

## Wisconsin's Rural Health Summit

# Rural Hospitals, Skilled Nursing Facilities and Community Relationship Building



Monday, May 10, 2010

**WIPFLI**<sup>LLP</sup>  
CPAs and Consultants

# Outline of This Session

1. The Importance of Long Term Care
2. How Services and Living Environments are Changing
3. Challenges of Long Term Care
4. Demographics of Long Term Care



# The Importance of Long Term Care



# The Importance of Long Term Care

1. Have you assessed the role of long term care in your organization's mission?
2. Do you consider long term care a core service?
3. Do you understand the full and/or true financial impact of the long term care service line?
4. Who manages the long term care component for operational excellence?
5. How do you manage staff relations between hospital and nursing home staff?



# Assessing Nursing Home Financial Performance

## An Example



# Assessing Nursing Home Financial Performance (Continued)

	Hospital	Nursing Home	Total
Net patient service revenue	\$ 13,372,000	\$ 4,334,200	\$ 17,706,200
Other revenue	346,600	108,900	455,500
Total revenue	13,718,600	4,443,100	18,161,700
Expenses	12,003,700	5,377,300	17,381,000
Net income	\$ 1,714,900	\$ (934,200)	\$ 780,700

Do you report the income (loss) from the nursing home operation separate from the income (loss) from the hospital and other operating units? If so:

- Does it look anything like this?
- What does or doesn't this tell you?
- What do you think you should do about the nursing home losses?



# Assessing Nursing Home Financial Performance (Continued)

In a combined setting, it is important to understand “contribution” vs. reported income (loss).

For example, if the nursing home were to close or be sold:

- Services provided by the nursing home would be lost.
- At least some of the services provided by the hospital to nursing home residents may be lost.
- Costs associated with direct nursing home care, activities, etc., would be eliminated.
- Cost shifting from nursing home to hospital would occur.
- For critical access hospitals, reimbursement would be affected. All statistics related to the nursing home would be eliminated, additional costs would be allocated to the hospital, and CAH reimbursement would increase.



# Assessing Nursing Home Financial Performance (Continued)

The following examples reflect some “what if” scenarios and are presented as examples only.

The financial effect would vary significantly by facility and is dependent on many factors. Each organization’s situation will affect the analysis related to operational decisions, and a customized analysis would be necessary to determine the impact on your organization. What helps one organization may hurt another organization and vice versa.



# Assessing Nursing Home Financial Performance (Continued)

Example #1 – What would happen if the nursing home were closed and most services provided by the critical access hospital to nursing home residents were retained?

	Actual	Close Nursing Home	Effect of Assumptions
Hospital Income	\$ 1,714,900	\$ 1,322,880	\$ (392,020)
Nursing Home Income (Loss)	(934,200)	-	934,200
Combined Income	\$ 780,700	\$ 1,322,880	\$ 542,180

- Hospital CAH reimbursement increases due to additional costs shifted to the hospital.
- Significant expenses previously allocated to the nursing home are not eliminated but rather shifted to the hospital.
- As a result, the financial benefit is significantly less than the “reported” loss of the nursing home.
- Is this enough of a benefit to warrant consideration of this alternative? Only an organization and its leaders can answer that question.



## Assessing Nursing Home Financial Performance (Continued)

Example #2 – What would happen if the nursing home were sold and most services provided by the hospital to nursing home residents were also lost?

	Actual	Close Nursing Home	Effect of Assumptions
Hospital Income	\$ 1,714,900	\$ 509,200	\$ (1,205,700)
Nursing Home Loss	(934,200)	-	934,200
Combined Income	\$ 780,700	\$ 509,200	\$ (271,500)

- Hospital CAH reimbursement would decrease in spite of additional allocation of cost due to lost volumes.
- Significant expenses previously allocated to the nursing home are not eliminated but rather shifted to the hospital.
- As a result of the lost nursing home and hospital services, this decision could make the overall financial situation worse.



