

# Understanding Cost-Based Reimbursement - Strategies and Opportunities



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# Quick Fix

## Does Medicare Owe You Money?

- Many CAHs do not track cost report settlements throughout the year.
- How many of you have had a receivable from Medicare that was not paid until eight months after year end?



# Quick Fix

## Does Medicare Owe You Money?

- Cost report settlements should be estimated monthly or at least quarterly.
- If Medicare owes you money, you can request an interim rate change and a lump sum adjustment.



# Quick Fix

## Does Medicare Owe You Money?

- An interim rate change can be requested if an interim cost report is submitted to the MAC (formerly Medicare Intermediary).
- This new interim rate will be in effect until Medicare receives the next cost report.



# Quick Fix

## Does Medicare Owe You Money?

- The new interim rate usually is accompanied by a lump sum payment.
- The lump sum payment is the difference between the old and new interim rate applied to paid claims back to the beginning of the cost report year.



# Is Your Net Revenue Maximized?

- Medicare and Medicaid pay for only half of the services provided.
- Other payors do not reimburse on cost.



# Is Your Net Revenue Maximized?

A chargemaster review should be performed periodically

1. Review charges
2. Review for proper coding
3. Eliminate outdated codes
4. Compare coding with other facilities for possible overlooked codes



# Is Your Cash Flow Maximized?

Are your coders up-to-date?

1.Regular education

2.Periodic on-site review by outside consultant



# Have You Reviewed Non-private Insurance Contracts Recently Including Medicare Advantage?

- Many facilities do not actually negotiate rate. They take what is offered
- Medicare Advantage contracts are negotiable and CAHs should be able to negotiate a rate that is close to the Medicare interim rates.



# Have You Reviewed Non-private Insurance Contracts Recently Including Medicare Advantage?

- Medicare Advantage swing bed services must be paid at the Medicare rate or the hospital will lose money.
- Medicare requires both Medicare and Medicare Advantage swing bed days to receive a full allocation of cost which may be \$1,000 per day.
- CAHs cannot afford to receive only \$350 per day for Medicare Advantage swing bed days.



# How do You Know You Have Been Paid Properly?

- Does your business office have copies of your contracts?
- Are payments periodically compared to the contracts?
- If you do not have a contract with a third-party payor, do you request 100% of charges?



# Do You Effectively Use ABNs?

- Non-covered services should not be provided for free
- Without an ABN, the facility cannot bill Medicare or the patient



# Does The Business Office Follow-up On Charges That Are Denied In Total Or In Part?

- If the remittance advice identifies non-covered services, a review should occur and corrective action should be taken.
- Too often these non-covered charges are written-off as contractual adjustments without any review or understanding.



# Does Your Facility Provide Services That Are Not Required?

- The emergency room should not be the after hours clinic for those that cannot obtain routine services from area primary care clinics.
- Insist on EMTALA compliance through screening rather than full services that are inappropriate.



# OPERATING EFFICIENCY

## Medicare and Medicaid Pay For Only Half of Your Costs

### Staffing Management Is Important

1. Do you monitor your staffing levels?
2. How do you know you are properly staffed?
3. Can I reorganize and improve staffing efficiency?



# Do You Have Any Services That Need To Go?

- Services that are not cost-based reimbursed may be the root of the facility's losses.
- Services with low volumes. may cause losses even with cost based reimbursement.
- Some services are no longer need by the community.
- Some services can be provided by other providers in the community.



# CAH Opportunities

- Reorganize services that are not cost-based reimbursed
  - Sell
  - Split into separate division
  - Close



# Do Not Spend Money Just to Increase Reimbursement

- Only a portion of the additional cost is reimbursed
- The remainder comes from your bottom line



# Know Which Payors are Reimbursing at Cost

- Medicare
- Medicaid in some states
- Indian Health Services
- TriCare?



# Know What Portion of Each Department is Cost-Based Reimbursed

Do you have a  
**CAH Tool**



<b>THE TOOL</b>	<b>Medicare Medicaid</b>	<b>Cost Based</b>
<b>Department</b>	<b>Utilization</b>	<b>Reimb.</b>
Capital - Building		40%
Capital - Equipment		various
Employee Benefits		40%
Admin & General		50%
Operation of Plant		30%
Laundry & Linen		15%
Housekeeping		30%
Dietary		15%
Cafeteria		40%
Nursing Admin		20%
Medical Records		60%
Social services		5%
Adults & Peds	75%	75%
Intensive Care Unit	90%	90%
Nursery	70%	70%
SNF	60%	0%
Operating Room	45%	45%
Labor & Delivery	70%	70%
Anesthesiology	45%	45%
Radiology	47%	47%
Laboratory	60%	60%
Respiratory Therapy	80%	80%
Physical Therapy	60%	60%
Occupational Therapy	90%	90%
Speech Therapy	30%	30%
Electrocardiology	80%	80%
Med Supply	40%	40%
Pharmacy	60%	60%
Emergency	25%	25%
Observation Beds	80%	80%
Rural Health Clinic	50%	35%
Home Health	90%	0%
Physician Clinic	40%	0%



# CAH Opportunities

## Capitalization Policy

### \$5,000 Limit



# Funded Depreciation

Question:

Will Medicare pay for funds transferred to a funded depreciation account?

