200 & 201: Cost Control Strategies: Do You Really Know Your Costs?

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Objectives

• Identify direct and indirect costs and understand the relationship of costs to multiple reimbursement models.
• Gain a better understanding of non-clinical and back office costs and become able to evaluate operational cost structure compared to industry benchmarks.
• Utilize industry benchmarks to evaluate the operating costs and revenue.
• Create buy in from staff and management on cost efficiency objectives
Introduction

Cost Management Work Group
Cost Management White Paper
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HOME CARE & HOSPICE LANDSCAPE

REGULATORY CHANGES AND SCRUTINY
STATE AND FEDERAL AUDITS
FACE TO FACE
ICD 10

AFFORDABLE CARE ACT
ACCOUNTABLE CARE ORGANIZATIONS
COLLABORATION BETWEEN POST ACUTE PLAYERS

HOMECARE AND HOSPICE
SEQUESTRATION
HOME CARE REBASING
HOSPICE PAYMENT REFINEMENT
HOSPICE REBASING
HOSPICE SITE OF CARE
PRODUCTIVITY ADJUSTMENT

HOSPITALS & PAYORS
PREVENT REHOSPITALIZATIONS
POPULATION HEALTH MANAGEMENT
RISK BASED PAYMENT BUNDLING
DEMONSTRATE VALUE - $
This is probably how we all feel......

We try to save cost but we can't sacrifice our mission!
Where do I start?

- All Financial Cost Data should be easily accessible and broken out.
  - General Ledger
  - Payroll Software
- Identify Critical Financial KPI Indicators
  - Keep it Simple
  - Focus on Revenue & Cost Drivers
- Automate your reports
  - Excel
  - Reporting software's
  - Outside vendors
- Compare to Benchmark Data

Work as a Team

- Everyone should be involved
  - Executive Management
  - Clinical Directors
  - Financial Directors
- Need buy in from everyone when it comes to cost review.
  - Analyze what would happen based on industry changes if all cost remained the same.
  - Determine if something must be done!
Benchmark Comparisons

• Research benchmark sources available
  – NAHC, NHPCO, OCS, SHP, Financial Monitor, MVI, Cost Report data
  – Understand data elements and calculations
    • Need to ensure apples to apples comparison
  – Who are you comparing to?
    • Geography, Payer Mix, Profit Status, Agency Type, Revenue Size
  – Remember benchmarks are the median
    • Always strive to be in the top 10 to 20%

Gross Margin

• Gross Margin is where you need to start in any financial analysis.
• Everyone’s performance has an affect on Gross Margin.
• Direct revenue minus direct expenses
  – Direct Revenue – All Net Payer Revenue
  – Direct Expenses – Salaries, payroll taxes, workers compensation, benefits, contract, mileage and supply costs from direct patient care
Gross Margin

• Financial Monitor Data as of March 31st 2014:
  – National Gross Margin – 41%
  – Top 20% Gross Margin - 52%
  – Gross Margin by Payer

Where to look next?

• Revenue
  – Admissions
  – Payer Mix
  – Case Weight Mix

• Costs
  – Payment Models
  – Staffing
  – Productivity
  – Supplies
Revenue

- Review Admission Data
  - Hold staff accountable to admissions not referrals
  - By Referral Source
  - By Payer Source
    - Remember not all admissions are created equal
- Review Case Weight Mix
  - Accuracy of Oasis
  - Therapy Utilization

Payer Mix

- Costs
- Patients
- Revenue

- Medicare
- Medicare Advantage
- Medicaid
- Other
Costs

- Review your payment models
  - Pay Per Visit
  - Salary
  - Contract Services
- Productivity
  - Visits per day
- Telemonitoring
- Benefit Plans
- Supply and Mileage Costs

Caution

- Cutting direct staff salary and benefits can result in:
  - High employee turnover
  - Cutting corners in patient care
  - Overworked staff
- All will have a negative impact on productivity and quality
# Direct Cost Per Visit Home Health

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<thead>
<tr>
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# Distribution of Direct Costs

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## Direct Cost Distribution

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<th>Discipline</th>
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### Specific Disciplines

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### Productivity Home Health Visits Per Day

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### Visits by Payer

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<td>.8</td>
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</table>
Productivity

• Is there enough support to facilitate productivity?
  – Do the teams have adequate clerical support to minimize clinician time spent on non-clinical tasks?
  – Are clinical support resources available to assist the team with problems in the field?
  – Do clinicians have reliable communication tools such as cell phones, pagers, or email?
  – Do you use telehealth?
  – Are there other technologies available to increase productivity?
  – Are clinicians properly utilizing technology during the visit?
  – Is documentation done in the patient’s home or at the clinicians home?