# The Importance of Long Term Care

## DISCUSSION



# How Services and Living Environments are Changing



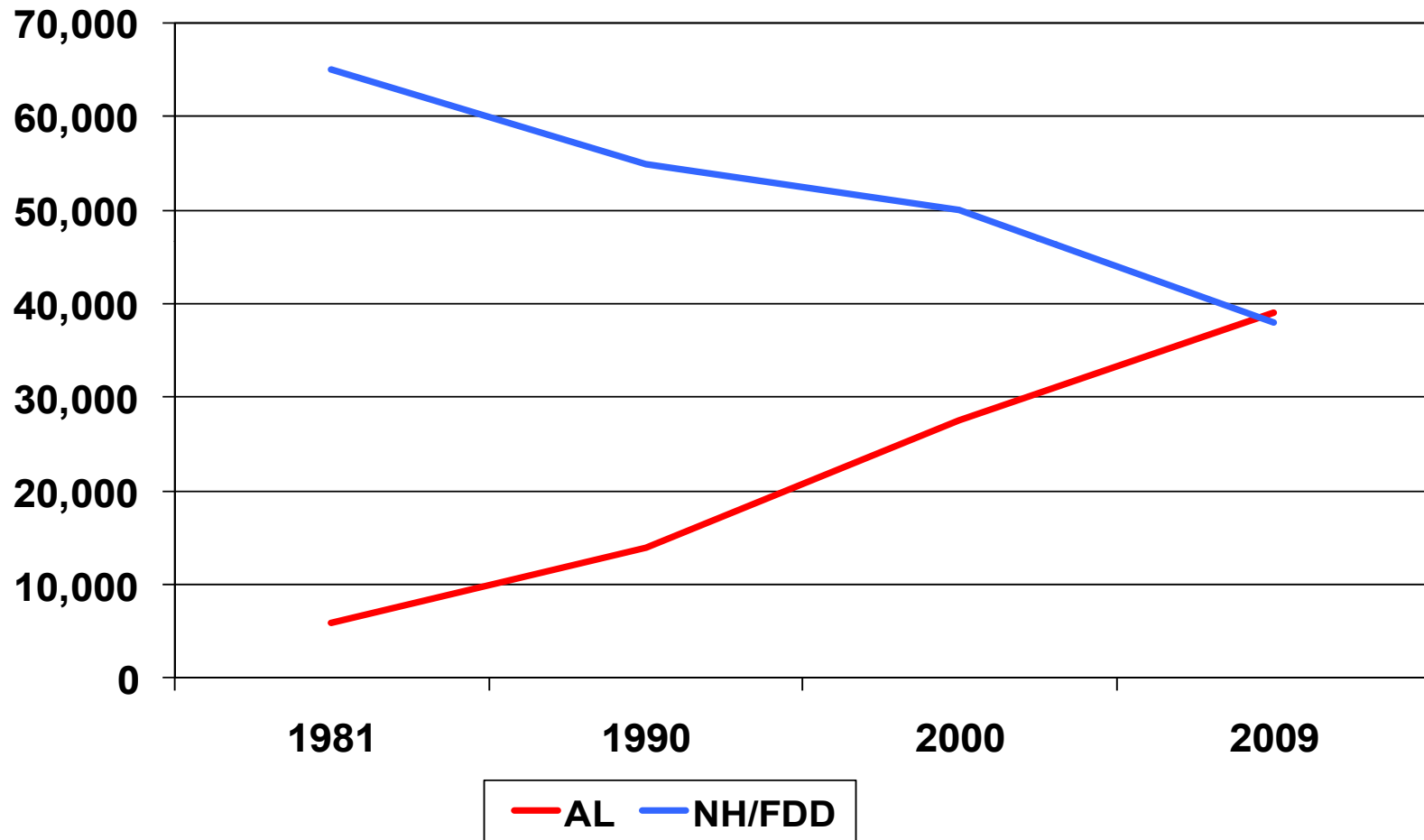
# How Services and Living Environments Are Changing

1. Are you aware of the impact on service delivery of the significant differences in the generations (traditional vs. baby boomers; Xer's vs. Yer's)?
2. What are the most significant changes in living environments impacting long term care in the future?
3. How will you handle the increased demand for alternative services to the nursing home, such as housing and home care?
4. Have you planned for the changing preferences of seniors?
5. How can you integrate technology advancements into long term care operations?



