Understanding Your Costs in an Evolving Payment Environment

Session 1: Focus on Behavioral Health: Cost Allocation - Getting the Basics Right

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Session Titles and Descriptions

Focus on Behavioral Health:

Session 1: Cost Allocation – Getting the Basics Right

Session 2: Preparing Internal Systems for Gathering Cost Data

Session 3: Cost Allocation Methodology for Value-Based Payment Systems

Session 4: Utilizing Cost Data to Drive Programmatic Change

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Can We All Agree That…

The "Evolving Payment Environment" is one that drives improved health care outcomes while costs per patient go down (or at least stop rising) ?

If so, that will require 3 things (in Medical & BH care):

1. We have to be able to define and measure the outcomes;
2. We have to know how to accurately calculate the costs per patient (for whatever outcomes we produce); and
3. To stay in business, we need to get reimbursed enough to cover those costs.

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The Three-Part Solution

The solution to addressing the healthcare needs of persons with serious mental health and substance use disorders and the behavioral health needs of all Americans is straightforward:

1. Close the gap between those needing behavioral healthcare and those receiving it.
2. Better integrate medical and behavioral healthcare, as well as substance use and mental health care.
3. Expand the use of evidence-based practices to coordinate care, treat behavioral health disorders, and treat chronic medical conditions.

The Business Case for Effective Substance Use Disorder Treatment
The National Council

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Getting From Here to There …

Sounds good! …but achieving all three prerequisites at the same time is not so easy!

We'll discuss them all, but first we'll start on cost calculations

Graphic from Veritus Group

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We've Got Some Catching Up To Do…

The introduction of modern cost accounting in health care may prove to be the same type of breakthrough that it was in other industries decades ago.

Michael Porter, Harvard University

Source: What is Value in Health Care?; New England Journal of Medicine

Developing the capacity to accurately track, allocate, and compare costs across service lines is an essential tool in the successful management of a CMHC.

But HOW you do it may change

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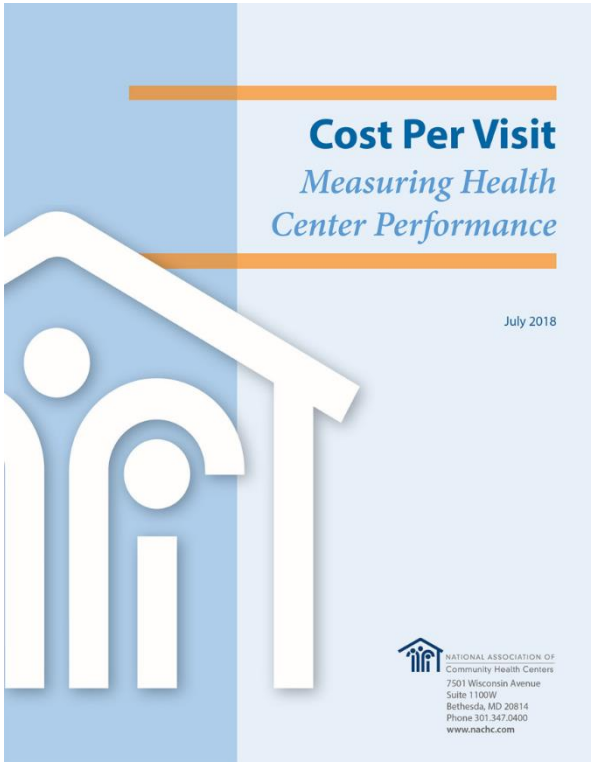
Current Approach



This Capital Link publication provides guidance on the pay per visit methodology.

Available at:
http://www.caplink.org/cost-per-visit

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Components of Cost Per Visit or Client

All expenses at the organization can be classified into one of the following categories:

- Provider Cost
- Direct Support Cost
- Enabling Costs
- Overhead cost

Notice the Difference?

It is important to note that this is different than what has typically been described as a dichotomy between "Direct" and "Indirect" costs. Direct Costs can be traced directly to a department and the staff that work only in that department. But as behavioral healthcare evolves, the integration of primary care and various SDOH programs is breaking down those silos.