Productivity

• What are the barriers to meeting productivity?
  – Average miles per visit
  – Time available to visit
  – Patient acuity
  – Supply ordering
  – Software or hardware issues
  – Duplication of paperwork
Productivity

- What are the pitfalls of increasing productivity?
  - Incentives which reward the number of visits without considering outcomes
  - Cutting corners on patient care
  - Increased need for care
- Readmissions to home care
- Re-hospitalizations
- Emergency room visits
- Impact on patient or consumer satisfaction

Non Employee Costs

- Medical Supplies
  - Send out an RFP to determine if you are getting the best deal
  - Review your formularies
- Look at transportation costs
  - Are you reimbursing at the IRS allowable or less than that?
  - Do you have an automated way of tracking mileage for accurate recording?
  - Do you randomly audit mileage?
  - Will leasing cars result in lower costs?
How to identify areas of improvement

• Need information to make sound business decisions
• Information should be simple and easy to understand
• Detail analysis is for the finance department
• Information should be product line specific
  – Home Health
  – Hospice
  – Private Duty
  – Etc

Who are the Stakeholders

• Each Stakeholder requires a different level of analysis
  – Board of Directors/Owners
  – Senior Management
  – Managers
  – All Employees
Who are the Stakeholders

• Board of Directors/Owners
  – Financial Statements, Key Indicators
  – Should understand the plan and responsible for reviewing the outcomes

• Senior Management
  – Financial Statements, Key Indicators, details behind key stats
  – Responsible for establishing a plan and prioritization

Who are the Stakeholders

• Managers
  – Financial overview, key statistics
  – Must understand the “Why”
  – Key to making the plan successful

• All Employees
  – Financial and key statistic overview
  – Need to understand where the organization is
  – Should be educated in issues related to the industry
Strategies to Make Change

• Information needs to be analyzed in a meaningful way
• Step one:
  – Overall Income Statement broken down between gross and net margin
    • Salaries/Taxes/Benefits for direct care Staff
    • Contracted services for direct care
    • Workers Comp
    • Medical Supplies/Drugs/DME
    • Travel for direct care staff

Strategies to Make Change

• Step two:
  – Income statement (gross vs. net margin) by service line
    • Home Health
    • Hospice
    • Private Duty
    • Etc

• Step three:
  – Key Indictors by service line
Strategies to Make Change

• If information isn’t analyzed by service line, a thriving service may hide a weakness or inefficiency in another

Strategies to Make Change
Gross Margin

• Data looked at monthly, year to date, trailing twelve months and always compared to the prior period
• Internal and external benchmarks should be used to evaluate to results
  – Includes budgets
Strategies to Make Change
Gross Margin

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Strategies to Make Change
Gross Margin

• What do you notice about gross margin?
  – As there continues to be rate pressure margins will decline if we operate “as we always have”

• Look at the correlation of revenue to gross payroll
  – Gross payroll/revenue
  – Is the percentage increasing?
Strategies to Make Change
Gross Margin

• We saw in increasing percentage so what did we do?
  – Case Weight (traditional and “fully loaded”)
  – Adjustments
  – Productivity
  – Benefits
  – Scheduling

Strategies to Make Change
Gross Margin

• Case Mix Weight
  • Always start with the basics
  • “Fully Loaded” = net reimbursement/episodes ended

• If fully loaded decreasing move on to adjustments by type
  • Be careful of the “ripple effect of adjustments”
Strategies to Make Change  
Gross Margin

• Productivity
  – Once revenue is addressed time to look at expenses
  – Don’t be afraid of the productivity issue
• Common Pitfalls
  • Not getting buy in from managers
  • Allowing the staff to dictate the weighting (if you chose to weight)
  • Not being consistent in monitoring
  • Ignoring caseloads

Strategies to Make Change  
Gross Margin

• Productivity-The Calculation
  – Visits/(hours worked/8)
    • Assuming 8 hour days
    • Excludes vacation, sick and PTO time
    • Includes Overtime
    • Assumes no weighting
## Strategies to Make Change
### Gross Margin

<table>
<thead>
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<th>Full Time</th>
<th>Week 1</th>
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#### What does it cost?

