Fee-for-Service and Cost-based Reimbursement Pro Forma

Small Rural Hospital Transition
HELP Webinar
February 16, 2016

NATIONAL
RURAL HEALTH
RESOURCE CENTER

RUPRI
RURAL POLICY RESEARCH INSTITUTE

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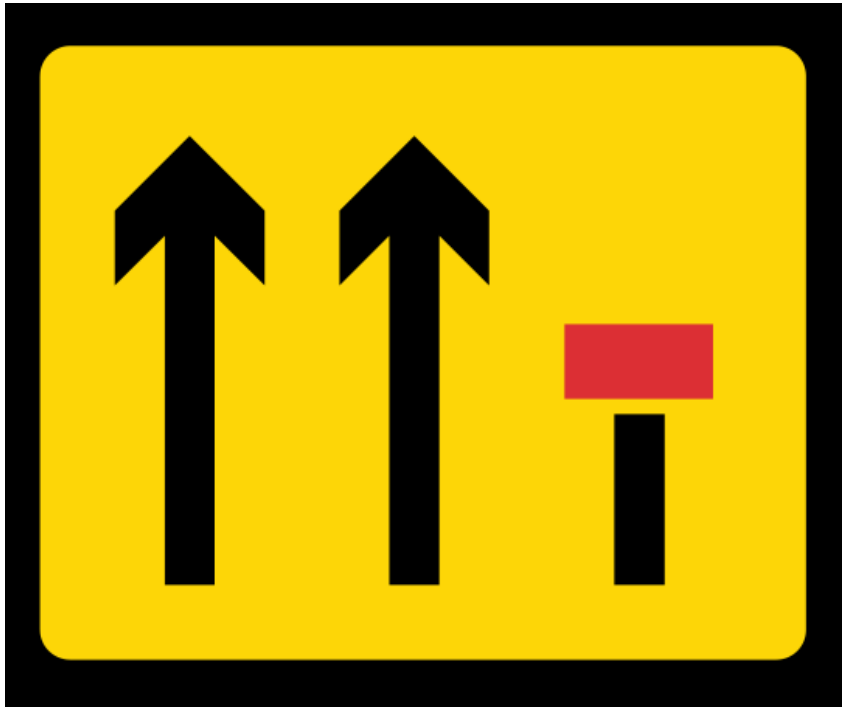
Value-Based Payment Expansion

- 700+ public and private ACOs
  - 405 Medicare ACOs
  - 19 Pioneer ACOs
  - 35 are Advance Payment
  - Medicare ACOs in 48 states
- 40% private plan payments linked to **value** (11% in 2013)*
- Value-based payment has legs!
  - But maybe not ACOs…
  - Accountable care *communities*?

* Commercial, in-network payments. Source: http://www.catalyzepaymentreform.org/images/documents/nationalscorecard2014.pdf

Alternative Payment Models

- Shared savings plans
  - (accountable care organizations)
- Bundled payments
  - Single payment per care episode
- Patient-centered medical homes (health homes)
  - Robust primary care
- APMs pay for **value**
  - That is, value-based payment
  - Fee-for-service and cost-based reimbursement pay for volume