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Provider Cost Per Visit: Compensation

While the labor market generally determines compensation for providers in private practice (see average national salaries in the table below), compensation for providers working in Community Mental Health Centers has often been below the market as a result of limited funding and other resource constraints.

	Private Practice (1)
Psychiatrist Outpatient	$289,214
Psychologist	$107,460*
Psychiatric Nurse Practitioner	$134,702
Clinical Psychologist	$112,525
Licensed Clinical Social Worker	$72,809
Therapist - Outpatient	$68,211
Care Coordinator	$39,155
Case Manager	$40,577

Sources: *ZipRecuiter.com

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Provider Cost Per Visit/Client

Four key factors that impact upon provider cost per visit are:

- Compensation
- Productivity
- Non-Clinical Activities
- Provider Staffing Mix

Sneak Peek: In a future presentation we discuss adding outcomes as an additional criteria.

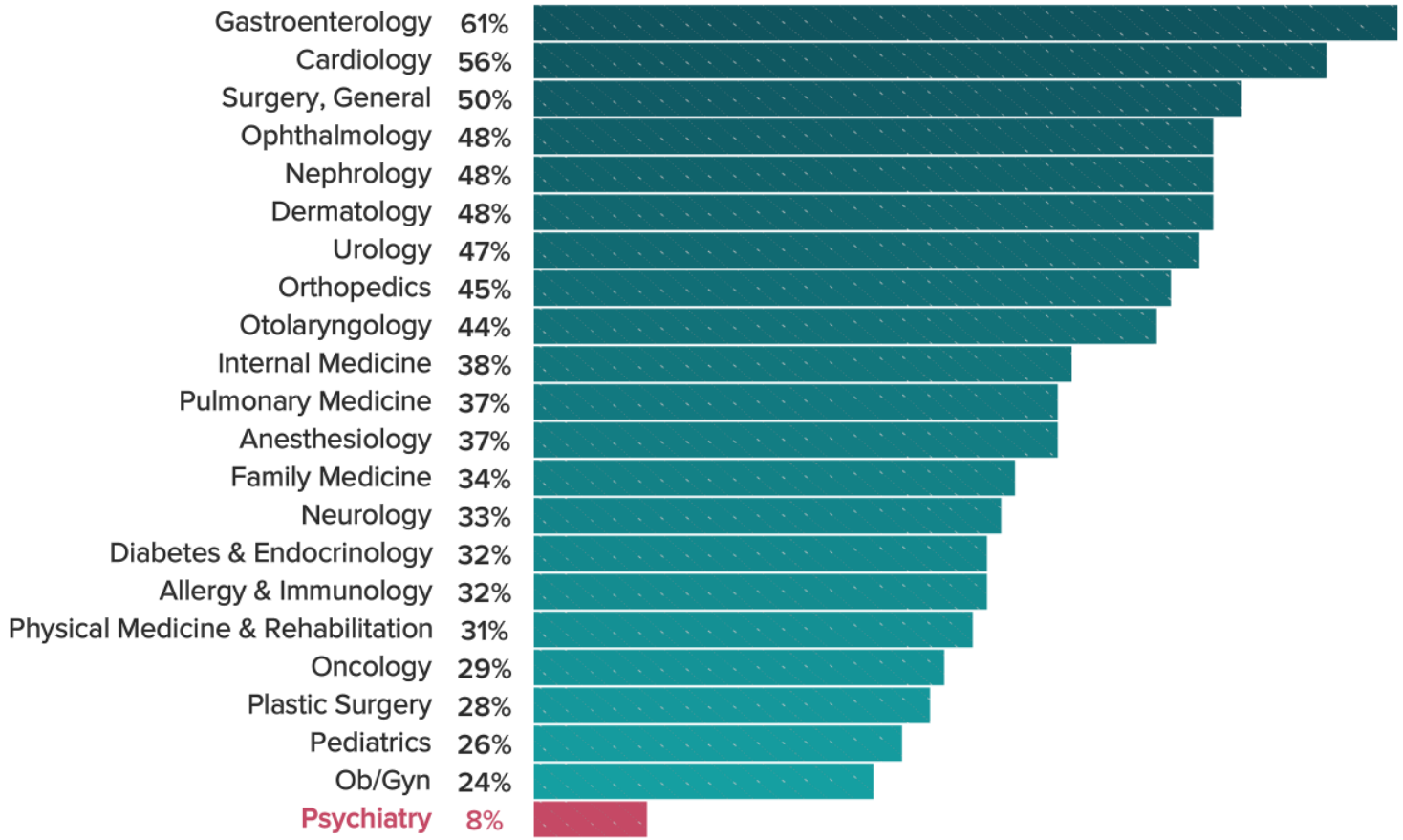
Provider Cost Per Visit/Client: Compensation