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Strategies to Make Change
Gross Margin

• What does it cost?

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<td>504</td>
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<td>1,176</td>
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<td>59,472</td>
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<td>$8,694</td>
<td>$7,980</td>
<td>$6,552</td>
<td>$383,040</td>
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</table>

*assumes $42/visit
**assumes 48 weeks available to work

Strategies to Make Change
Gross Margin

• Productivity Roadblocks
  – No accounting for overtime
  – The “what if” factor
  – Managers not sending the correct message
  – No enforcement of the standard
Strategies to Make Change
Gross Margin

• Scheduling
  – Effects both productivity and mileage expense
  – Do you automate your scheduling?
  – Does the driving pattern make sense?
  – What is the ROI on leasing cars vs. paying mileage in the most efficient scheduling model?

• Review
  – Revenue
    • Case mix weight/adjustments
  – Direct Payroll
    • Productivity/Overtime/Caseloads
  – Payroll Taxes and Benefits
    • Retirement plans/health insurance increase
  – Travel
    • Scheduling/lease vs. pay mileage
Productivity

• Goals
  RN: 4-5
  LPN: 5-6
  PT: 5-6
  PTA: 5-6

How to get staff/managers to “buy in”

• Tough sell
• Variable factors
  – Travel, due to geography
  – Time
  – Distance
  – Weather and other unpredictable variables
Weighting of Visits

• Big discussion
• Use whatever method makes the biggest impact with managers
• Not all visits the same
• Not all territories equal

Use of Point of Care in the Home

• May not be able to complete all documentation
• Increases accuracy
• Facilitates comprehensive teamwork
• Use of telehealth
How to Engage Staff

• Explain rationale for making productivity
• One to one conversations with those less productive
• Allow for variability when precepting new staff or other special projects

Send Out With IT Trainer

• Do admission visit
• Demonstrate ability to streamline
• Tips and timesavers
• Reinforce non-threatening nature of this visit, but ramifications of noncompliance
Managerial Oversight of Staff

- Per payroll monitoring
- Overtime vs. productivity and costs
- Then average per person per month

Geographic Distribution

- Are expectations realistic?
  - Knowing territory
  - Mileage vs. productivity vs. overtime
  - Driving all over vs. limited area

  - Are staff able to transfer while on the road to upload and download new information – what technology do they have to use, and what is the wireless coverage in your area?
Look at Acuity of Patient

- Multiple wounds
- Multiple medications
- Social issues

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After Visit?

- Is employee counting charting/phone time in total patient care time?
- When is that charting being done?
Staff Buy-In

- No recall necessary or extra notebooks
- Time at home is your time
- Increase accuracy of documentation

Manager Buy-In

- Happier staff
- Less work documenting overtime and tracking
- Better care coordination
- Increased quality measures
Use of LPNs, PTAs, OTAs

- Where appropriate and allowed
- Supervision time

Net Margin

- Management/Finance Responsibility
  - Are you staffed properly based on projected patient volume and payer mix?
  - Have you reviewed your non employee costs?
  - Are your operations and reporting automated?
  - Where are their strengths and weaknesses with in your documentation and reporting processes?
  - Breaking down you cost by department and type.
Net Margin

• Must look at the whole picture when reviewing indirect costs.
  – The cost compared to the benchmark
  – The performance of the department
  – The affect on incoming revenue
  – Staffing of the organization (overworked staff = cash flow and compliance issues)
  – The future of the industry
    • What are partners looking for?
    • What roles/responsibilities will be more on the executive team?
    • What will be centralized?