No!

Medicare will exempt interest earned on funded depreciation from the interest offset process.



# CAH Opportunities

## Cost Assigned To Departments

- Direct cost – time sheets & accounts payable coding
- Indirect cost – cost report allocations



# CAH Opportunities

- Shared staff costs are directly assigned based on time reports.
- How accurately does your staff assign costs?
- Where are stand-by costs assigned?
- What happens when costs are shifted from one department to another?



# CAH Opportunities

- Can revenue cost centers be separated?
- Are related revenues and expenses being reported in the same cost center?
- Are the same revenue codes being shared with two cost centers?



# CAH Opportunities

## Separating or Combining Cost Centers

Do you want to separate blood from laboratory services?



# Increasing Reimbursable Costs

## Separating or Combining Cost Centers

Do you want one radiology department or five?



# CAH Opportunities

- Has the hospital considered changing its method used to allocate cost?
- How accurate is the allocation statistic being used?
- Can support department cost centers be separated?



# CAH Opportunities

- Changes in allocation methods must be requested within the first nine months of the cost report year that you would like the change to take place.
- You must demonstrate that the requested method is more accurate than the current method.



# CAH Opportunities

- The most accurate statistic is the one that provides the greatest reimbursement!
  - Square footage or dollar value?
  - Square footage or time studies?
  - Gross revenue or time studies?



# CAH Opportunities

- How hard can it be to produce an accurate statistic for the cost report?
- The following are statistics that we have found to be inaccurate:

Meals served

Square footage

Every statistic that can be used



# CAH Opportunities

Verify that each department included in an overhead department's statistic actually provides support services to that department.

- Medical records department may not support the rural health clinic or nursing home.
- Maintenance may or may not provide services to leased buildings.



# CAH Opportunities

Did you know that there are two square footage statistics?

- Gross includes hallways and common areas.
- Net square footage excludes hallways and common areas.



# CAH Opportunities

Do not use gross square footage for part of the building and net square footage for other parts of the building.

Use the statistic that provides the best results.  
That statistic must be the most accurate.



# CAH Opportunities

Did you know that Medicare prefers to use a statistic that moves overhead to the nursing home?

Did you know that MediCal prefers to use a statistic that moves overhead to the hospital?



# CAH Opportunities

When is the last time you compared the Medicare and MediCal methods?

This is a very common source of lost reimbursement in California!!!!



# CAH Opportunities

## Separating or Combining Cost Centers

Do you want one administrative and general department or “fragment A&G” into five cost centers: business office, admitting, IT, purchasing, all other?



# CAH Opportunities

Buildings can be separated.

Generally, the hospital building has the highest cost and the highest cost-based reimbursement.

Why combine the hospital building and other buildings on campus? This usually causes reduced reimbursement.



# CAH Opportunities

- Accurate statistical data
  - Meals
  - Square footage
  - Time studies



# CAH Opportunities

- Accurate statistical data
  - Patient days
    - Eliminate LDR days
    - Count SNF and NF swing bed days separately



# CAH Opportunities

- Consider reorganization of nursing departments
  - Does the Director of Nursing have to supervise
    - Home health?
    - Hospice?
    - Clinics?



# CAH Opportunities

If you have more than one building, should you consider separating the buildings for cost report purposes

- Cost associated with each building would be allocated to the occupants of that building
  - Depreciation and interest expense
  - Housekeeping and maintenance
  - Utilities



# Increasing Reimbursable Costs

Creating New Cost Centers

Blood – High Costs & High  
Medicare/Medicaid Utilization

Inner Ocular Lens - High Costs & High  
Medicare/Medicaid Utilization



# CAH Opportunities

## Swing Bed Conversions

If State Medicaid Payment Less Than Cost

- Available in all states except Oregon until last year.
- Oregon now permits two CAHs to provide additional swing bed services.



# CAH Opportunities

## Swing Bed Conversions

If State Medicaid Payment Less Than Cost

All other hospitals in Oregon must comply with the following limitations

- Must obtain permission from Oregon to provide Medicaid swing bed services.
- Medicaid patients must be skilled.
- Limited to no more than 5 Medicaid swing bed patients.