In response to this challenging situation, some behavioral health centers have begun to implement **incentive-based provider compensation systems** that reward providers on a variety of measures designed to hold them accountable for aspects of service and production as determined by management/board. An incentive compensation plan can be based on one or more of the following criteria:

- **Productivity (attendance, engagement, follow-up, length of treatment)**
- **Client/member/guardian satisfaction**
- **Quality (HEDIS measures, NCQA)**
- **Effectiveness at managing utilization (inpatient data – admissions/re-admissions, ER utilization)**
- **Compliance with the health center's policies**

Incentive Payments are Slow to Catch on

Psychiatrists Who Expect to Participate in MIPS



Source: 2018 Medscape (MIPS = Merit-based Incentive Payment System)

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Provider Cost Per Visit: Productivity

Physician Type	Total Salary Cost	Visits /FTE	Cost per Visit	Cost per Visit (+15%)
Psychiatrist	$280,000	2,100	$133.33	$115.94
Psychologist	$108,000	1,100	$98.18	$85.37
Psychiatric Nurse Practitioner	$135,000	1,500	$90.00	$78.26
Total	$523,000	4,700	$111.28	$96.76

If Eastside Counseling Center can increase visits by 15% across the board with the same FTE count, that would result in 5,405 visits. Assuming that salary costs remained the same, the total provider cost per visit would decrease to **$96.76** - generating an additional ~**$78,481** to be applied to incentives or other service costs.

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Provider Cost Per Visit/Client: Non-billable Factors

When analyzing **provider cost per visit/client,** it is necessary to also take into account the non-billable factors related to provider performance, including:

- **Length of standard workweek**
- **Number of clinic sessions**
- **Inpatient / other programmatic commitments (crisis services)**
- **Clinical teams**
- **Travel time**
- **Documentation**
- **Continuing Medical Education (CME)**

And factors the provider does not control: No show rate

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Provider Cost

Provider costs are costs incurred by billable providers delivering services. Provider cost does not include items such as subscriptions, continuing medical education, or other non-personnel services.

EXAMPLE

Eastside Counseling Center

1.0 FTE Psychiatrists whose Salary =	**$280,000**
1.0 FTE Psychologists whose Total Salary =	**$108,000**
1.0 FTE Psychiatric Nurse Practitioner – Salary =	**$135,000**
+ Fringe benefit and payroll tax rate of 20% =	**$104,600**
Total provider cost =	**$627,600**

Providers generated **4,700** billable visits over the period.

Provider Cost Per Outpatient Visit at Eastside Counseling Center is **$133.53**

If those 4,700 visits involved 940 clients ~5.0 visits/client):

Provider Cost Per Client = $667.66

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Direct Support Cost Per Visit/Client

Direct Support costs are costs of non-provider staff or items that are directly involved in the delivery of services to clients. In Behavioral Health, these positions might include:

- Case Manager
- Triage specialist
- Care Coordinator
- SDOH Specialists
- Qualified Mental Health Professionals,
- Licensed Professional Counselors
- Mental health support (includes mental health receptionists)

Direct Support Cost Per Visit/Client

EXAMPLE

Eastside Counseling Center

1.0 FTE Triage Specialist whose Salaries =	**$ 55,000**
2.0 Case Managers whose Total Salary =	**$ 80,100**
2.0 FTE MH Receptionists whose Total Salaries =	**$ 75,000**
Fringe benefit and payroll tax rate of 20% =	**$ 42,020**
Total direct support cost =	**$252,120**

There were **4,700** outpatient visits over the period under analysis.

