

Affinity Health
Services

FINANCIAL
MANAGEMENT

FOR NURSE
MANAGERS

PADONA 2015

AGENDA

- ✘ Payer Source and Revenue Streams
- ✘ Expense Management
- ✘ Operating Budget
- ✘ Cost / Benefit Analysis
- ✘ Understanding Financial Statements
- ✘ Financial Ratios and Benchmarking

KEY PRIMARY PAYER SOURCES

Room and Board Payers

- ✘ Medicare
- ✘ Medicare Advantage / Skilled HMO
- ✘ Medicaid
- ✘ Private Pay

Ancillary Revenue

- ✘ Medicare Part B

SYSTEM SUMMARY ...

PPS – Prospective Payment System

- ✘ Single rate *per* RUG group *for* a set number of covered days
- ✘ Based on MDS responses to data elements
- ✘ Single per diem payment rate that covers:
 - + *routine, ancillary, and capital related costs*
- ✘ Requires *management* of care and resources as payment is based on anticipated cost of care
- ✘ *Caregivers* have a direct impact on payment

MEDICARE PART A

- ✘ Form of Managed Care and as such MUST BE MANAGED
- ✘ Service delivery impacts both revenue and expenses
- ✘ As such, both revenue and expenses MUST BE MANAGED

Continues to be the BEST PAYER SOURCE

MEDICARE ADVANTAGE / SKILLED HMO

- ✘ Typically follows Medicare RUG System
 - + Security Blue
 - + Aetna
 - + UPMC
 - + Geisinger
- ✘ More difficult to manage - **NAVIHEALTH**
 - + Pre-authorizations required for service
 - + Routine authorizations required
 - + Length of Stay is typically shorter

MEDICAID

- ✘ Daily per diem rate
- ✘ Rate determined based on case-mix index (CMI) – THE POWER OF THE CMI
- ✘ Rates change every quarter
- ✘ Rate is based on last three audited cost reports
- ✘ Hybrid system partially dictated by expense management and partially dictated by service delivery

CASE MIX

Case Mix Index is a “weighted” score

- ✓ Each RUG group is assigned a weight or case mix index
- ✓ Represents the relative use of resources for a resident
- ✓ The higher the CMI, the higher the payment

MEDICAID CASE-MIX

- ✘ Annually, peer group medians and prices are calculated and used in rate setting
- ✘ Resident care costs—only component impacting CMI
- ✘ Other Resident related costs
- ✘ Administrative costs
- ✘ Capital costs

STATE AVERAGE CMI

2014 Rates	Average CMI	1.06
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THE POWER OF THE CMI to come!!!!!!!!!!!!!!!!!!!!!!

CONCERNS WITH MEDICAID REIMBURSEMENT

- ✘ BAF...Budget Adjustment Factor
- ✘ Elimination of County Costs From Peer Groups
- ✘ Use of most recent assessment versus comprehensive assessment
- ✘ Declining state budgets
- ✘ Increasing operational costs
- ✘ Most facilities operate at a loss on each Medicaid resident

CASE MIX INDEX – THE STARTLING TRUTH

240 LICENSED 180 MEDICAID

CMI	RATE	Increase in rate	Annual Increase
.92	\$174.46		
.93	\$175.70	\$1.24	\$81,468
.94	\$176.93	\$2.47	\$162,279
.99	\$183.11	\$8.65	\$568,305
1.02	\$186.82	\$12.36	\$812,052

MEDICARE PART B

- ✘ Ancillary Revenue Source
- ✘ Minimally benchmark at 12-18% of non-skilled population as a benchmark
 - + 240 – skilled mix 14% - 34 residents per day
 - + 206 residents @ 15% 31 residents
 - + Margin is 25% to 30% of fee schedule
- ✘ Percentage of skilled residents may impact your Part B service delivery
- ✘ Communication between nursing and therapy is critical

AVERAGE NURSING HOME

Payor Source	Net Income Per Resident Day	Dec 2012 AHCA Report PA	US 2012 AHCA Report
Other/Private Pay	\$0-\$80	25.9%	22.1%
Medicaid	(\$16)	62.5%	63.6%
Medicare/Skilled	\$135	11.6%	14.2%

Managing the Medicare/Skilled Residents is Critical to the Success of the Average Nursing Home! This could or likely is your only margin.

