CAH Finance Basics in the New Health Care Environment

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Agenda

• Basics of CAH finances
• Importance in the present and future
• 10 financial indicators.
CAH Finance Basics

- CAH Reimbursement Methodology
- Impact on other programs
- Not all costs are allowed in calculation
- Some revenues are used to offset costs
- Costs are not reimbursed at the same level
- Cost + 1% ≠ Profit
- CAHs cannot spend their way to success
- The rules and interpretations are always changing
- CAHs often leave money on the table
CAH Reimbursement Methodology

- Medicare (and in some states Medicaid) reimburse CAH’s based on allowable costs + 1%
  - Costs reported on Medicare Cost Report
    - Similar to a tax return
    - Filed within 5 months of year end
  - Interim payments
    - Based on historical costs as claims processed
  - Final settlement
    - Based on Medicare Cost Report
CAH Reimbursement Methodology

- Other payors
  - Fee schedules
  - Charges
  - Percentage of charges
Impact on other programs

- Cost reimbursement does not apply to all services offered by the Hospital
  - Cost based reimbursement extends to:
    - Inpatient and most outpatient hospital services
    - Swing bed
    - Rural Health Clinics
Impact on other programs

- Cost reimbursement does not apply to all services offered by the Hospital
  - Cost based reimbursement does not extend to:
    - Free-standing clinics
    - Psychiatric or Rehabilitation Units
    - Nursing home (some exceptions for Medicaid)
    - Home Health
    - Hospice
    - Ambulance (some exceptions)
    - Assisted Living
Not all costs are allowed in calculations

- Patient phone and television costs
- Advertising costs
- Physician professional costs (exception – RHC)
- Physician recruitment costs (exception – RHC)
- Lobbying
- Bad debts (except Medicare bad debts)
Some revenues are used to offset costs

- Interest income
- Medical record fees
- Rebates
- Miscellaneous revenues
- Grant revenues are usually not offset against cost
Costs are not reimbursed at the same level

- Medicare reimburses costs on a department by department basis
  - Reimbursement for an individual department is based on the Medicare utilization of that department
    - Days for room and board
    - Charges for ancillaries
  - Medicare reimburses a higher percentage of costs in departments with higher Medicare utilization
Costs are not reimbursed at the same level

- Typically higher
  - Inpatient/swing bed
  - Operating Room
  - Pharmacy

- Typically lower
  - Lab
  - Radiology
  - Emergency Room
Costs are not reimbursed at the same level

- Overall impact varies by provider
  - Different services
  - Different utilization patterns.

- Overall impact varies by state
  - Medicaid payment rules for CAH and nursing homes
Cost + 1% ≠ Profit

- As previously noted some costs are not allowed
  - Offsets are frequently 5-10% of total cost
  - 95% + 1% = 95.95% reimbursement

- Must be able to be profitable in other services provided to other payors
Cost + 1% ≠ Profit

• Providers with more non-CAH services tend to struggle more with profitability
  • Nursing Homes
  • Home Health
  • Hospice
  • Psychiatric and Rehabilitation Units
CAHs cannot spend their way to success

- Increasing allowable costs will increase revenues, but will it improve profitability?
CAHs cannot spend their way to success

- Increasing allowable costs will increase revenues, but will it improve profitability?

NO!
CAHs cannot spend their way to success

- As costs go up, the increase in reimbursement is limited to the Medicare utilization of that department.
  - Medicare profitability is stable
  - Profitability of other payors goes down
CAHs cannot spend their way to success

- As costs go down, the decrease in reimbursement is limited to the Medicare utilization of that department.
  - Medicare profitability is stable
  - Profitability of other payors goes up
CAHs often leave money on the table

- Improper Medicare cost report filing
  - Overhead allocations
  - Revenue/expense mismatching

- Revenue Cycle Mismanagement
  - Proper Chargemaster updates
  - Pricing of services in chargemaster
  - Changes in billing regulations
  - Billing opportunities
  - Coding deficiencies
CAHs often leave money on the table

- Proper staff
  - Administrative
  - Revenue Cycle
  - Nursing

- Overstaffing
• Understanding the intricacies in reimbursement is important in providing opportunities to generate profitability.
• Managing of profitability with other payors will become more difficult as payors introduce new payment methodologies
  • ACOs to manage a population of patients
    • Medicare
    • Commercial
  • Reductions in reimbursement for products offered through Health Insurance Marketplaces
Expect payment for quality of care
- Commercial payors
- Expected for Medicare and other cost based payors
Finance Tomorrow

• Tough choices ahead
  • Cannot be everything to everybody
  • Increased incentives to partner with others
    • Lower volume services
    • Lower compensated services
Tough Choices Require Solid Indicators

• Challenges in the future will require providers to increase their focus on indicators that highlight strengths and weaknesses

• 10 indicators have been identified for ongoing monitoring and management
Tough Choices Require Solid Indicators

- Net Days in Accounts Receivable
- Gross Days in Accounts Receivable
- Days Cash in Hand
- Total Margin
- Operating Margin
- Debt Service Coverage
- Salaries to Net Patient Revenue
- Medicare Inpatient Payor Mix
- Average Age of Plant
- Long Term Debt to Capitalization
Questions?