Direct Support Cost per Visit at Eastside Counseling Center was **$53.64**

If those 4,700 visits involved 940 clients:

Direct Support Cost per Client = $268.21

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Enabling Cost Per Visit

Enabling costs are those costs associated with social services that play an integral role in the total care of the client/patient but may not be reimbursed. These services may include:

- **Case management**
- **Client/community education**
- **Outreach programs**
- **Transportation**
- **Translation services**
- **Eligibility specialists**
- **Community health programs**
- **Child care programs, nutrition education, other SDOH outreach**
- **Other services outside the scope of the delivery of behavioral health care services even if these services are considered necessary**

Across the general client population, Enabling Cost Per Client will vary as need/utilization varies. However if clients are grouped in care pathways, there may be more uniformity in utilization and an ability to document necessary costs to justify reimbursement.

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Enabling Cost Per Visit/Client

Costing Enabling Services can be tricky as not all clients utilize them, but at this stage you can still cost them across all clients

EXAMPLE

Eastside Counseling Center

Annual Transportation Costs (taxis, Uber, bus)	=	**$ 20,000**
Translation Services	=	**$ 55,000**
In-house Child Care	=	**$ 15,000**
Total Enabling support cost	=	**$ 90,000**

There were **4,700** outpatient visits over the period under analysis.

Enabling Cost per Visit at Eastside Counseling Center was **$19.14**

If those 4,700 visits involved 940 clients:
Enabling Cost per Client = $95.74

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Overhead Cost Per Visit/Client

Overhead costs include:

- Rent, interest, and depreciation expense (+ other facilities costs)
- Administrative and facility staff salaries and fringe benefits
- Professional Liability insurance
- Office supplies, legal/accounting fees
- Other costs not already classified into a category

Overhead Cost Per Visit/Client

Typically, the percentage of total costs at a community mental health center that are accounted for by administrative overhead is between 25% and 40%. That is too large a percentage to average across all programs and call it good. Consider doing a time study (more on that in a later session) to identify time spent on specific program overhead and general organizational overhead.

Cost reduction considerations include:

- **Improving Productivity**
- **Staffing #'s/Supervision**
- **Administrative Staff Salary/Benefits**
- **Facility Management**
- **Outsourcing**

Under a VBP system, the feasibility of importance of correctly identifying costs by program may become even more important.

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Means for Allocating Overhead

Methods for Allocating Overhead

Allocate By Visit:

- Health Inform. Mgt.
- Patient Accounts
- Front Desk/Call Center
- Referrals
- Site Operations
- Site Administration

Allocate by Expense:

- Central Administration
- Development
- Information Systems
- Human Resources
- Finance
- Administration
- Facilities (Non Direct)

Alternative Methodology
Square Footage

Allows you to accurately attribute **certain** costs to the correct cost center based on the amount of square footage utilized.

Rent, Utilities & Maintenance costs are most commonly distributed this way.

Example: Building Size: 1,000 sq.ft.
Outpatient department = 600 sq.ft.
Other Programs = 200 sq.ft.
Administration = 200 sq.ft.
The result is a 60/20/20 split of costs of rent, utilities and maintenance.

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Ancillary Costs

Mental Health

- Assertive Community Treatment
- Chronic Disease Management
- Case Management
- Court Ordered Outpatient Treatment
- Diet & Exercise Counseling
- Education Services
- Family Psychoeducation
- Housing Services
- Intensive Case Management
- Illness Mgt. & Recovery
- Integrated Primary Care Services
- Legal Advocacy
- Psychosocial rehabilitation services
- Supported Employment
- Supported Housing
- Suicide Prevention Services
- Therapeutic Foster Care
- Vocational rehabilitation Services
- Peer Support

Substance Abuse

- Acupuncture
- Assistance with Obtaining Social Services
- Residential Beds for Client's children
- Case Management
- Child care for client's children
- Domestic Violence services
- Early intervention for HIV
- Housing Services
- Mental Health Services
- Recovery Coach
- Self Help Groups
- Social Skills Development
- Transportation Assistance
- Professional Interventionist/Educational consultant
- Peer Support