OVERVIEW

Medicare continues to be the *BEST PAYOR*
Success requires *DILIGENT MANAGEMENT*

- ✘ Census and Admissions Process
- ✘ Medicare reimbursement system
- ✘ Ancillary Service Contracts and Delivery
- ✘ Expense Monitoring and Management

*Medicare is the Key to Most SNF's
Operational Success*

EFFECTIVE MANAGEMENT STRATEGIES

EXPENSE MANAGEMENT

- ✘ Review Ancillary Service Provider Contracts
 - + Pharmacy
 - + Therapy
 - + Laboratory
 - + Ambulance
 - + XRAY/Diagnostics

PHARMACY MANAGEMENT

- ✘ Pre-admission cost of medications
- ✘ Therapeutic Interchange
- ✘ Part D knowledge/review
- ✘ Watch use of ER box
- ✘ Review pharmacy contract
 - + Medicare per diem
 - + **Average Wholesale Price**
- ✘ Track cost per resident
- ✘ Implement a rigorous pharmacy billing review process
- ✘ Average cost per Medicare resident day

Benchmark: \$35 per Medicare resident day

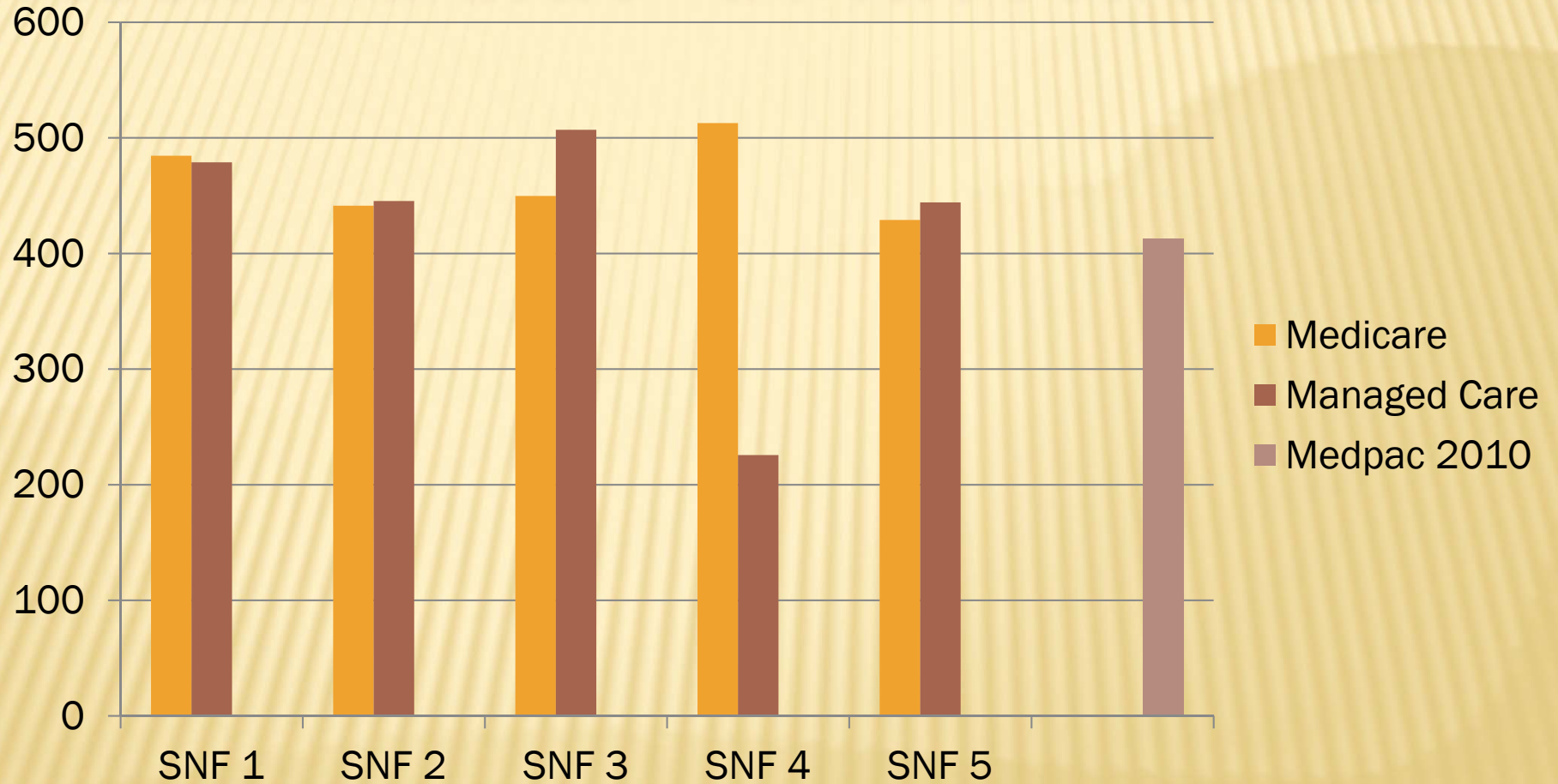
THERAPY SERVICES MANAGEMENT

- ✘ Contract
 - + Per Minute
 - + Per RUG Day
- ✘ Operations
 - + In-house / Self-Op
 - + Contracted Service
- ✘ Advantages and Disadvantages to Each
- ✘ Appeals Management Considerations

