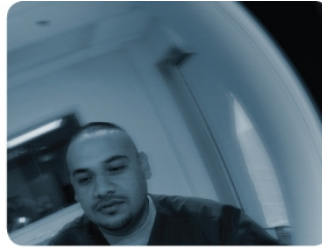




HENRY MAYO NEWHALL
Memorial Hospital



Henry Mayo Newhall Memorial Hospital Charge Master Reduction



Purpose

Hospitals are in the headlines for continuing billing practices to patients for **“exorbitant charge based line items such as the \$23 Aspirin”**

Henry Mayo Newhall Memorial Hospital explored, rethought and redesigned a more realistic charging structure. This was implemented for Materials, Pharmacy and Room and Board **October 1, 2013.**





Disclaimer

This is a summary of Henry Mayo's 5+ year journey to reduce charges. It is not anything other than that, but you are all welcome to use what we have done and are doing in any way you would like, as long as you assume full responsibility. I hope all of the references to specific rules or regulations are accurate but use at your own risk. Thanks to all the CHA taskforce members who shared their thoughts and insight and to Lloyd Bookman and Ann McLeod for their guidance.





The Henry Mayo Work Group Members

Member	Department	Responsibility
Dele Akao	Manager, Pharmacy	Customary Charge Limits
Anna Brewer	Director, Finance	Cost Reporting Review
Lynn Coddington	Director, Decision Support	Data Reporting
Doreen Cornelison	Contracts	Reimbursement
Marv Effland	Director, Materials Mgmt	Other Requirements
Cesar Fernandez	IMOS Cost Consultant	Cost Accounting
Kamala Hagen	Manager, Business Svcs.	UB—04 Billing Requirements; Charity Care
Kathy Mydock	Charge Master	The Payers' Bill of Rights; OSHPD Reporting
Gerald Subar	Director, Pharmacy	Customary Charge Limits
Harriet Winkle	Director, Business Services	Charity Care/Bad Debt
C. R. Hudson	Sr. VP/CFO	Chair
Virginia Waterstraat	SRI Consultant	Cost Reporting Preparation





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Cost Reporting – The Current Importance of Cost Reports

ANALYSIS

- Hospitals are required to complete and file annual Medicare and MediCal cost reports. The cost reports for both programs must be completed in accordance with the Medicare Cost reporting principles contained in 42 C.F.R. Part 413 and the Medicare Provider Reimbursements Manual and specific requirement of OSHPD.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- Actual Medicare Cost Report & Proforma Cost Report were filed simultaneously by the middle of June 2013 for 1st six months of FY13. We requested CMS approval of a RCC modification as a result of charge reduction in Pharmacy and Chargeable Supplies based on an estimated 25% overall effective price reduction.





Medicare Outlier Reimbursement

ANALYSIS

- The Medicare program provides additional reimbursement under Inpatient Prospective Payment System (IPPS) for outlier cases. A case qualifies as an outlier if the costs of the case exceed the applicable outlier threshold. The amount of additional reimbursement for outlier cases is based on the amount of the cost for the case in excess of the applicable outlier threshold.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- New Outlier thresholds should be part of the CMS review with the two cost reports. County custody patients base their payment on the Federal or State cost to charge ratio. There is potential for reduced net revenue which will have to be monitored and specific issues resolved as they arise. Other than county funded custody patients we have been able to negotiate revised payment percentages – the county still uses the prior year OSHPD/MediCal filed report.



Permissive Exclusion Usual Charge Rule

ANALYSIS

- The Medicare program contains a permissive exclusion provision which allows the Secretary of Health and Human Services to exclude an individual or entity from federal health care programs that the Secretary determines:
 - Has submitted or caused to be submitted bills or requests for payment (where such bills or requests are based on charges or costs) under (Medicare or Medicaid) containing charges (or, in applicable cases payment of costs) for items or services furnished substantially in excess of such individual's or entity's costs for such items or services, unless the Secretary finds there is good cause for such bills or requests containing such charges or costs.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- We need to make sure our line items charges for outpatient services exceeds Federal/State, APC, fee schedules.
- By reducing charges the hospital remains in compliance w/permissive exclusion usual charge rule.





Medi-Cal Charge Limits

ANALYSIS

- The Medi-Cal program limits billing and reimbursement for certain outpatient services based on usual charges. A provider is prohibited from submitting a claim for reimbursement to Medi-Cal “in any amount greater or higher than the usual fee charged by the provider to the general public for the same services.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- We need to make sure our line items charges for outpatient services exceed highest fee schedule
- Charge have to exceed Minimum Medi-Cal payment
- We will continue charging everyone the same amount





Medicare Actual Charge Limit

ANALYSIS

- Medicare reimbursement for certain hospital outpatient services that are not reimbursed under Outpatient Prospective Payment System (OPPS) is limited to actual charges, which are the charges actually billed by the provider to the Medicare Program

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- We need to make sure our line items charges for outpatient services exceed APC rates.