Source – SAMHSA Directories of Mental Health Treatment Centers and Substance Abuse Treatment Centers

Summary of Components of Cost Per Visit/Client

	Cost per Visit					Cost per Patient/Client				
	Provider Cost / Visit	Direct Support Cost/Visit	Enabling Costs / Visit	Overhead Cost / Visit	Total	Provider Cost / Client	Direct Support Cost / Client	Enabling Cost / Client	Overhead Cost / Client	Total
Eastside Counseling	$133.53	$ 53.64	$ 19.14	$95.74	$302.05	$667.66	$ 268.21	$ 95.74	$478.72	$1,510.33

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Is the Reimbursement System "Deck" Stacked Against Behavioral Health?

In a FFS world, more visits equals more revenue so productivity is a key Revenue Model driver at least partially under your control

BUT

In a typical capitated system, the organization is rewarded by not seeing the client as often (but seeing more, different clients). However, unlike with many medical patients this trade-off may not be feasible as client stability requires regular interaction.

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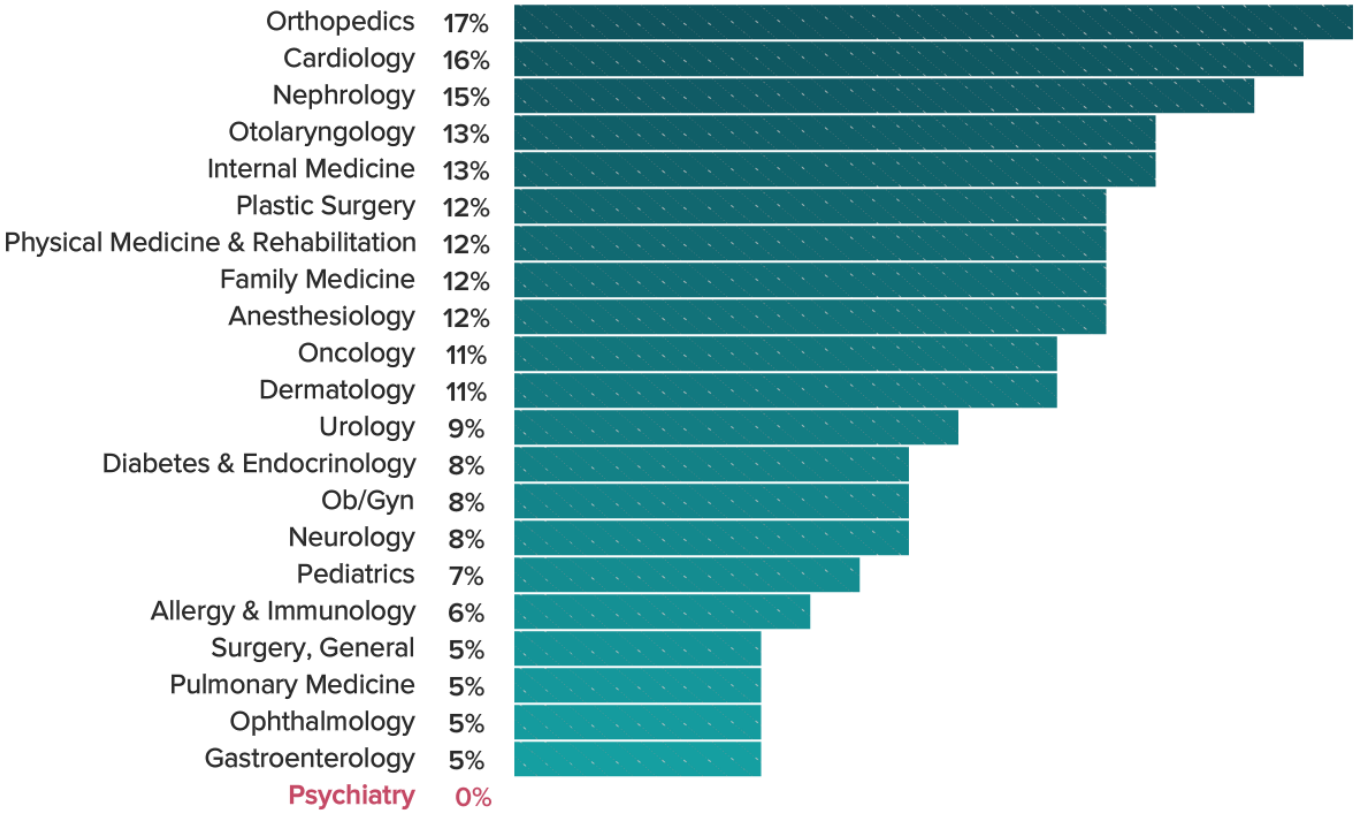
In a pay for outcomes world, it will likely be up to the care team to determine the optimal number of visits to be able to demonstrate compliance with quality care / outcomes measures.