Therapy Services Management Outcomes Management

Outcome	Industry Benchmark
Therapy Costs Per Medicare Day	\$85.00 per day
Average Length of Stay (non rehab)	31 -35 days
Short Term Rehab	18 - 23 days

AVERAGE MEDICARE/MANAGED CARE RATES RANGE \$429 - \$500 FOR RUGS



THERAPY MANAGEMENT PROCESS MANAGEMENT

1. Therapist Productivity
2. Therapist Turnover
3. Therapy / Nursing Communication
4. Managing Non-Billable Tasks
 1. Cut Letters
 2. Authorizations
5. Appeals Management

LABORATORY AND X-RAY SERVICES

- ✘ Included in Medicare per diem payments
- ✘ Physician ordering practices directly impacts
- ✘ Contract agreements and pricing
 - + % of Hospital Charges OR
 - + % of Medicare Fee Schedule
- ✘ Additional Charges per contract
 - + Stat tests
 - + Venipuncture

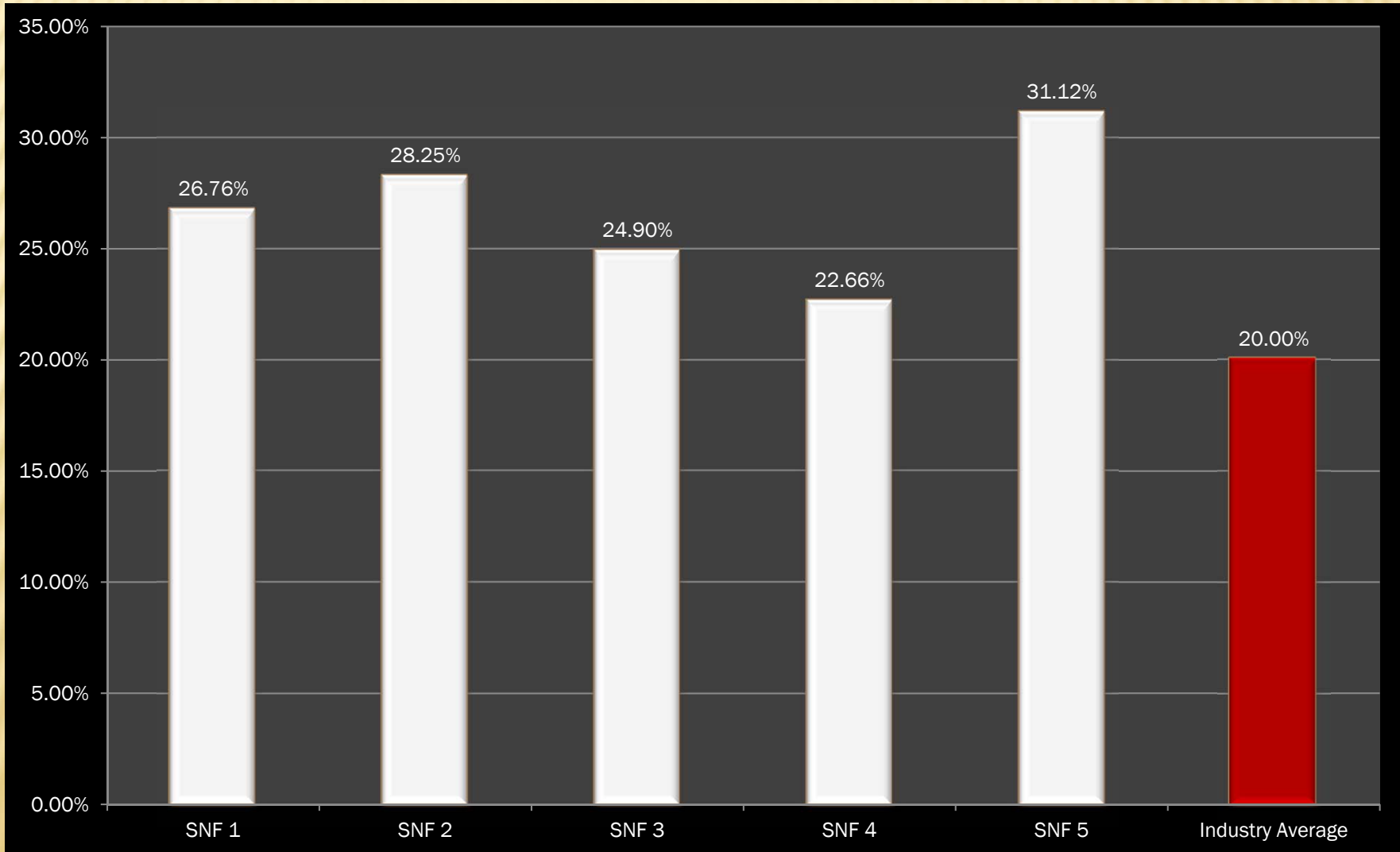
WHERE'S YOUR MARGIN?

