

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% \neq 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% \neq 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% \neq 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

Finance Today

- Understanding the intricacies in reimbursement is important in providing opportunities to generate profitability.



Finance Tomorrow

- 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



Finance Tomorrow

- 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?