# Changing Living Environments

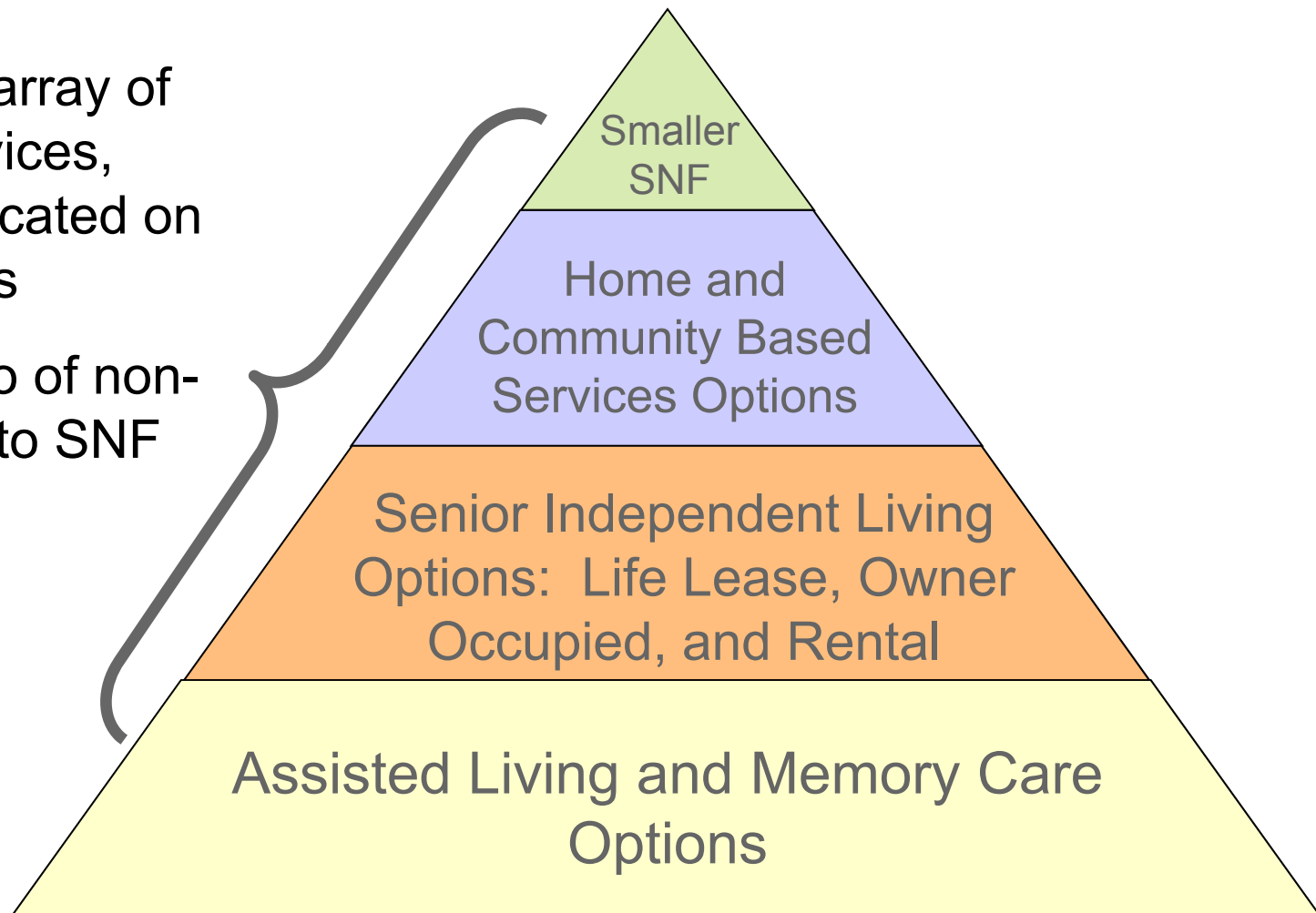
## Shift From Beds to Units/Apts



# Changing Living Environments (Continued)

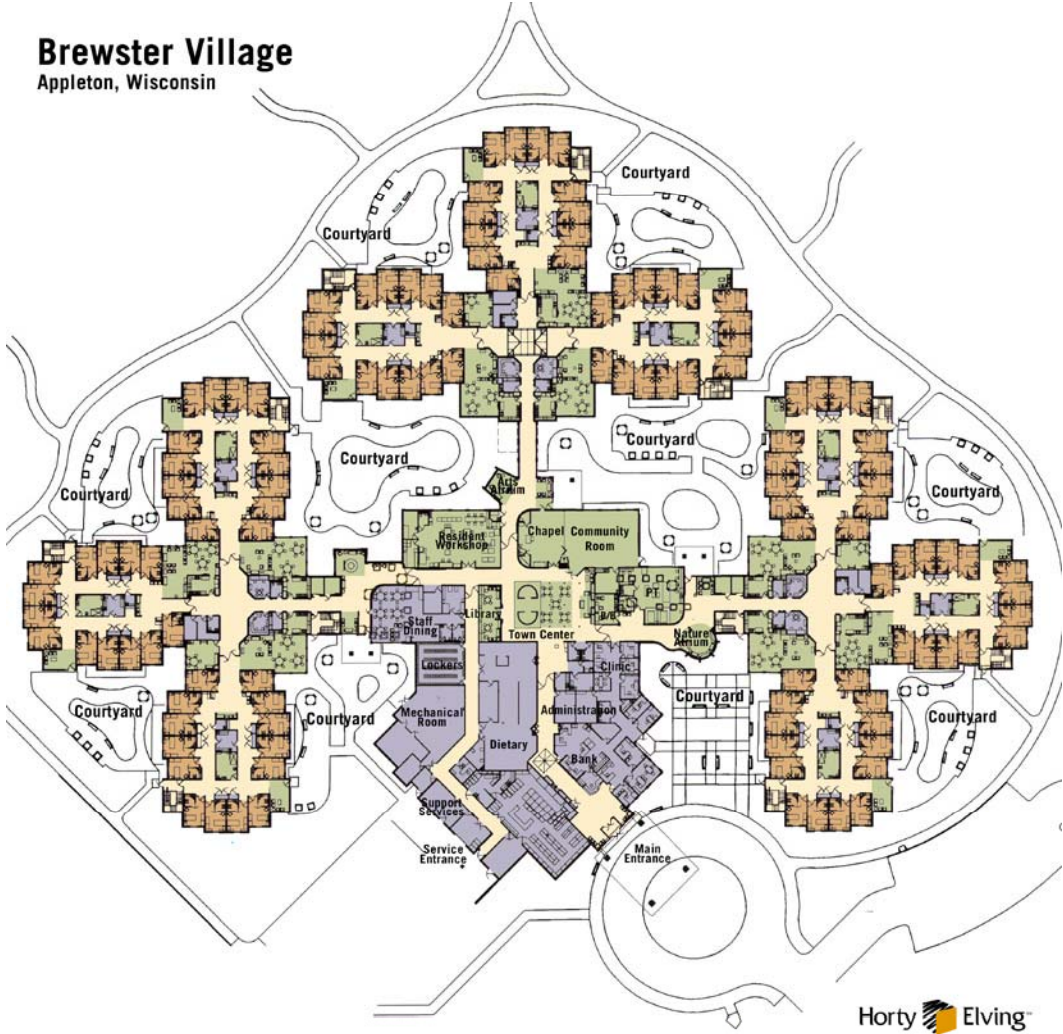
A broader array of senior services, centrally located on the campus