Service	Cost Per Medicare Resident Day
Ambulance	\$1.25
Laboratory	\$5.00
X-Ray	\$1.25
Pharmacy	\$35.00
Therapy	\$85.00
Total Ancillary Services	\$127.50
Total Departmental Costs Per Day	\$198.00
Total Medicare Part A Cost PPD	\$325.50
Medicare Per Diem Rate	\$425.00
Net Income Per Medicare Resident	$\$425 - \$325.50 = \$99.50$
Profit Margin	$\$99.50 / \$425 = 23\%$

MEDICARE MARGIN

Affinity Health Services, Inc.

SKILLED NURSING FACILITIES 20% FOR PROFIT 8-15% NON-PROFIT



COST PER DAY CALCULATIONS

- ✘ Required to evaluate true efficiency of your expense management systems
- ✘ Removes changes in total costs associated with census fluctuations
- ✘ Helps you to drill-down into expense management and identify opportunities for improvement

REVENUE ENHANCEMENT

2 Options:

- ✘ Census Development
- ✘ Reimbursement Management

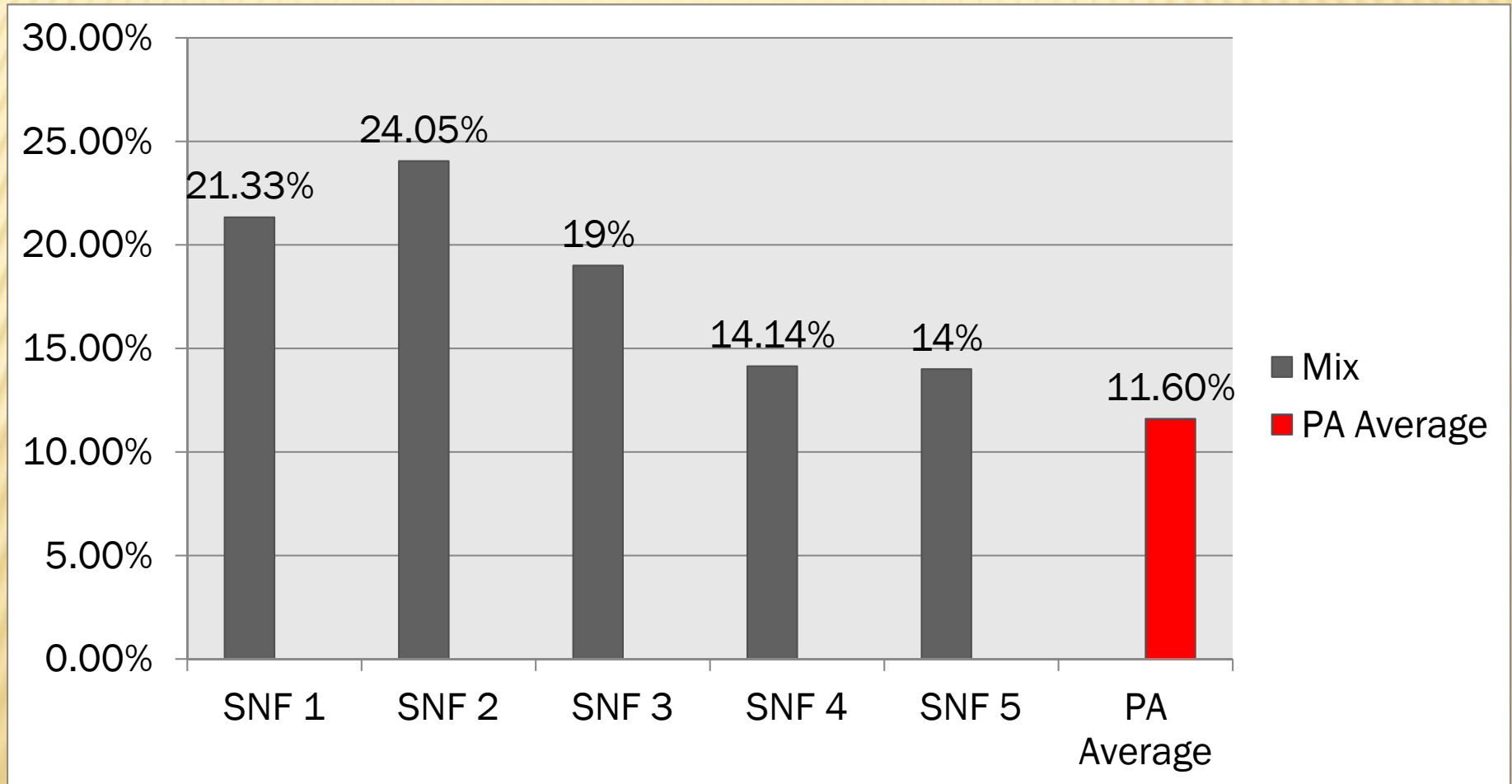
CENSUS DEVELOPMENT – AT 25% MARGIN

Annual Financial Impact of Increasing
your Medicare Census by 1 resident per
day:



