confident that you can convince the other members of the management team that the benchmarks are valid and should apply to your agency. You need to know how costs are grouped and who is in the comparison group.

Implementation Strategy

• Now work on an implementation strategy.
• Need to convince the management team of the urgent need to contain costs.
• Calculate the full impact of the past, present and future Medicare cuts on your agency.
• Quantify impact of these cuts and how it changed the agency’s overall profitability.
Implementation Strategy

• Do a detailed projection of revenues for the upcoming fiscal year and compare to current expenses to determine potential shortfall.
• Forecast the impact of doing nothing. Future Medicare cuts translate into losses that threaten the future of the agency.

Implementation Strategy

• Discuss various ways to respond to the budget pressures caused by Medicare reductions.
• Focus on the dollar value of eliminating all vacant positions as a means of reducing the impact on employees of layoffs.
• Evaluate how to control overtime and agency staff usage.
Implementation Strategy

• Introduce the concept of benchmarking. Discuss how benchmarks are obtained and how an appropriate peer group was selected for comparative purposes.

• Review relevant benchmark information as compared to your agency’s costs.

• Determine areas that are out of the range of the benchmarks and need more study.

Implementation Strategy

• Meet with each member of the management team to review areas where actual costs seem to deviate from benchmarks.

• Develop a plan of how actual expenses are incurred and what changes should be implemented to reduce overall costs.
Implementation Strategy

• Collect a list of reductions made in order to determine how you are proceeding in closing the gap between revenues and expenses.

Implementation Strategy

• Get management team concurrence on all reductions. “Buy in” is important.
• Try to implement staff reductions at one time and express the belief that the cuts will correct the situation and not be the first of a long series of continuous staff reductions.
• It is important to establish stability after the staff reduction.
Reducing Overhead

Areas to consider:
- Health insurance benefits
- Rent
- Insurance
- IT
- Bank fees
- Audit and legal fees
- Collections: avoiding bad debts

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

Questions?

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