Higher ratio of non-SNF beds to SNF



# Changing Living Environments (Continued)

## Brewster Village Appleton, Wisconsin



Horty Elving

FIERCELY FOCUSED >  
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**GrandCare SYSTEMS GCTV** Thursday 10:35 pm  
January 4, 2007

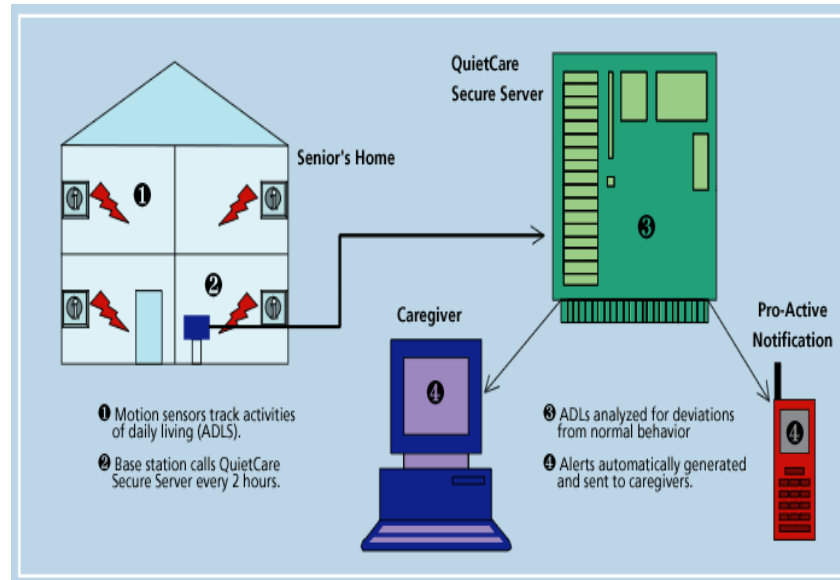
**Today's Events**

**9:00am to 10:00am**  
**GroceryShopping**  
Pick N' Save  
Need salad dressing.

**Tomorrow's Events**

**9:00am to 9:30am**  
**Hair Dresser**  
Wash & Style  
Hair Wizzard, Main Street

**11:30am to 1:00pm**  
**Lunch w/Smith's**  
Lunch w/ old neighbors the Smith's  
Menu: Lasagna, Salad, Garlic Bread, Mint Ice Cream



# Changing Service Offerings Health Information Technology

- Savings through efficiency
- Improves resident/patient safety
- American Recovery and Reinvestment Act (ARRA)
- Implementation
- Work with an expert
- System selection
- Process Improvement (PI)



# Changing Service Offerings

- Assisted Living

Most significant growth area in long term care – three licensure types, with different populations targeted

- Home and Community Based Services

Adult day care; home health; personal care agencies; home chores – significant challenges to operating in the black including staffing, volume, and reimbursement

- Hospice

Significant area of interest and possible profitable program – difficult to manage and operate



# Changing Service Offerings

New programs can face significant challenges

- Operations – do we know how to operate this new business?
- Volume – what is the necessary volume?
- Demand – is there adequate market demand for services?
- Market – are there enough private pay in our market that can afford to pay privately?
- Marketing – must get the word out.
- Capital costs – how do we fund the ramp-up period?
- Profitability – are rates high enough to cover costs?
- Staff – can we attract consistent, qualified staff?



# How Services and Living Environments are Changing

## DISCUSSION



# Challenges of Long Term Care



# Challenges of Long Term Care

1. What key industry factors make long term care such a challenge?
2. How do you measure and monitor operating efficiency?
3. How do you measure and monitor revenue for enhancement opportunities?
4. How do you manage swing bed vs. nursing home utilization?



# Challenges of Long Term Care

## No One Wants to Pay

- Only one in five individuals can afford private long-term care insurance.
- Approximately 30% of the market for assisted living is private pay.
- Among those turning 65 today, 20 percent will need care in a facility or at home for more than five years.
- Even individuals with personal resources find their personal resources used up rapidly in a nursing home.
- In addition, many individuals feel “entitled” to having the government pay for their long-term care.
- This is why most individuals in nursing homes and assisted living options use up their personal resources and become Medicaid beneficiaries.