Net Margin

• Home Health
  – National – Overall - 2.83%
  – By Payer:
Back Office Cost

• When reviewing and benchmarking back office costs remember to consider:
  – Paper vs. Electronic Record
  – Volume of Non-Medicare Claims
  – Authorizations/Payer Setup
  – Paper vs. Electronic Submission of Claims
  – Staff Effectiveness
  – Staff Training
  – Effective Reporting
  – Outsourcing options

Total Indirect Costs

• Cost as a % of Total Revenue
  – Total – 37% of Revenue
    • Salaries – 16%
    • Benefits – 4%
    • Other Admin – 17%
Marketing Costs

• National – 2.75%
• Top Performers – 3.83%
• Hold Marketers accountable for admission NOT referrals
• Educate your marketing team on the importance of Medicare admissions compared to Managed Care/Medicaid

• Review Admissions per Marketing FTE
  – 30 Admission per Month per Marketing FTE
  – 60 Admission per Month per Marketing FTE – Best Practice
  – 80% Referral to Admission Conversion Ratio

• Review your Advertising Campaigns – do they generate business?
• Review any Marketing cuts and their impact on revenue.
• Who will be your future Marketers – CEO, President, Owners.

Intake Department

• National -2.72%
• Collections start with Intake!
• Review amount of denied authorization and reauthorizations
• Authorization per Intake FTE
• Ensure proper authorization process is in place for non Medicare patients
Billing Department

- Billing Department
  - National - 1.16%
- Review days sales outstanding
  - Overall - 63 days
  - Best Practice – 35 days
- Review bad debt as a % of revenue (1.02%)
- Review days from SOC to RAP and EOE to final claim
  - Days to RAP – 8 Days – Best Practice
  - Days to Final – 12 Days – Best Practice
- Ensure all claims are sent electronically (non-Medicare as well)
- Evaluate staff – do you have the right person for the job?
- No other task – just collections

Clinical Supervision/Support/QI

- National Benchmark – 8.5% of Total Revenue
  - 180 patients per Case Manager
  - 1 Manager to 9 staff nurses
  - 85.7% of agencies use an integrated delivery care team
  - Supervisors must hold clinicians accountable to productivity standards
  - Coordinators must schedule staff to be efficient to achieve productivity measures
  - Support staff must assist with any field issues
  - QI must ensure that clinicians and staff are compliant with all rules and regulations.
  - Outsource coding function?
  - Maximize case weight mix
Information Technology

• Home Health
  – National – 1.44%

<table>
<thead>
<tr>
<th>Total IT Cost as a % of Revenue</th>
<th>Average Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% or More</td>
<td>31%</td>
</tr>
<tr>
<td>2.5% to 5%</td>
<td>39%</td>
</tr>
<tr>
<td>1.0 to 2.5%</td>
<td>46%</td>
</tr>
<tr>
<td>Less than 1%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Information Technology

• Educate and train your clinicians and back office staff on how to best use the EMR system to create efficiencies
• Outsource hardware and server support
• Research new technology that can improve efficiencies:
  – Patient Portals
  – Telehealth
  – New devices/Applications
Other Staffing Costs

- Executive Management – 2.39%
- Medical Records – .37%
- HR/Education/Recruitment – .41%
- Accounting – .88%
- Development & Fundraising .43%
- Other Office Support – 2.54%
- Home Office – 8.34% (Hospital or Management Fees)

Non Employee Costs

- Space Occupancy – 1.61%
  - Rent or Own Space?
  - Mobile work staff
  - Utilities & Maintenance Fees
  - Renegotiate interest rates
  - Electronic Medical Records
- Legal/Audit/Professional Fees - .73%
  - Send out an RFP every 2-3 years
  - Outsource cost report function
  - Outsource or in house legal department?
Non Employee Costs

- Liability Insurance – .39%
- Interest Expense - .12%
- Bad Debt – 1.01%
- Equipment Purchase/Lease/Repairs - .41%
- All Other Admin – 2.8%

Employee Health Insurance

- Ask the broker to review costs of various plan designs and insurance companies in order to determine the most affordable plan that meets your employee needs.
- Items to Consider:
  - Size of network
  - Pharmacy plan coverage
  - Audit of dependents on plan
Employee Health Insurance

- Review the potential benefits of self insurance if your claims are under control. Make sure that your stop loss policy is set at limits you can afford if claims rise.
- Self insurance avoids ACA taxes of almost 7% as of January 1, 2015.
- Offer wellness incentives to employees and families to avoid chronic problems.