Private Payers

ANALYSIS

- Payments under contracts with private payers often include payment mechanisms that are based on charges. Stop-loss provisions often are triggered when charges reach a certain level for a particular case, and the amount of stop-loss payment is often based on the amount charged.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- During the past five years Henry Mayo Newhall Memorial Hospital has been able to modify each payer contract to include language approving Charge Description Master (CDM) price reductions, resulting in revenue neutrality. This gives us the opportunity to change our charging structure to a model that has a consistent pricing methodology and is defensible.





Payment from Private Health Plans for Out-of-Network Services

ANALYSIS

- Hospitals must have some means for obtaining payments from payers for out-of-network (“OON”) services. Typically, hospitals bill payers using the hospitals list charges from the hospital’s CDM.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTIONS

- Negotiate revised payment percentages on a case by case basis.



OSHPD Reporting Requirements

ANALYSIS

- OSHPD is charged with the responsibility of developing and maintaining a uniform system of accounting and reporting for hospitals pursuant to the Health Data and Advisory Council Consolidation Act.
- We are currently required to report charges to OSHPD on a routine basis (quarterly and annually).

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTION

- Due to charge reduction, variances will exceed OSHPD's limits on all reporting; explanations will have to be provided to OSHPD.
- Year to year data comparison will be skewed and will need to be discussed and explained to OSHPD.





Charity Care Reporting

ANALYSIS

- Hospitals report charity care to both the OSHPD and the Internal Revenue Service (“IRS”). Charity care is reported to the OSHPD on hospital Annual Financial Disclosure Reports, and on hospital community benefit reports (the OSHPD 697). Tax-exempt hospitals report charity care on Schedule H of Form 990.

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTION

- Charity Care & Bad Debt expense have to be reported at cost for Community Benefit Reports, but as gross charges for Medicare and MediCal Cost Reports. This issue was discussed with our consultants and for FY12 and prior, we reported our actual charity care and bad debt adjustments codes, not including the self pay adjustment which caused these \$’s to be understated. This will be corrected for future reporting.





Other Requirements for the Identification of Hospital Charges

ANALYSIS

- In addition to the programs and legal requirements there are various other laws that require the submission of charges for services. For example, Labor Code 4603.2 requires hospitals to submit an itemization of services provided and the charge for each service when seeking payment under the worker's compensation program. Additionally, both the Insurance Code and DMHC's regulations for health plans require claims to be submitted on a Uniform Billing Form (UB-92 etc.) to be considered a complete claim that triggers the time frame for payment and processing

HENRY MAYO NEWHALL MEMORIAL HOSPITAL ACTION

- We will continue to bill consistent charges on approved forms to insure compliance.





Other Requirements for the Identification of Hospital Charges

HENRY MAYO NEWHALL MEMORIAL HOSPITAL (Update)

- A main focus of our review to this point has been on the ability of our HIS (Meditech) to support changes in costs to modify charge to the patient bill. In testing the system's capabilities the following has been learned.
- There are two ways to 'mark-up' the cost of an item that will flow to our HIS.
 - First, we can markup prices (either % or fixed \$) by item category.
 - Advantage - easier to maintain changes and more flexible.
 - Disadvantage – cannot drill to the item level.
 - Second, the item itself can be marked up (as % only).
 - Advantage - ability to affect each item.
 - Disadvantages - maintenance will be much more involved, and mark-up option is limited to single % only.





Other Requirements for the Identification of Hospital Charges

HENRY MAYO NEWHALL MEMORIAL HOSPITAL Update

- Determination of the Indirect cost component of an item charge
- Indirect Costs are:
 - Information Technology
 - Financial Services
 - Hospital Interest
 - Insurances and Licenses
 - Printing and Duplicating
 - Housekeeping
 - Security
 - Laundry and Linen
 - Cafeteria



Other Requirements for the Identification of Hospital Charges

HENRY MAYO NEWHALL MEMORIAL HOSPITAL Update

- Continued
 - Communications
 - Mailroom
 - Human Resources
 - Volunteer Services
 - Biomedical Engineering
 - Transport Services
 - Administration
 - QRM
 - Medical Staff
 - Physician Relations
 - Chaplain
 - Public Relations
 - ... and a few others... but I think you have enough here.