# Challenges of Long Term Care - Medicaid

## Senate Special Committee on Aging Report



- 2001—State Medicaid programs paid nearly 62% of the \$137 billion spent nationally on long-term care
- 2030—Government spending on long-term care to absorb nearly 75% of federal revenue

Source: Senate Aging Committee Report—*McKnight's Online Daily Update*



# Challenges of Long Term Care - Family Care

- The Medicaid waiver programs, Community Options Program (COP) and Community Integration Program (CIP I and II), have historically been Medicaid funded programs which paid for residential settings other than the nursing home
- Family Care is replacing these programs, to eliminate the waiting lists and to make the program an entitlement for Medicaid and qualified individuals



# Challenges of Long Term Care - Family Care

Family Care is the single biggest legislative issue impacting long term care in Wisconsin today

- Impacting the care delivery model for assisted living
- Impacting new development and affordability
- Care Management Organizations (CMOs) are experiencing significant financial challenges
- Rates for services will likely be cut
- Acuity rate setting models being implemented
- No assisted living bed moratorium – this may cause future market saturation
- Significant percentage of the market potentially eligible
- Family Care may create lower utilization of nursing homes over time.

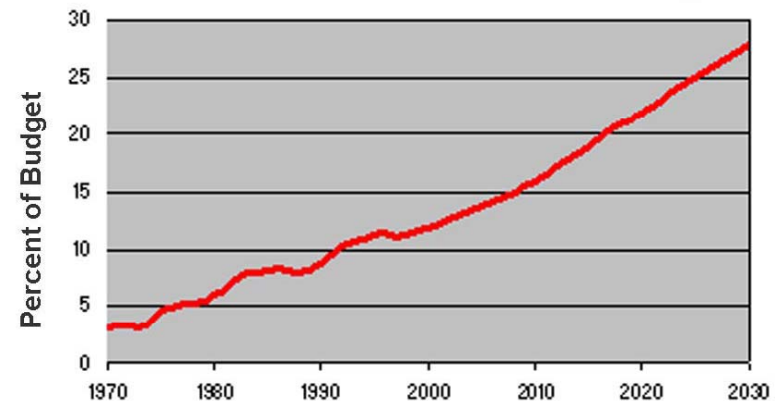


# Challenges of Long Term Care - Medicare

Medicare spending will become a larger part of the federal budget and will affect funding of other programs such as defense, justice, health and safety, and environmental protection.

As the Medicare system itself faces financial troubles, Medicare beneficiaries also face higher costs.

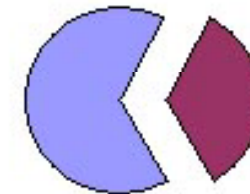
Medicare Growth Pressures Federal Budget



Source: Congressional Budget Office / National Medicare Commission

Who Pays for Medicare Beneficiaries' Health Care?

**Public**  
**67%**  
Medicare,  
Medicaid  
and other  
public  
sources



**Private**  
**33%**  
Out-of-  
pocket,  
Medigap and  
private  
employer

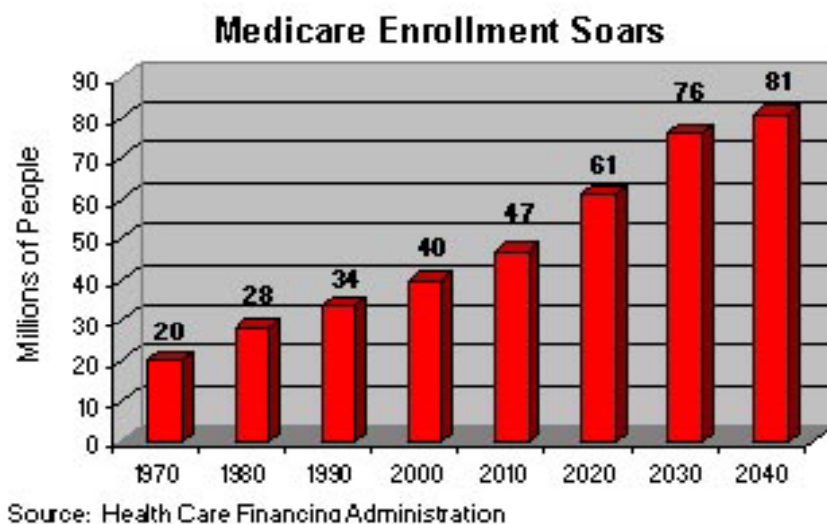
Source: 1995 Medicare Current Beneficiary Survey, HCFA



# Challenges of Long Term Care - Medicare

Today, nearly 40 million Americans rely on Medicare for their health care.

Medicare must be strengthened and improved to handle the increased demand of 77 million “Baby Boomers” who will begin entering Medicare in the year 2011.



Health care reform is one way the federal government hopes to address the fiscal challenges of Medicare and Medicaid. Whether health care reform will be successful remains to be seen.



# Challenges of Long Term Care – What Do We Do?

If you want to stay in the Senior Services business:

- Develop your strategy and goals related to senior services.
- Consider opportunities for expanding into services which contribute toward your strategy and/or will be financially beneficial or viable.
- Operate what you have effectively
  - ✓ Manage costs through best practices benchmarking
  - ✓ Optimize reimbursement and revenue through effective coding and payor mix management
  - ✓ Be aware of cause and effect on entire organization rather than thinking “hospital” or “nursing home” only



# Revenue Enhancement Considerations/Strategies

Medicare is typically the best payor for nursing home services.