And to be sure compensation is adequate – accurate cost allocation/calculation will be essential.

Adoption of New Payment Methodologies May Take Awhile

Psychiatrists Who Expect to Participate in APMs



Medscape **2018**

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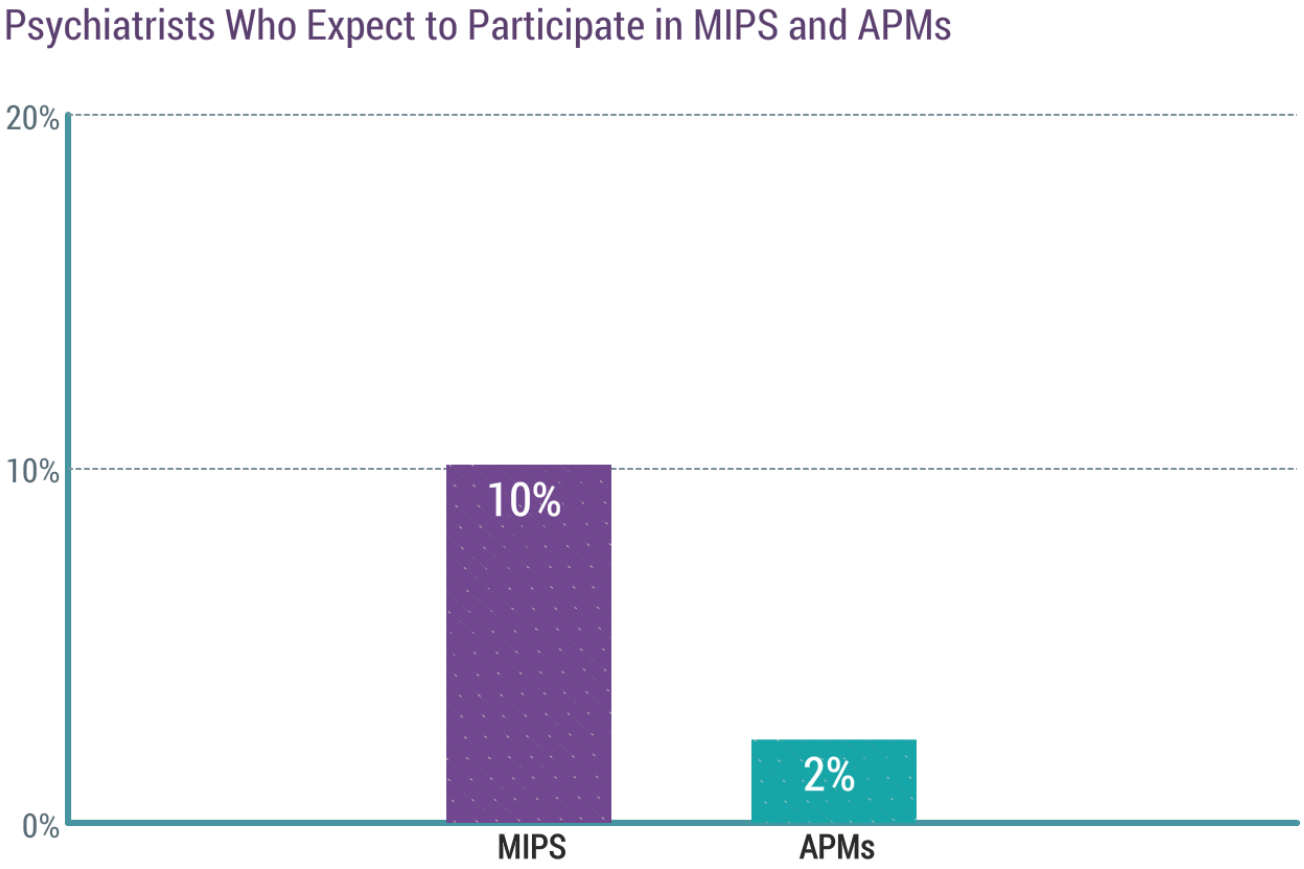
But Things do change….just slowly…