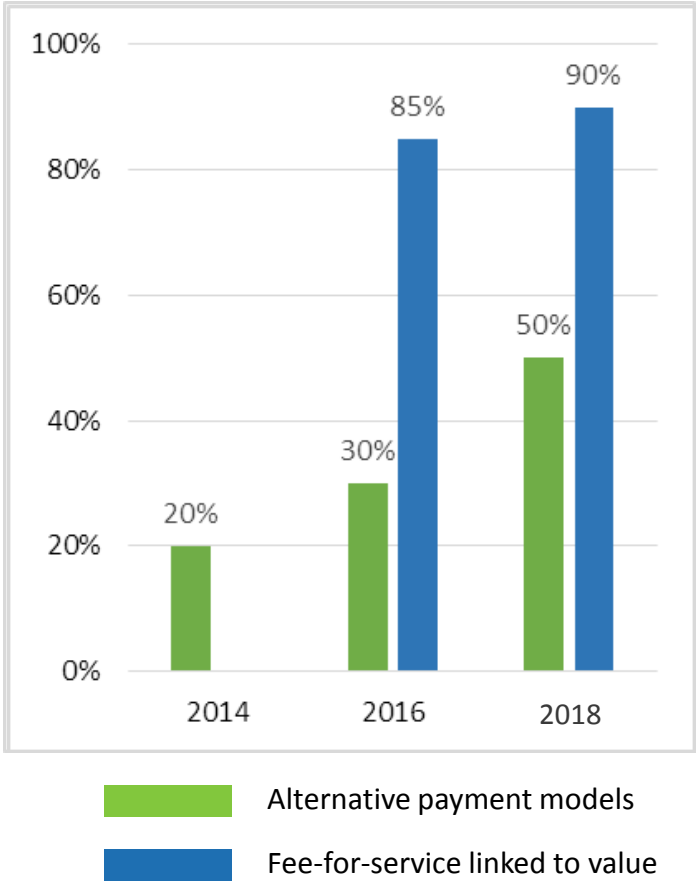


ACOs **Bundled** **FFS**

CMS Payment Goals

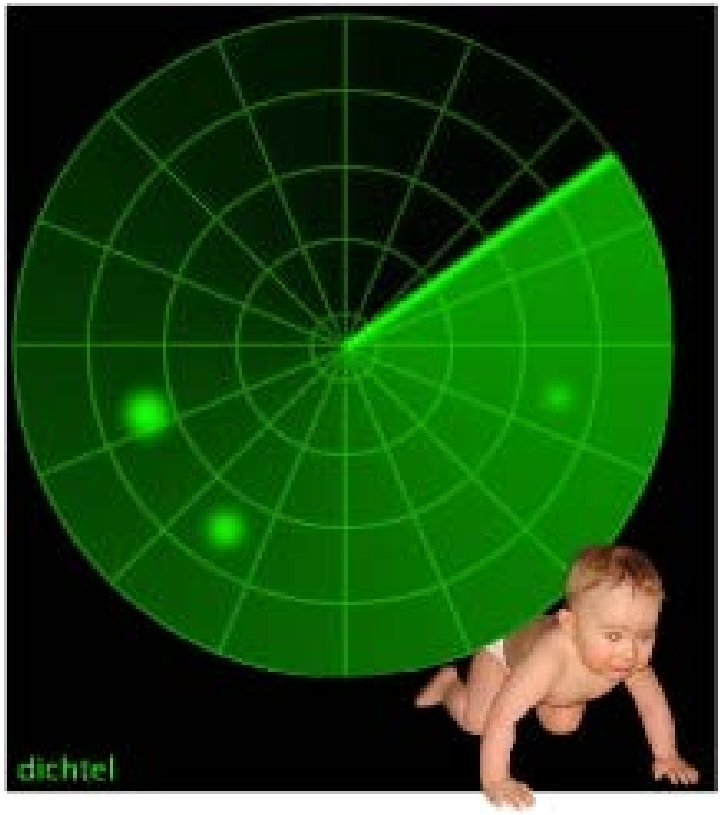
- Alternative Payment Models
  - Shared savings program (ACOs)
  - Patient-centered medical homes
  - Bundled payments
- Remaining fee-for-service payment linked to quality/value
- Aggressive timeline - favors
  - Population health management and
  - financial risk management experience
- APMs represent forays into value-based payment that, consequently, requires value-based care

Percent of Medicare Payment Goals



The Remains

- 50% in APMs and 90% other FFS linked to value
- What about the remaining 10% not payed based on value?
- Can rural CAHs remain "under the radar" of value-based payment?
- Would that be a good thing?



Rural's Slow Decline?

- Innovation grants and support for big systems
  - Data analysis capacity
  - Quality improvement
  - Efficiency strategies
- Physicians jumping ship to health systems (or ACOs)
  - Taking patients with them
  - Changing hospital referrals
- Two-tiered health system
  - Urban and rural
  - Value-based and volume-based
  - *Separate is rarely equitable*

Projecting CAH Finances

- So let's envision a future of continued FFS and CBR
- Some reasonable assumptions that will impact profitability
  - Increasing competition based on cost, quality, and service
  - Increasing labor, supplies, meds, and technology costs
  - Decreasing commercial payments
  - Increasing physician pressure to align with successful HCOs
  - Potential loss of physician-driven ancillary service revenue

Model Assumptions and Sources

Revenues	
Total Organizational Charges	Financial Statements
Total IP Charges (Include Acute, Swing Bed, ICU, Obstetrics, SNF, etc.)	Financial Statements
Total OP Charges	Financial Statements
Medicare Acute IP Charges (Routine and Ancillary)	PS&R
Medicare Swing Bed Charges (Routine and Ancillary)	PS&R
Medicare Cost-Based Outpatient Hospital Service Charges	WS D, Part V
Medicare Cost-Based Rural Health Clinic Charges	PS&R
Medicaid Cost-Based Acute IP Charges (Routine and Ancillary) (If Applicable)	Financial Statements
Medicaid Cost Based Swing Bed Charges (Routine and Ancillary) (If Applicable)	Financial Statements
Medicaid Cost-Based Outpatient Hospital Service Charges (If Applicable)	WS D, Part V Caid
Total Contractual Allowances (Exclude DSH, UPL, etc.)	Financial Statements
Total IP Contractual Allowances	Financial Statements
Medicare IP Acute Payment	WS E-3
Medicare Swing Bed Payment	WS E-2
Medicare Outpatient Payment	WS E, B
Medicare Rural Health Clinic Payment	WS M-3
Medicaid Cost Based IP Acute Payment (If Applicable)	WS E-3 Caid
Medicaid Cost Based Swing Bed Payment (If Applicable)	WS E-3 Caid
Medicaid Cost Based Outpatient Payment (If Applicable)	WS E-3 Caid
Total Acute Discharges	WS S-3
Total Swing Bed Discharges	Hospital Stats
Total Acute Patient Days (Include M/S, ICU, Obstetrics)	WS S-3
Total Swing Bed Patient Days	WS S-3
Price (Chargemaster) Change	Forecast
Inpatient Utilization Change	Forecast
Inpatient Acuity Change	Forecast
Swing Bed Utilization Change	Forecast
Outpatient Utilization Change	Forecast
Outpatient Acuity (service mix) Change	Forecast
Inpatient payment rate increase (Non cost-based payers)	Forecast
Outpatient payment rate increase (Non cost-based payers)	Forecast