## Medicaid

- Medicaid is the worst payor for nursing home services.
- Medicaid typically accounts for the highest share of residents. The Medicaid mix is typically higher in a hospital-based nursing home than a standalone nursing home (partially due to swing bed).
- Medicaid costs per day exceed reimbursement levels. This is true for both hospital-based and free-standing nursing homes.

## Private Pay

- Consistently charge a competitive extra daily fee for a private room
- Pre-bill your private pay residents for services to minimize bad debt and improve cash flow



# Revenue Enhancement - Payor Mix

Payor mix is an important factor in financial performance.

<b>Resident Days Mix:</b>	<b>Medicare (a)</b>	
90th Percentile (Best)	24%	
75th Percentile (Better)	16%	
50th Percentile (Median)	11%	
<b>Revenue Impact Opportunity of improving Medicare census with offsetting reduction in Medicaid census:</b>		
	<b>Change in Revenue</b>	
	<b>Medicaid</b>	<b>Medicare</b>
50th to 75th	\$ (210,000)	\$ 600,000
50th to 90th	\$ (546,000)	\$ 1,560,000
75th to 90th	\$ (336,000)	\$ 960,000
<small>(a) Non Profit Facilities - 2008 Cost Reports (b) Sample Facility with 30,000 resident days and average revenue per day of \$140 and \$400 for Medicaid and Medicare, respectively.</small>		

To improve payor mix, evaluate and improve:

- Physical environment
- Therapy services
- Referral relationship management
- Patient care culture

- For critical access hospitals, it is imperative to consider the implications of Medicare census on the swing bed program. Both programs should be operated cohesively.
- The above does not factor in added costs of caring for Medicare residents.

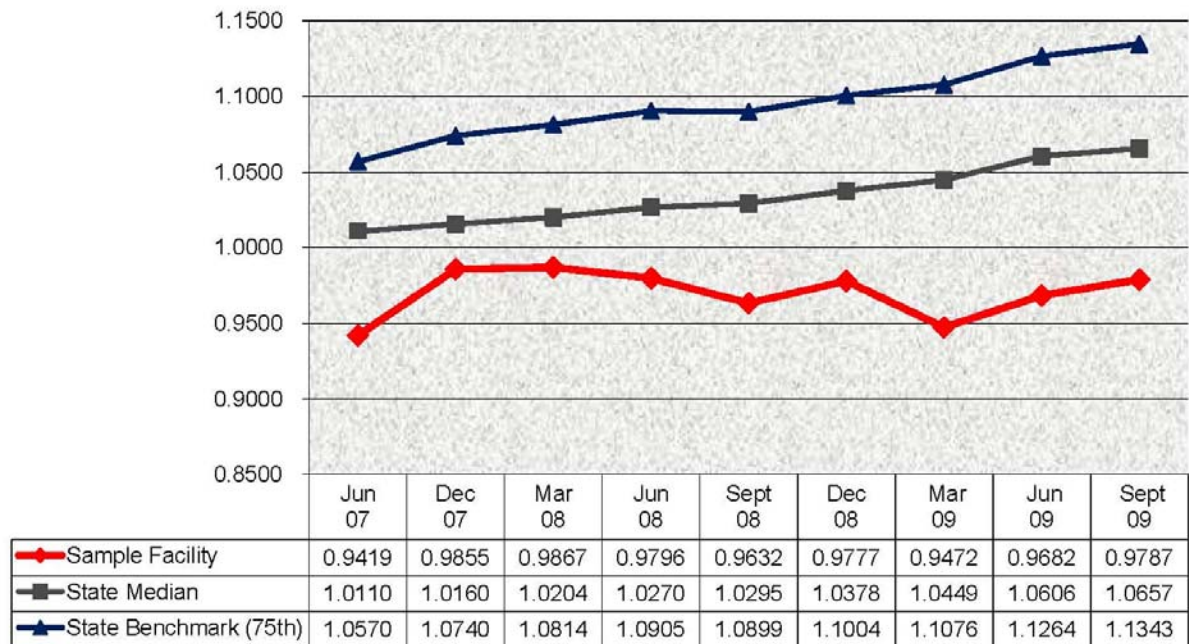


# Revenue Enhancement - Reimbursement

Make sure you are getting paid for all you and your staff do.

Compare the Medicaid Case Mix Industry to the Industry Trends – Below is the most recently available information for the Medicaid CMI.

Higher CMI levels result in higher reimbursement levels.



# Operational Efficiency

## Staffing Levels and Acuity

How does your direct care cost structure compare to free-standing nursing homes of comparable size?

If your cost structure is higher, do you know why?

- Facility layout
- Patient acuity
- Employee hours expectation
- Overtime, pools, or staffing patterns

Benchmarking allows an organization to understand performance against a group of peers. This doesn't necessarily mean all facilities should be the same, but as an organization, you should attempt to understand reasons for variances.



# Operational Efficiency - Staffing

Direct care staffing levels are the highest wage and benefit area and typically the area with the most opportunity for savings. Staffing levels must be considered in conjunction with resident acuity.