\$36,318

MEDICARE/QUALITY MIX - 14% - 24%



CENSUS DEVELOPMENT STRATEGIES

- ✘ Admissions/Marketing Department
- ✘ Manage referral source relationships
- ✘ Easy and efficient admission process
- ✘ Niche development
- ✘ Customer Service / Customer Appreciation
- ✘ Physician relationships
- ✘ Establish organizational goals
- ✘ Evaluate Length of Stay

ADMISSIONS PROCESS

- ✘ Direct impact on financial success
- ✘ The number of “reviewers” slows down the process
- ✘ Adopt a “clinical capabilities” list
- ✘ Establish targets for time periods between referral receipt and referral decision (15 minutes)
- ✘ Competition amongst providers is fierce especially for Medicare / Skilled residents
- ✘ Track denials and monitor referral to admission ratios (65% ratio)

REIMBURSEMENT MANAGEMENT

How well do you manage the Medicare/Skilled Care Reimbursement?

- ✘ Assess RNAC/MDS Team knowledge and understanding
- ✘ Evaluate (through management tools) opportunities for improvement
- ✘ Look closely at your communication systems
- ✘ Management Tool Monitoring
 - + Average Medicare Rate
 - + RUG's distribution and benchmarking
 - + Short Term vs. Longer Term Skilled Residents

ALOS BENCHMARKING

Another opportunity to increase Medicare / Skilled Resident Census

Payer Source	Average Length of Stay
Medicare	21 - 30 days
Medicare Managed Care	18-23 days

ESTABLISH YOUR BENCHMARK

- ✘ Identify baseline
- ✘ Provides source of data to identify need for systems changes
- ✘ Provides data to evaluate impact of systems change
- ✘ “Know the score”
- ✘ Collect Data and Benchmark Performance
 - + RUGS categories utilization
 - + Average daily rate
 - + Overall MC census
 - + Comparison of hospital admissions with 5/14 day RUGS group
 - + Break out RUGS by ADL categories...(X/L and A, B, C)

IDENTIFY BASELINE
SET GOALS
TRACK PROGRESS
EVALUATE SYSTEMS
USE YOUR DATA

EXPENSE MANAGEMENT

KEY NURSING DEPARTMENT EXPENSE CATEGORIES

- ✘ Nursing Hours
- ✘ Productive versus Non-Productive Paid Time
- ✘ Overtime
- ✘ Agency
- ✘ Cost of Benefits
- ✘ Other departmental FTE's

NURSING DEPARTMENT IMPACT

*50-55% of
Total OPERATING EXPENSES*

Whether you know it or not....everyone
is watching the nursing department
performance!!

NURSING HOURS

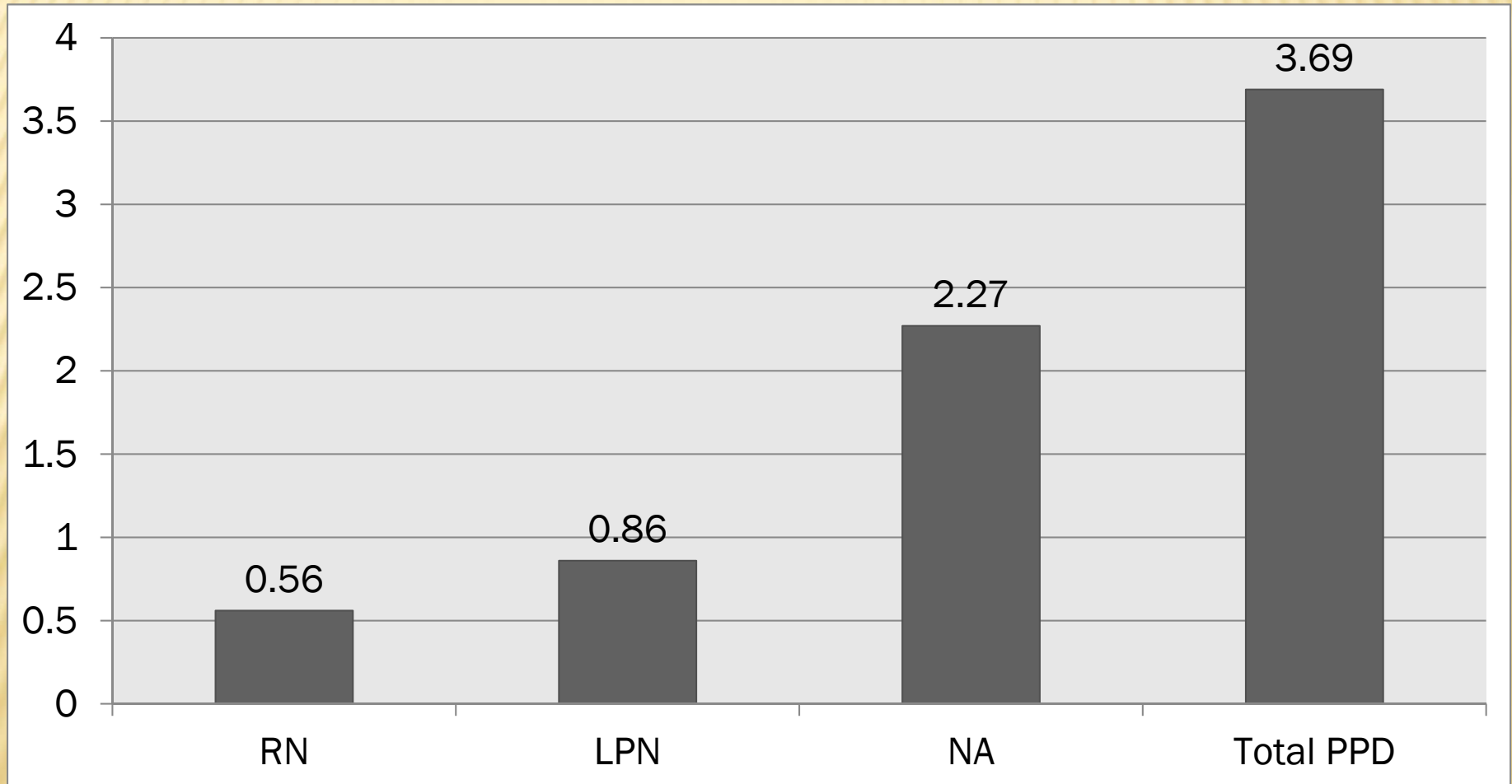
- ✘ Pattern is IMPORTANT
- ✘ How you fill hours is critical
 - + Regular Time
 - + Overtime / Double Time
 - + Per Diem
 - + Agency
- ✘ Sticking to your budgeted labor hours is essential