Medscape **2019**

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Pharmacy
Cost Per Visit and Procedure

STEP ONE : Calculate Pharmacy Direct Costs

Salaries and Wages	
1 Pharmacists at $115,000	$115,000
2 Pharmacy Techs at $35,000	70,000
Subtotal =	$185,000
Fringe Benefits (20%)	$ 37,000
Subtotal Personnel Costs	$222,000
Pharmaceuticals	$250,000
Total Pharmacy Direct Costs=	$472,000

STEP TWO : Calculate Pharmacy Overhead Allocation

Total Pharmacy Direct Costs = $ 472,000
Total CMHC Direct Costs = $3,000,000
= **15.7%**

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Pharmacy Cost Per Visit and Procedure

STEP THREE : Determine Pharmacy Overhead Costs

Total Overhead Costs		$1,350,000
Pharmacy Overhead Allocation	x	15.7%
Pharmacy Overhead Costs =		$ 215,875

STEP FOUR : Calculate Total Pharmacy Costs

Pharmacy Direct Costs =	$472,000
Pharmacy Overhead Costs =	$215,875
Total Pharmacy Costs =	$687,875

STEP FIVE : Calculate Pharmacy Costs Per Visit and Pharmacy Cost per Patient

Total Pharmacy Costs	$687,875
Total CMHC Visits =	4,700
Pharmacy Cost per Visit =	**$146.36**

Total Pharmacy Patients (70% scrip rate) = 658 Pharmacy Patients

Pharmacy Cost per Patient = **$1,045.40**

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Pitfalls, Barriers and Challenges

Why Sometimes We Get the Basics Wrong

- Need for a very detailed Chart of Accounts to capture all costs by site/dept./program
- Need to utilize EHR/Practice Mgmt. system to capture stats on denials and other adjustments that affect finances
- Need to make sure the HR system can sufficiently track hours/costs by site/dept./program.

But not all the reasons are about our systems:

– "Grants don't really cover our overhead, so we don't fully allocate our overhead costs to some funding sources."

– "This program is important to our clients so we keep offering it even though the funding has gone away."

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Conclusion: Looking Toward the Future

Fee for Service and capitation are still the dominant modalities for reimbursement of CMHCs and for that reason the methodologies and issues discussed in this presentation are still relevant for most centers.

However, many centers already participate in Managed Care plans, ACOs, shared savings and Pay-For-Performance programs that change the calculus.

Conclusion: Looking Toward the Future

Notwithstanding the complications of operating in this current hybrid payment environment, centers face an irreversible (we are told) transition to a system in which they will be paid based on producing **value/outcomes,** which will be defined by the payer and the client.

(whose interests may not always align!)

Sneak Peak:

It is challenging to isolate the benefits of behavioral health interventions and for that primary reason, the future of pay for performance and pay for value in BH may be linked to the corresponding medical health benefits.

And that, basically, is the argument for Primary Care Behavioral Health Integration.

Coming Up….

Please join us for the next webinar in this series:

Preparing Internal Systems for Gathering Cost Data

June 30, 2020, 3:00 ET

We review how to set up your internal systems in a way that will allow you to accurately capture cost data in a meaningful/flexible way.

Thank You

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NATIONAL ASSOCIATION OF Community Health Centers

MENTAL HEALTH FIRST AID NATIONAL COUNCIL FOR BEHAVIORAL HEALTH Healthy Minds. Strong Communities.

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Funding Statement

Support for this webinar was provided by the Robert Wood Johnson Foundation (RWJF). The views expressed here do not necessarily reflect the views of the Foundation.

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