<b>Direct Care Hours Per Resident Day (a):</b>		
90th Percentile (Best)		3.64
75th Percentile (Better)		3.87
50th Percentile (Median)		4.21
<b>Cost Reduction Opportunity</b>	<b>FTE Reduction</b>	<b>Potential Savings (b)</b>
50th to 75th	4.90	\$ 214,600
50th to 90th	8.22	\$ 359,700
75th to 90th	3.32	\$ 145,200

(a) Non Profit Facilities  
 (b) Sample Facility with 30,000 resident days and average direct care hourly rate of \$16.50 and a fringe benefit ratio of 27.5%.

- Staffing levels must be considered in conjunction with resident acuity.
- Be disciplined in flex staffing based on census.
- Understand facility design and resident acuity impact on staffing. In some cases, efficiency savings can help pay for a capital project.



# Operational Efficiency - Compensation

## Hourly Wages & Benefits

Is the nursing home wage scale based on the hospital wage scale?

- This typically results in wage rates that are higher than NH industry levels.
- This can make it easier to recruit staff to the nursing home, but it results in average wage rates that are higher than surrounding free-standing nursing homes.
- Consider using shift differentials to staff difficult shifts, but maintain a separate wage scale for the nursing home.
- Remember, CAHs are cost reimbursed so higher wage rates are at least partially reimbursed.
- NHs, however, do not receive additional \$\$ for higher wage rates

How does your benefit package compare to other local free-standing nursing homes?

- Most hospitals offer the same benefit package to their nursing home staff as their hospital staff because it makes recruiting and retention easier.



# Operational Efficiency - Compensation

Compensation Levels also affect costs. It is harder, however, to have an immediate impact on compensation levels. Compensation philosophy should be part of overall long term strategy.

Direct Care Overall Average Hourly Rate		
90th Percentile (Best)	\$	14.41
75th Percentile (Better)	\$	15.33
50th Percentile (Median)	\$	16.59
Cost Reduction Opportunity	Savings Per Hour	Potential Savings
50th to 75th	1.26	\$ 159,100
50th to 90th	2.18	\$ 275,300
75th to 90th	0.92	\$ 116,200

(a) Non Profit Facilities - 2008 Cost Reports  
 (b) Sample Facility with 30,000 resident days staffing at 4.21 direct care hours per day.

- Compensation levels should be evaluated based on geographic area.
- Direct care total average hourly rate will be affected by both compensation levels and the mix of employees (RN, LPN, Aide)
- Facilities need to balance recruitment and retention needs against cost in determining appropriate compensation levels.



# Critical Access Hospitals

## Strategies Related to Long Term Care Medicare Services



# Strategies Related to Medicare Services Swing Bed or Nursing Home?

Long-term care and rehabilitative services provided to Medicare beneficiaries can be provided in either a nursing home or the hospital swing bed unit. Many hospitals with both a swing bed unit and a nursing home do not have a clear policy related to utilization of these areas.

A CAH can receive cost-based reimbursement well in excess of \$1,000 per day for Medicare skilled care services provided in the CAH swing bed unit. Nursing home reimbursement for the same services may average \$350 to \$400 per day. Where should the services be provided?

In this analysis, the CAH must consider the full effect on cost reimbursement of transitioning the days. There will be an unfavorable reimbursement effect for other CAH services, but typically this unfavorable effect is not enough to outweigh the benefit of the higher reimbursement levels for these Medicare services.



# Strategies Related to Medicare Services Swing Bed or Nursing Home?

Example - What would happen if all Medicare Part A services were provided in the CAH swing bed unit rather than the nursing home?

	Actual	Transfer Days to Swing Bed	Effect of Assumptions
Hospital Income	\$ 1,714,900	\$ 2,048,200	\$ 333,300
Nursing Home Loss	(934,200)	(1,058,100)	(123,900)
Combined Income	\$ 780,700	\$ 990,100	\$ 209,400

- In this scenario, the nursing home has vacancies so nursing home days decrease by 1,300 and hospital days increase by 1,300.
- Hospital revenue and expenses increase due to additional volumes related to swing bed days.
- Nursing home revenue and expenses decrease due to lower volumes. Overall nursing home losses increase.
- Even though nursing home financial performance deteriorates, overall financial performance actually improves just by shifting the place of service for these patients.
- It is important to manage the competing strategies of hospital and nursing home management in relation to Medicare residents.



# Challenges of Long Term Care

## DISCUSSION



# Demographics of Long Term Care



# Demographics of Long Term Care

1. Do you know that the boomer populations will essentially double and significantly increase the need for long term care services over the next 20 years?
2. How will you handle the growth of elderly and resulting increased demand for services?
3. How will changing preferences of the baby boomers drive your need to change your long term care delivery systems?