MANAGEMENT – DO NOT MAKE IT SO PERPLEXING FOR THE NURSES!



- ✘ Nursing hours ppd
 - + ? What does it include
 - + My budget is 3.5 why am I over???? Boss is mad, I am confused
 - + Light duty, paid FMLA, vacation, restorative, therapy transports

STAFFING BENCHMARKS (PA AVERAGE PPD)



* Information Obtained from AHCA Nursing Facility Characteristics Report, Sept. 2014

STAFFING CONSIDERATIONS

- ✘ PPD
- ✘ Staff to resident ratios
 - + Unit
 - + Shift
- ✘ Special needs of the unit
 - + High acuity
 - + Dementia
- ✘ Physical layout of the unit
- ✘ Size of unit

RATIO BENCHMARKS

	RN	LPN	NA
Day	1:50 - 1:100	1:25	1:8 - 1:9
Evening	1:50 - 1:100	1:25	1:8 - 1:10
Night	1:100	1:35	1:15 - 1:20

In a 100 bed building, the higher staffing ratios equals 3.6 NHPRD and the lower staffing pattern is about 3.3 NHPRD.

FINANCIAL IMPACT OF STAFFING .10 ABOVE PPD BUDGET

Nursing Assistant	
Average Rate of Pay	\$12.00
.10 PPD in 100 bed facility	10 hours per day
Daily Cost of .10PPD (Regular Pay)	\$120
Monthly Cost of .10 PPD (Regular Pay)	\$3,648
Annual Cost of .10 PPD (Regular Pay)	\$43,800
Daily Cost of .10 PPD (Overtime Pay)	\$180
Monthly Cost of .10 PPD (Overtime Pay)	\$5,472
Annual Cost of .10 PPD (Overtime Pay)	\$65,700
Daily Cost of .10 PPD (Double Time)	\$240
Monthly Cost of .10 PPD (Double Time)	\$7,296
Annual Cost of .10 PPD (Double Time)	\$87,600
Daily Cost of .10 PPD (Agency)	\$260
Monthly Cost of .10 PPD (Agency)	\$7,904
Annual Cost of .10 PPD (Agency)	\$94,900

HOW YOU FILL HOURS MATTERS!

Nursing Assistant	Regular Time	Time and One-Half	Double Time	Agency
Hourly Rates	\$12.00	\$18.00	\$24.00	\$26.00
Cost of 8 hour shift	\$96	\$144	\$192	\$208
Weekly Cost	\$480	\$720	\$960	\$1,040
Monthly Cost	\$2,064	\$3,096	\$4,128	\$4,472
Annual Cost	\$24,768	\$37,152	\$49,536	\$53,664
Annual Cost Savings related to staffing at regular hours vs. higher cost alternatives		\$12,384	\$24,768	\$28,896