# CAH Opportunities

## Swing Bed Conversions

If State Medicaid Payment Less Than Cost

- Previously unreimbursed nursing home costs become reimbursable acute care costs.
- Additional reimbursement may be \$100,000 to \$400,000 per year.



# CAH Opportunities

Avoid Use Of Skilled Nursing Facility  
For Medicare Skilled Care



# CAH Opportunities

## Provider-based Clinic

If Unable to Obtain Provider-Based RHC Status

- Method II Billing allows one bill – see proposed CMS changes before electing
- Additional payment may be \$20 to \$40 per visit



# CAH Opportunities

Promote Freestanding Rural Health Clinics  
owned by the local physicians

Promote creation of FQHCs



# 10 Bed Exempt Unit

- 10-Bed Rehabilitation Unit
- 10-Bed Psychiatric Unit

Excluded From  
Cost-Based Reimbursement  
25 Set-up Bed Limit  
96 Hour AOL Limit

Effective for cost report years  
beginning on or after October 1, 2004



# 10 Bed Exempt Unit

## Benefit or Impairment



# CAH Requirements For Success

- Medicare Advantage Contract Negotiations
- Non-Medicare and Medicaid Contract Negotiations



# CRNA Pass Through

Do CAHs still have to apply for CRNA pass through?

Yes!

To receive cost-based reimbursement for CRNA services, a request must be filed with the Intermediary between October 1 and December 31 of each year.



# CRNA Pass Through Cost-Based Reimbursement

- Less than 800 surgeries per year requiring anesthesia
- Less than 2,080 hours of worked time
- Must be in rural county
- Must make a written request between October 1 and December 31 of each year
- Is a calendar year election



# If Not Receiving CRNA Pass Through

Can CAHs submit CRNA Method II Bills?

Yes!

Although Method II Billing reimbursement does not exceed cost based reimbursement, combined billing is better than fee scale reimbursement.



# CAH Opportunities

- Claiming Medicare Bad Debts
  - Medicaid crossover
  - Charity care
  - Other types (120 day rule) and collection agency complication



# Emergency Room Availability Expanded to Include Midlevels

On or Off Premises

**BEGINNING**  
**JANUARY 1, 2005**



# Emergency Room Availability

- No limit per regulations – number of physicians (CMS says only one practitioner)
- Must document cost for availability
- Varies from one Intermediary to the next
- Allocation agreement is critical



# State CAH Substitute Criteria Gone January 1, 2006

## EXISTING CAHS GRANDFATHERED



# The First Rule of Reimbursement

Do nothing that would jeopardize your cost-based reimbursement.



# CAH Types

- ✓ CAHs (real CAH) that meet federal distance requirements
- ✓ CAHs (necessary provider) met state requirements before 1-1-06
- ✓ CAHs (it) that met old federal requirements but do not meet the current distance requirements



# What are the Current Federal Distance Requirements?

- ✓ **35-mile drive to next nearest hospital or CAH**
- ✓ **15-mile drive to next nearest hospital or CAH on secondary roads and/or through mountainous terrain**

(measure only distance on secondary road or mountainous road)



# If a CAH Meets the Current Federal Distance Requirements

- ✓ Relocation of CAH approved without additional requirements
- ✓ May establish provider-based location without penalty as long as location also meets current federal distance requirements



# Maintaining Cost-Based Reimbursement

Do you have to bill for any services that are provided outside the hospital building?

If yes, is this location licensed as part of the hospital?



# Example Of Maintaining Cost-Based Reimbursement

Physical therapy located in old house across the street from the hospital

- Billed under hospital provider number
- Is not licensed as part of hospital
- Does not meet construction code
- No provider-based request has been made



# Example Of Maintaining Cost-Based Reimbursement

Physical therapy located in old house across the street from the hospital

- Provider-based reimbursement – 75% of charges
- Freestanding reimbursement – 35% of charges



# Example Of Maintaining Cost-Based Reimbursement

Physical therapy located in old house across the street from the hospital

## Do Nothing

- Medicare declares service freestanding
- Medicare recovers overpayment



# Example Of Maintaining Cost-Based Reimbursement

Physical therapy located in old house across the street from the hospital

## License as part of hospital

- Incur cost to meet code
- Request provider-based status
- Preserve cost-based reimbursement



# CAH Opportunities

## Medicare Is A Game

- Non-CAH game was poker with 52 cards in the deck
- CAH game is blackjack with 52 cards in the deck



# CAH Opportunities

Make Sure You Are  
Playing The  
Right Game



# Questions

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# Contact Information

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