Controlling Insurance Costs

- Key question: Does your broker really work hard for you each year?
- Renewals of professional, property, D&O and general liability policies: Is this coverage just rolled over each year or are all active markets pursued on a regular basis?
- Ask the broker for ideas to control premiums.
Controlling Insurance Costs

• Have you compared policy costs under various deductible levels?
• Use annual brokerage fees rather than straight commissions to reward broker performance! Why should they get paid more simply if premiums rise?
• Be aware of new program offerings like Cyber Insurance.

Workers Compensation

• Maintain a safety committee to reduce losses.
• Use light duty assignments for earlier return to work.
• Make sure your employees are in the proper risk group: clinical, office, HHA.
• Meet quarterly to review claims.
• Review the potential of self insurance with group captives.
Reducing Costs of Office Space

• Investigate potential renegotiation of lease – even if that extends the length of the lease.
• Pursue sub-leasing of excess space if permitted in your lease.
• Negotiate with Landlord caps in charges for overhead, maintenance fees, utilities, etc.
• End of lease approaching: Should we relocate?
• Analyze: Buy vs. Lease/ Move vs. Stay

Reducing Costs of Office Space

Be aware of decreasing need for space:
Reduced medical supply storage space
Clinicians syncing devices through internet connections means less shared space.
Is the Chart Room still needed with electronic patient charts?
Potential for staff sharing offices
Consolidate meeting areas
Cost Report Preparation

• Benefit analysis: Internal vs. Outsourced
• Need Appropriate Reporting and Records
  Tracked throughout the year
  – Precise cost centers – revenue tracking – visit
    tracking, levels of care for hospice, supplies
• Cost Reports are a Key Component in Future
  Rebasing – your cost report will effect not only
  your agency, but the whole industry.

Information System Cost Controls

• Be aggressive in your contract negotiations.
• Ask for multiple year renewals with no
  increase in annual maintenance charges. Why
  should you incur inflationary increases if CMS
  doesn’t give it to you?
• Ask for a price break with each new purchase.
• Are you using all of the systems you paid for?
Information System Cost Controls

• Be aware of competitors’ pricing and use it to get concessions.
• Be aware of new technology and the implications for your agency: for example, using an outside fax server to send referral information electronically to field staff.
• Look to implement paperless systems to save paper and storage costs. They also add to efficiency.

Telephone Costs

• Analyze your phone bills and seek competitive bids on the services you need: regular and long distance, cell phones, internet and wireless cards.
• Use volume and competition to get discounts.
• Analyze your T-1 line traffic to right size your capacity and pay only for what you need.
• Are you using everything you are paying for?
Banking Costs

- **Control your costs:**
  - Do you need all of the bank accounts you have? Do you need to use multiple banks?
  - Do you wire funds instead of using ACH’s?
  - Do you mandate direct deposit for your employees?
  - Does the bank automate reconciliations?

Banking Costs

- Know how your bank charges you and when charges are changed.
- Frequent automated sweeps to investment accounts from checking may not be worth the low interest earned.
- Earnings credits exceed interest income.
- Maintain good internal controls over check signing requirements and fund transfers.
Banking Costs

• **Project your cashflows!!!** Make sure they are accurate by comparing forecast to actual each month. Share results with the bank.

• Anticipate your borrowing needs early and give them adequate time for approval of loans. This will allow time to get best deal.

Marketing costs

• Use benchmarks to monitor overall costs. Understand how your market influences need for additional marketing costs.

• Use a CRM software system to monitor outside sales activities and contacts.

• Assign territories and accounts to each marketer to avoid confusion over who gets credit for the referral.
Marketing costs

• Purchase Medicare market share information each year in order to determine if competitors are stealing your business.
• Know reasons for incurring more costs and develop tools to measure effectiveness of these new items.
• Monitor each marketers effectiveness in producing admitted Medicare referrals.

Reducing Bad Debts

• Know where your Bad Debts come from:
  – Lack of assertive collection staff
  – Timely Filing requirements must be met.
  – Proper authorizations upfront
  – Notice to patients of co-pays required
  – Continuing to accept payers that won’t pay
  – Face-to-Face Encounters that never occur
  – Contracts signed with new payers
"In the beginning God created man...and the costs followed afterwards." - Profound Pat, Management Accountant

Margin Focus

By definition, Gross Margin is the difference between revenue and direct costs for an agency.

– Therefore you must look at your revenue streams first and understand profitability by payer source.