PRODUCTIVE VS. NON-PRODUCTIVE HOURS

- ✘ Productive hours factor into your PPD
- ✘ Non-Productive hours are not as easily monitored
- ✘ They reflect in your financial statements because they are dollars paid
- ✘ Includes FMLA, Workers Comp/Light Duty, Vacation, Sick, Holiday (not worked)
- ✘ See increase in utilization around holidays and summer time
- ✘ Productive vs. Non-Productive needs recorded separately for you to effectively monitor

BENEFIT FACTOR

Benefit Costs can add an additional 25-60% in costs on top of salary costs

- ✘ Health Insurance
- ✘ Paid Time Off Package
- ✘ Retirement
- ✘ Paid Lunch Break
- ✘ Other benefits in which facility contributes
- ✘ Payroll Taxes and other required expenses
- ✘ Workmen's compensation

TRUE COST OF FULL-TIME EMPLOYEES

Job Classification	Hourly Rate of Pay	Annual Pay	Facility Benefit Factor	True Cost of Employee
Nurse Aide	\$12.00	\$24,960	35%	\$33,696
LPN	\$18.00	\$37,440	35%	\$50,544
RN	\$25.00	\$52,000	35%	\$70,200

OPERATING BUDGETS

BUDGET

- ✘ Forecast / Projection of the upcoming year
- ✘ Roadmap to follow
- ✘ Expenses are directly linked to Census
 - + When census increases...total costs will increase
 - + When census decreases...total costs should decrease
- ✘ Important to be involved in budget formation
 - + Labor Costs
 - + Ancillary Costs by payor have to be separated out

BUDGET PREP

- ✘ Staffing Patterns per unit
- ✘ Staffing by discipline/category
- ✘ 7 day per week positions vs. 5 day per week positions
- ✘ Understand how hours are filled
 - + Regular
 - + Overtime
 - + Double Time
 - + Per Diem Positions
 - + Agency

MONITORING PERFORMANCE

- ✘ Budget Variance Reports
 - + Compares projected amounts to actual amounts
 - + Addresses significant variances in under-spending or over-spending
 - + Rule of thumb: 5% variance between actual and budget
 - + Identify Favorable / Unfavorable trends
 - + Affords manager opportunity to identify unfavorable trends and respond accordingly

TOOLS

- ✘ Labor is 80% of most of the departmental budgets
- ✘ Capturing labor accurately is critical
 - + Payroll data vs Schedule
 - + Deployment Sheets
 - + Labor Hours Reports
 - + Clear delineation of who is coded where

LABOR HOURS REPORTS

- ✘ Should reflect time clock / payroll hours worked
- ✘ Assists in identifying additional hours worked by staff in addition to scheduled shift
- ✘ True reflection of PPD
- ✘ Should be reviewed at least weekly
- ✘ If used correctly, you should be able to make necessary adjustments

Weekly Monitoring Tool

Labor Hours To Budgeted Hours

Nursing PPD		<u>SNF 1</u>	<u>SNF 2</u>	<u>SNF 3</u>	<u>SNF 4</u>	<u>SNF 5</u>
RN Actual		0.32	0.42	0.36	0.29	0.28
RN Budget		0.35	0.39	0.37	0.45	0.31
RN Agency Budget		0.00	0.00	0.00	0.00	0.00
LPN Actual		1.00	1.04	0.82	0.73	0.88
LPN Budget		0.91	0.98	0.87	0.52	0.94
LPN Agency Actual		0.00	0.00	0.00	0.00	0.25
LPN Agency Budget		0.00	0.00	0.00	0.00	0.00

UNDERSTANDING FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

- ✘ Census Summary
- ✘ Balance Sheet
- ✘ Income Statement
- ✘ Accounts Receivable
- ✘ Statements of Cash Flows
- ✘ Cost Per Resident Day
- ✘ Days Cash on Hand

Census Summary

		Month	Month		YTD	YTD	
Resident Days		Actual	Budget	Variance	Actual	Budget	Variance
Medicare		376	310	66	2,721	2,430	291
Medicaid		1,688	1,798	(110)	13,591	14,094	(503)
Private		623	527	96	4,799	4,131	668
Insurance		136	93	43	956	729	227
Managed Care		254	310	(56)	2,425	2,430	(5)
Total		<u>3,077</u>	<u>3,038</u>	<u>39</u>	<u>24,492</u>	<u>23,814</u>	<u>678</u>
Leave/Hold		-	31	(31)	118	243	(125)

THE FINANCIAL CONDITION

- ✘ P&L is not enough

- ✘ The Value of the Balance Sheet
 - + Do you have any cash
 - + Are you collecting the money
 - + Are you paying your bills

BALANCE SHEET

- ✘ Report that lists:
 - + Total assets
 - ✘ Cash, property value, equipment value, inventory, receivables
 - + Total liabilities
 - ✘ Outstanding debts to employees, suppliers, and creditors; accrued payroll, taxes, interest payments, accounts payable
 - + Net worth of organization
- ✘ Represents the current state of the business

