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
Task Force

Walter Borginis III, CPA, Chief Editor
Joe Calcutt, Chair, Innovations Committee
William Dombi, JD, Editor
Josh Sullivan, Editor

Other Contributors:
Jeffrey Aspacher
CPA
Ramsey Badre
Leahy
Sarani Banerji
Musick
Mary Bartlett
Sharp, CPA
Tom Boyd
Simione
Melinda Gaboury, COS-C
Rob Simione, BS, CPA, Vice President of Simione Financial Monitor
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%
Why is it important and useful

- **BOD / Owners / Hospital**
  - Overview of key financial measurements for Home Health and Hospice
  - Provides comparison to industry trends

- **Agency Management:**
  - Provides context
  - Identifies strengths and weaknesses
  - Assists with decision-making
  - Helps appropriately prioritize

- **Staff**
  - Feedback on Performance
  - Possible Incentives Programs
  - Establish benchmarks as Goals
  - Track performance against budget

- **Industry**
  - Accurate and timely information
  - Information informs discussions, decisions, policy, and practices
  - Advocacy efforts
  - Understanding the data that is being used to make decisions

---

Benchmarks

- **452 National Agencies**
- **Regional Agencies — 38**
  - 30 Not For Profits/8 For Profits
  - 22 Freestanding/16 Hospital Based
  - 15 Agencies with Hospice Services

---

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 December 31st 2014:
  - Gross Margin – 40%
  - Gross Margin by Payer

![Gross Margin Chart]

Gross Margin – Hospice

- Overall Gross Margin – 45%
- Gross Margin by Payer

![Gross Margin Hospice Chart]

Where to look next?

- Revenue
  - Admissions
  - Payer Mix
  - Case Weight Mix
  - ALOS
- Costs
  - Payment Models
  - Staffing
  - Productivity/Case Loads
  - Supplies
  - ALOS
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
- Review ALOS/Census Hospice
  - ALOS by Referral Source
  - Active Census

Payer Mix

<table>
<thead>
<tr>
<th></th>
<th>Costs</th>
<th>Patients</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>65%</td>
<td>65%</td>
<td>68%</td>
</tr>
<tr>
<td>Medicare Adv.</td>
<td>18%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>18%</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Hospice Payer Mix

<table>
<thead>
<tr>
<th></th>
<th>Days</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>52%</td>
<td>91%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Costs

- Review your payment models
  - Pay Per Visit
  - Salary
  - Hourly
  - 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

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled Nursing</td>
<td>$87</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>$108</td>
</tr>
<tr>
<td>Occupational Therapy</td>
<td>$100</td>
</tr>
<tr>
<td>Speech Therapy</td>
<td>$119</td>
</tr>
<tr>
<td>Medical Social Worker</td>
<td>$135</td>
</tr>
<tr>
<td>Home Health Aide</td>
<td>$34</td>
</tr>
<tr>
<td>Supplies</td>
<td>$3.21</td>
</tr>
</tbody>
</table>
Direct Cost Distribution

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Salaries</th>
<th>Taxes &amp; Benefits</th>
<th>Contract Services</th>
<th>Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SN</td>
<td>70%</td>
<td>17%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>PT</td>
<td>69%</td>
<td>14%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>OT</td>
<td>61%</td>
<td>12%</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td>ST</td>
<td>54%</td>
<td>15%</td>
<td>24%</td>
<td>7%</td>
</tr>
<tr>
<td>MSW</td>
<td>72%</td>
<td>19%</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>HHA</td>
<td>60%</td>
<td>16%</td>
<td>5%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Productivity Home Health Visits Per Day

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled Nursing</td>
<td>3.7</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>4.6</td>
</tr>
<tr>
<td>Occupational Therapy</td>
<td>4.4</td>
</tr>
<tr>
<td>Speech Therapy</td>
<td>4.8</td>
</tr>
<tr>
<td>Medical Social Worker</td>
<td>2.5</td>
</tr>
<tr>
<td>Home Health Aide</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Visits by Payer

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Medicare</th>
<th>Medicare Advantage</th>
<th>Medicaid</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursing</td>
<td>6.5</td>
<td>6.2</td>
<td>6.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Therapy</td>
<td>4.8</td>
<td>5.01</td>
<td>1.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Medical Social Worker</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Home Health Aide</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
<td>.45</td>
</tr>
</tbody>
</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
SOLVING YOUR CORE HOME CARE AND HOSPICE CHALLENGES

Home Health

• Case Weight Mix
  → SOC at RAP - .965
  → EOE at Final – 1.00
• Reimbursement Per Episode
  → $2,445
• Therapy % of Total Episodes
  → Upcodes – 8%
  → Downcodes -29%
• Percentage of Recert Episodes
  → 22%
• LUPA %
  → 10%

• Visits per Episode – All Episode Types
  → Nursing – 7.6
  → Therapy – 5.3
  → MSW - .2
  → HHA - 1.2
  → Total - 14.6