• In order to do this for non-Medicare payers you do not need sophisticated systems; you simply need to know your negotiated rates with your payers and your average number of visits.

• For Medicare, you need to know what your average reimbursement per full episode is.
Margin Focus

– On the cost side, the ease of calculating your cost per visit depends upon your pay structure
  • If you use a pay per visit model then it should be relatively easy to calculate an average cost per visit.
  • If you pay hourly then you will need to take a different approach.
  • If you pay clinicians a fixed salary, regardless of the number of visits that they complete, the cost per visit and therefore your margin will fluctuate based on utilization and productivity to a larger degree.
Margin Focus

Average Gross Profit Margin

- Medicare: $1,789
- Private Insurance: $459

Average Gross Profit Margin %

- Medicare: 56%
- Private Insurance: 28%

Margin Focus

Average Cost per Visit

- Medicare: $90
- Private Insurance: $90
With a 5% decrease in census from July 2013 to June 2014, we had a 29% increase in payer mix. Although we gave up census in the short-term for higher margins, within a year we have rebuilt our census to 95% of what it was a year ago, with much higher margins.

### Capacity, Utilization and Productivity

- Choose a pay model that works for your agency
- Use industry benchmarks to set clear expectations on the front end
- Implement a tool to monitor expectations.
- Provide results to Clinical Management so they can hold field staff accountable.
- Understand your capacity and do not put yourself in a position where you are unable to take a referral.
Utilization and Productivity

![Utilization and Productivity Chart]

Cell Phones, Air Cards and Power Cords

- Know both the costs and functionality of your mobile devices:
  - Appropriate device
    - Does one clinician require both an air card as well as a cell phone? Can one device double as both?
  - Appropriate plan
    - Does your carrier allow you to have a shared data pool?
Management of Indirect Costs

• Know appropriate staffing levels for your agency
  • You should know when it is appropriate to add or eliminate positions:
    • Intake
    • Authorizations Coordinator
    • Scheduler
    • Medical Records
    • What functionality does your IT system have that will impact staffing levels?

Source: McBee Associates, Inc. benchmarking data

Management of Indirect Costs

Intake
  • 10-12 referrals per day for referral entry into system from start to finish.

Authorizations Coordinator
  • Most cases, which require authorization, need to be worked once per week and an FTE should be able to work about 16-19 cases per day.

Source: McBee Associates, Inc. benchmarking data
Management of Indirect Costs

• Scheduler
  • 100-125 patients per scheduler

Source: McBee Associates, Inc. benchmarking data

Management of Indirect Costs

• Medical Records
  • Baseline of 120 document touches per day per medical records staff.

• Clinical Management
  • Baseline of 88-125 patients per clinical manager caseload

McBee Associates, Inc. benchmarking data
Management of Indirect Costs

• Medical Records: It has never been more important to ensure compliance and completeness of documentation
  – Key topics for consideration:
    • Make sure that your agency has appropriate mechanisms in-place to ensure that claims are billable and collectible.
    • Make sure that there is collaboration between the revenue cycle manager and Operations.
    • It is recommended that routine reporting be done to monitor outstanding documentation.

Management of Indirect Costs

• In 2012, our agency made the decision to combine the responsibility of Home Health and Hospice under one Executive Director.
  • Agencies must look for ways to take advantage of synergies within their businesses in order to maximize their performance and minimize duplicate costs.
Management of Indirect Costs

• Consider outsourcing
  • OASIS coding and review
    – We outsourced this function approximately 15 months ago. At the time we outsourced coding and review our average days to lock an OASIS was 30; today our average is 8.
  • Mileage tracking
    – If you are currently tracking mileage manually, there are systems that can automate and streamline this process.
• Information Technology
  – Outsourcing IT support to a competent Managed Services Provider (MSP) can mean lower overall technology costs for your company
• Payroll

Management of Indirect Costs

• Determine appropriate staffing levels for your agency
  • Information Technology
  • Accounting
  • Billing
  • Human Resources
  • Payroll
Ideas for cost savings in Selling, General & Administrative

• Accounting: Identify redundancies and job overlap

• Billing: Review processes; ensure that you have automated everything that you can. Remit all claims electronically and only accept electronic payments.

• Human Resources: Ensure that you are utilizing your insurance broker at their maximum potential.

Questions?

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THANK YOU!