Other Revenue	
State DSH/UPL/UCC Receipts/Cost Report Settlements	Financial Statements
Bad Debt (Forecast % of net revenue entered as a positive %)	Financial Statements
Charity Care (Forecast % of net revenue entered as a positive %)	Financial Statements
Other Operating Rev - Note: include 340B net proceeds (rev less exp) here	Financial Statements
Meaningful Use Incentive Payments	Financial Statements
Non-Operating Income	Financial Statements
Expenses	
Salaries, Wages and Benefits	Financial Statements
Supplies and Other	Financial Statements
Medicaid Enhancement Tax	Financial Statements
Depreciation and amortization	Financial Statements
Interest	Financial Statements
Base Year FTEs	WS S-3
Variable Expense % of volume change	
Salary and Benefits Rate Increase	Forecast
% Change in FTEs from Prior Year	Analysis
One-time changes in FTEs due to Program Changes, Reduction in Force, etc.	Forecast
Supplies and Other Rate Increase	Forecast
Balance Sheet	
Cash and Investments - Beginning of Year	Financial Statements
Capital Assets Funded with Cash and Investments (enter as Negatives)	Forecast
Principal Payments on Debt (Enter as Negatives)	Forecast

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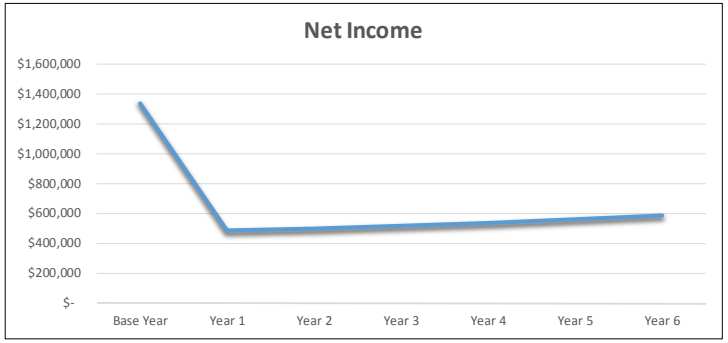
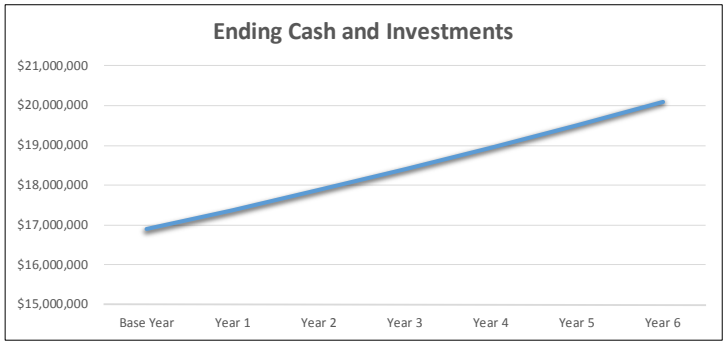
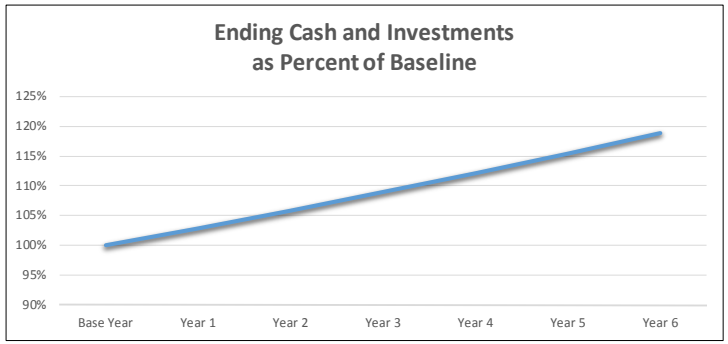
How will you fare under FFS/CBR?







- Use the Rural Health Value FFS/CBR Pro Forma* to inform your strategy
  - http://cph.uiowa.edu/ruralhealthvalue/education/Data/ then click "Critical Access Hospital Financial Pro forma"
- We predict that many CAHs can survive *for now* under FFS/CBR
- But some will fail and close…

*Pro Forma Tool designed by Eric Shell, CPA, MBA – Stroudwater Associates

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A Way Forward

- Use sophisticated financial modeling to drive strategy
- Do FFS and CBR really well
  - Don't leave money on the table
- Make *informed* value-based care investments
  - ACO "training wheels"
  - Primary care affiliations
  - Data access and analytics
  - Value-based referral network
  - Limited care coordination

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then click "Critical Access Hospital Financial Pro Forma"