Other Requirements for the Identification of Hospital Charges

HENRY MAYO NEWHALL MEMORIAL HOSPITAL Update

The Indirect costs per unit can be categorized as to charge type (Pharmacy example) based on our cost accounting system:

SOLUTION- \$9.19

MULTI DOSE CONTAINER- \$7.35

INJECTABLE- \$9.74

MEDS "PILLS"- \$7.24

(current estimates)



Possible Equation For Each Charge

	Purchased Item	"Made" Item	Description
Acquisition Cost	X		Cost only for purchased item
Production Cost	X	X	Generally, 1)direct work in the department, 2)handling of a purchased item,3)"Made" item, direct costs associated
Indirect Cost	X	X	Hospital overhead, as in Chaplain, Security, Parking, Adm, etc.
Uncompensated Care Cost	X	X	Cost of Charity and Bad Debts
Government Underpayment Cost	X	X	Expense related to government underpayments
Hospital Markup	X	X	Reasonable bottom line to build cash for capital investments and be appealing to future lenders
Total	Price	Price	



Lessons Learned

- Allow substantial time for CMS to review the request for Cost to Charge Ratio Adjustment
- The Team needs to have a thorough understanding and review of the Hospital's software charging system and how it integrates with all applications
- Be prepared for CDM and Departmental Item Master clean-up
- Be aware of the need for information from your Cost Accounting System
- Allow sufficient time (a minimum of 90 days) for the Health Plans to review the adjusted CDM for revenue neutrality and loading the adjusted rates into their system timely, prior to go-live



What we did

- 1 – reduced Pharmacy charges by 80+%
- 2 – reduced Supply charges by 50+%
- 3 – reduced Room charges by 20+%



What Happened

- **Chargemaster Language**
-
- Adjustment to Percentage Payment Rate Resulting from Changes to Hospital's Chargemaster
-
- **1. Intent.** The intent of this Section is to allow Hospital to modify its Chargemaster when and how Hospital chooses, while assuring that increases or decreases less than negotiated amounts to Hospital's Chargemaster will not impact the amount to be paid
-
- **2. Duty to give notice.** Hospital shall notify Health Plan each year during the term of this Agreement,
-
- **3. Content of notice.** Notice for the Actual Chargemaster Change will include the following unless otherwise specified below:
-
- (a) The effective date
-
- (b) The amount of the annual Change;
-
- (c) The Actual Chargemaster Change notice will be accompanied by an attestation by of the stated Actual Chargemaster





What Happened

- **4. Cooperation with Health Plan.** Hospital will cooperate with Health Plan This includes explaining how Hospital calculated the changes and why Hospital believes these numbers to be correct.
-
- **5. Adjustment to Percentage of Charges Rate and Thresholds.** Upon receiving the Actual Chargemaster Change notice from Hospital described above, Health Plan will Based on Hospital's notice, Health Plan and Hospital shall mutually agree Rate.
.....
- **6. Right to audit.** In the event Health Plan and Hospital are unable to agree then Health Plan and Hospital agree to have a mutually agreed upon independent third party review



What Happened

- **Example # 1**
-
- **Charge Master Limit = X%**
- **Example Charge Master Increase = X+3%**
-
- **# 1 Payment Rate Example:**
- **Payment Rate = 45%**
- **Adjusted Payment Rate = 43.7%**
- **$(45\% \times 1.X / 1.(X+3)) = 43.37727273\%$**
- **Rounded to the nearest one tenth of one percent (0.1%)**





Our Results

As of February 2014

Net Revenue

Prior Month Actual	Current Revised Budget	Current Actual	Variance	Var.%
21,764,992	20,379,455	20,942,402	562,947	2.76%
Last Year YTD	YTD Revised Budget	YTD Actual	Variance	Var.%
103,552,339	101,467,277	107,516,102	6,048,826	5.96%



Total Days (Including OP Equitant)

Prior Month Actual	Current Revised Budget	Current Actual	Variance	Var.%
6,024	5,076	5,277	200.84	3.96%

Last Year YTD	YTD Revised Budget	YTD Actual	Variance	Var.%
27,768	26,298	27,410	1,112.18	4.23%



Net Revenue per Patient Day

Prior Month Actual	Current Revised Budget	Current Actual	Variance	Var.%
3,613	4,015	3,969	-46.12	- 1.15%

Last Year YTD	YTD Revised Budget	YTD Actual	Variance	Var.%
3,729	3,858	3,923	64.12	1.66%



Questions??

Just to be clear - I still have many Questions and still lose sleep over this process.

Thanks for letting me provide this update.

**C.R. (Bob) Hudson
SVP/CFO**

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