# Demographics of Long Term Care

## Aging in America *Changes Over a Century & Ahead*

- 1900 Seniors < 5% of U.S. population  
122,000 aged 85 and up
- 2002 12.4% of U.S. population  
4.5 million aged 85 and older
- 2030 65+ populations will double
- 2030 18 million 85 and older

### Americans Aged 65+

2000 - 35 million/1:12

2020 - 53 million/1:6

**2030 - 70 million/1:5**

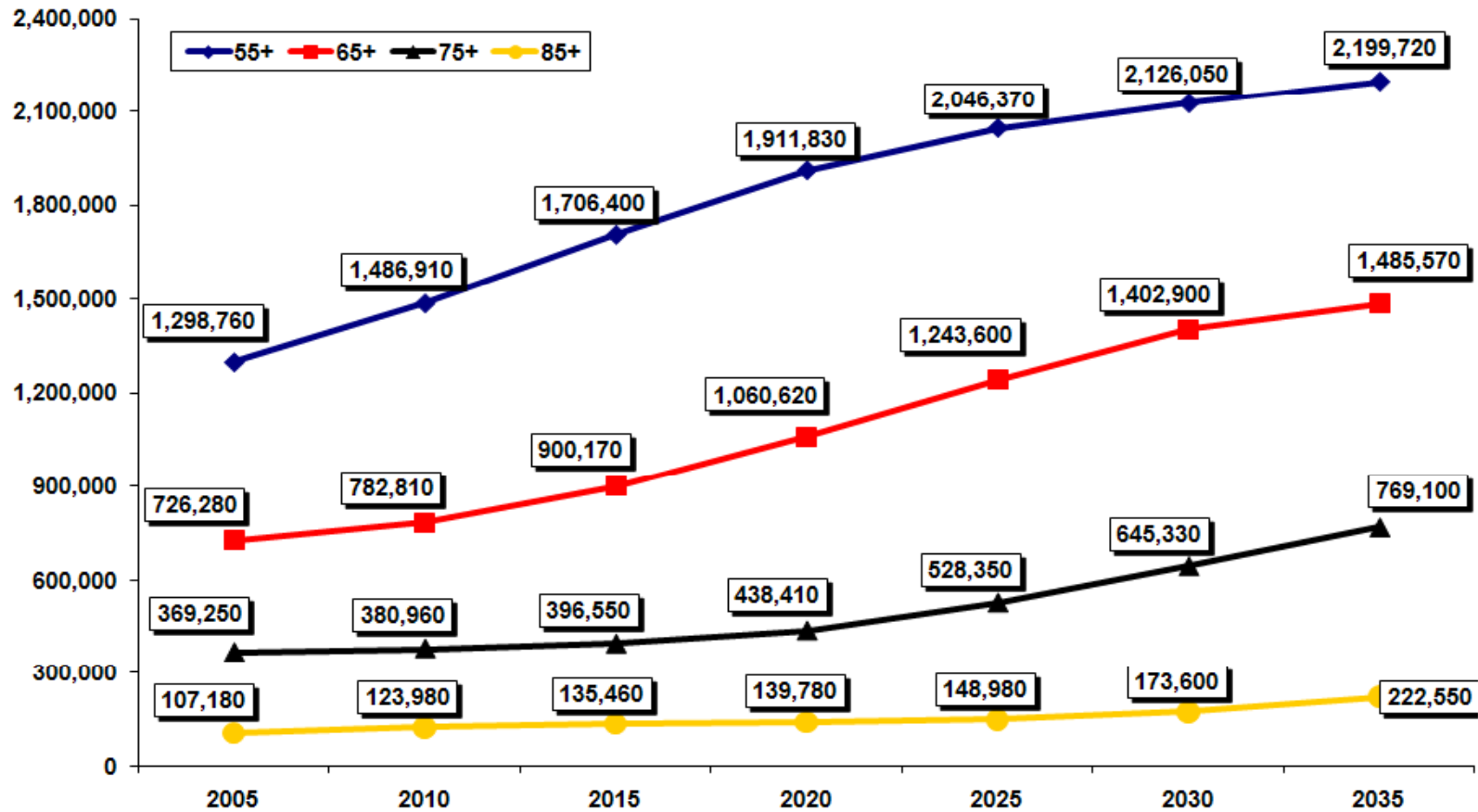


Sources: *Seniors Commission Report: A Quiet Crisis in America*, 2002 and U.S. Census Bureau and National Center for Health Statistics, 2000.



# Wisconsin Long Range Population Trends

Wisconsin Long Range Population Trends  
2005 to 2035



# Traditional vs. Boomer Generations

## Traditional Generation

- Born 1922 to 1945
- Believe in conformity
- Regimented
- Respect authority figures and rules
- Avoid conflict
- Currently higher % of our customers

## Babyboomers

- Born 1946 to 1964
- Value individuality
- Adaptive
- Believe in individual choices and freedom
- Avoid conflict
- Currently lower % of our customers

Source: Value Options



# The Babyboomers in America

- There will be 2.1 working persons for each babyboomer in 2030, down from 3.3 today (US Census Bureau)
- Only 6% of boomers plan to live in a smaller residence in the next few years (AARP)
- Approximately 25% of boomers have no savings or investments, and only 9% are truly affluent (AARP)



# Demographics of Long Term Care

## DISCUSSION



# Questions?



# Thank You!

Kim Heller  
Wipfli LLP  
11 Scott Street  
Suite 400  
Wausau, WI 54403  
715.843.8336  
[kheller@wipfli.com](mailto:kheller@wipfli.com)

Michael Edwin  
Wipfli LLP  
2501 West Beltline  
Highway, Ste 401  
Madison, WI 53713  
608.270.2903  
[medwin@wipfli.com](mailto:medwin@wipfli.com)