Cost Per Day by Level of Care - Hospice

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Direct</td>
<td>$91</td>
</tr>
<tr>
<td>Routine Day</td>
<td>$79</td>
</tr>
<tr>
<td>General Inpatient</td>
<td>$616</td>
</tr>
<tr>
<td>Respite Inpatient</td>
<td>$162</td>
</tr>
<tr>
<td>Continuous Care (Hour)</td>
<td>$94</td>
</tr>
</tbody>
</table>
### Direct Cost Per Visit - Hospice

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Nurse</td>
<td>$104</td>
</tr>
<tr>
<td>Therapy</td>
<td>$83</td>
</tr>
<tr>
<td>Medical Social Worker</td>
<td>$107</td>
</tr>
<tr>
<td>Home Health Aide</td>
<td>$37</td>
</tr>
<tr>
<td>Spiritual</td>
<td>$57</td>
</tr>
<tr>
<td>Volunteer Coordinator (Per Day)</td>
<td>$2.03</td>
</tr>
<tr>
<td>Bereavement (Per Day)</td>
<td>$4.43</td>
</tr>
<tr>
<td>Physician Fees as % of Revenue</td>
<td>3%</td>
</tr>
</tbody>
</table>

### Ancillary Cost per Day - Hospice

<table>
<thead>
<tr>
<th>Ancillary</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in Home Cost Per Day</td>
<td>$22</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$2.21</td>
</tr>
<tr>
<td>DME</td>
<td>$8.51</td>
</tr>
<tr>
<td>Drugs &amp; Infusion</td>
<td>$8.13</td>
</tr>
<tr>
<td>Patient Transportation</td>
<td>$.61</td>
</tr>
<tr>
<td>Other</td>
<td>$2.54</td>
</tr>
</tbody>
</table>

### Hospice Statistics

<table>
<thead>
<tr>
<th>Hospice Statistics</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Length of Stay</td>
<td>63</td>
</tr>
<tr>
<td>Median Length of Stay</td>
<td>17</td>
</tr>
<tr>
<td>Percentage of Live Discharges</td>
<td>12%</td>
</tr>
</tbody>
</table>
Hospice Case Loads

<table>
<thead>
<tr>
<th>Discipline</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>RN Case Manager</td>
<td>13.2 Patients</td>
</tr>
<tr>
<td>MSW Case Manager</td>
<td>26 Patients</td>
</tr>
<tr>
<td>HHA Case Load</td>
<td>12 Patients</td>
</tr>
<tr>
<td>Medical Director Case Load</td>
<td>48 Patients</td>
</tr>
<tr>
<td>Chaplain Case Load</td>
<td>38 Patients</td>
</tr>
<tr>
<td>Volunteer Coordinator Case Load</td>
<td>52 Patients</td>
</tr>
<tr>
<td>Supervisor to RN Case Managers</td>
<td>7 to 15 Patients</td>
</tr>
</tbody>
</table>

Note: Data from NAHC 2013 Study

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?

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
  → Overall – 1.05%
  → By Payer:

Net Margin

• Hospice
  → National – Overall – 5.22%
  → 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 – 41% of Revenue
    - Salaries – 18%
    - Benefits – 3%
    - Other Admin – 20%
    - HH Indirect Cost Per Visit - $56
    - Hospice Indirect Cost Per day - $62

Marketing Costs

- Region – 3.53%
- Top Performers – 3.15%
- 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 -2.29%
- 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
  - Region - 1.18%
  - Review days sales outstanding
    - Home Health - 68 days
    - Hospice - 51 days
  - Review days from SOC to RAP and EOE to final claim
    - Days to RAP - 19 days
    - Days to Final - 24 days
  - 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

- Region Benchmark – 8.09% 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

→ Region - .93%
→ National – 1.23%

<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 – 3.48%
• Accounting - .64%
• Medical Records – .66%
• HR/Education/Recruitment – .21%
• Development & Fundraising .39%
• Other Office Support – 2.99%
• Home Office – 17.63% (Hospital or Management Fees)
**Non Employee Costs**

- **Space Occupancy – 1.39%**
  - Rent or Own Space?
  - Mobile work staff
  - Utilities & Maintenance Fees
  - Renegotiate interest rates

- **Legal/Audit/Professional Fees - .32%**
  - Send out an RFP every 2-3 years
  - Outsource cost report function
  - Outsource or in house legal department?

- **Liability Insurance – .27%**

- **Interest Expense - .13%**

- **Bad Debt – .77%**

- **Equipment Purchase/Lease/Repairs - .33%**

- **All Other Admin – 1.67%**

**Home Health**

- **Case Weight Mix**
  - SOC at RAP - .984
  - EOE at Final – 1.01

- **Reimbursement Per Episode**
  - $2,438

- **Therapy % of Total Episodes**
  - Upcodes – 8%
  - Downcodes -23%

- **Percentage of Recert Episodes**
  - 23%

- **LUPA %**
  - 9%
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.

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.
- Identify appropriate benchmarks.
- Engage in strategic meetings to discuss variances to benchmarks

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?

- Rob Simione robsimione@simione.com
- Phone: 203 287 9288

THANK YOU!