INCOME STATEMENT

- ✘ Referred to as profit and loss statements, P&L, earnings statement
- ✘ A report that reflects revenues and expenses recognized for a specific period of time
- ✘ Should be prepared MONTHLY
- ✘ Should show monthly performance and year to date performance
- ✘ Used to determine whether a company made or lost money during the time period being represented

NET OPERATING REVENUE

- ✘ What you can control is the NET Operating Revenue
- ✘ The Net Income/Loss includes all Revenues and Expenses

DEPRECIATION, INTEREST, DONATIONS



THE BOTTOM LINE THAT YOU CAN CONTROL

KEYS TO EVALUATING INCOME STATEMENT

- ✘ Isolate
 - + Revenue generated purely from operations
 - + Expenses related specifically to operations
- ✘ These are the items that the facility has direct control over
- ✘ Typically do not include:
 - + Interest expenses
 - + Depreciation expenses
 - + Amortization

ACCOUNTS RECEIVABLE

- ✘ Represents the amount of money that is due to be received/collected as of the date the report is prepared.
- ✘ Typically displayed according to how long of a time period has gone by and the amount is still uncollected.
- ✘ Rule of thumb: the longer the amounts are uncollected, there is a decrease in the chance of collecting.
- ✘ Have to evaluate uncollected accounts according to the payer source

Accounts Receivable	Current	30 Days	60 Days	90 Days	120 Days	150 & Over	Total
August	\$ 1,135,796.57	\$ 117,548.27	\$ 56,374.93	\$ 60,554.83	\$ 58,167.89	\$ 271,982.48	\$ 1,700,424.97
July	\$ 981,489.89	\$ 69,654.01	\$ 84,333.55	\$ 56,692.56	\$ 56,911.23	\$ 248,660.94	\$ 1,497,742.18
June	\$ 864,308.66	\$ 108,131.87	\$ 63,491.03	\$ 58,869.23	\$ 74,725.99	\$ 196,477.84	\$ 1,366,004.62

Private Pay—typically pre-billed

Medicare—typically a quick payer

Medicaid—typically pays within 60 days- Prudent Pay

Managed Care– not a quick payer – but typically a better payor

CASH FLOW STATEMENT

- ✘ Tells you how much cash you have generated/lost during the reporting period
- ✘ Important for capital purchases
- ✘ Most organizations purchase capital through cash generated from operations

DAYS CASH ON HAND

- ✘ How many days can your organization continue to operate without any additional revenue
- ✘ Based on current expenses
- ✘ Shows how healthy the organization's cash position is
- ✘ Good Benchmark: 50 days cash on hand

DAYS CASH ON HAND

Affinity Health Services, Inc.

				<u>31-Aug-11</u>	<u>1-Jul-11</u>
<u>Days of Cash on Hand</u>					
Year to Date Cash Expenses				\$ 5,495,829	\$ 4,789,600
Daily Cash Requirements				22,617	22,592
50 Day Cash Requirement				1,130,829	1,129,623
Operating Cash				1,100,367	1,145,965
Total Available Cash				<u>1,100,367</u>	<u>1,145,965</u>
Benchmark Established by Organization				50	50
Days of Cash on Hand at Month End				49	51

COST PER RESIDENT DAY

- ✘ Important data to evaluate true costs independent of fluctuations in census
- ✘ Should be familiar with your cost PPD budget and your actual performance for those departments under your control

Month and YTD Variances

		Month Actual	Month Budget	Month Variance	YTD Actual	YTD Budget	YTD Variance
Operating Expenses PPD							
		Actual	Budget	Variance	Actual	Budget	Variance
Nursing Services		115.26	110.67	(4.59)	115.31	113.16	(2.15)
Resident Activities		4.68	5.09	0.41	4.70	5.23	0.53
Ancillary Services		11.83	12.38	0.56	11.44	12.64	1.20
Physical Therapy		10.29	9.83	(0.46)	10.27	10.03	(0.23)
Occupational Therapy		10.02	10.18	0.16	10.13	10.39	0.26
Speech Therapy		2.49	2.38	(0.11)	2.97	2.43	(0.55)
Dietary		17.06	18.84	1.78	18.42	19.06	0.63
Laundry		4.13	3.86	(0.27)	4.20	3.97	(0.23)
Housekeeping		4.69	5.38	0.69	5.28	5.36	0.08
Plant Operations		11.24	12.08	0.84	11.57	12.13	0.57
Social Services		3.89	3.50	(0.39)	3.40	3.78	0.38
Administration		25.99	25.95	(0.05)	25.93	26.32	0.39
Total Operating							

KEY TAKE-AWAYS

- ✘ Measure Current Performance
- ✘ Understand Current Performance
- ✘ Understand the impact of nursing on both revenue and expense
- ✘ Compare Current Performance with Industry Standard Performance
- ✘ Revenue vs. Expense – Evaluate opportunities for improvement
- ✘ *Invest in Improvement = Return on Investment*





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