

Improving Medicare Reimbursement and Wage Index Classification by Partnering with an External Company

Highlights

Profile

Lehigh Valley Health Network

- Allentown, Pennsylvania
- Bed Size: 890 licensed beds

Challenges

- Lehigh Valley Health Network's wage index was reclassified from above a 1.0 to 0.9017 resulting in \$5 million less in Medicare payments per year
- Lehigh Valley Health Network instituted a wage freeze for non-managerial employees and reduced salaries of managerial employees
- Even after thorough analysis, Financial Analyst Rocco Iachini could not find a way to increase the wage index

Solutions

- Lehigh Valley Health Network enlisted the help of Medicare wage index specialists R-C Healthcare Management
- R-C Healthcare Management's review of the hospital's documentation found several potential areas for improvement
- Lehigh Valley Health Network received two recommendations from R-C Management, the first of which they implemented

Results

- R-C Healthcare Management found seven errors that upon being fixed provided Lehigh Valley Health Network an additional \$2,685,436 in wage costs and 17,223 more allowable hours
- In 2014, R-C Healthcare Management's recommendations helped Lehigh Valley Health Network get a wage index reclassification
- Lehigh Valley Health Network still partners with R-C Healthcare Management, hospital and continuing to consult them for wage index related concerns

In recent years, hospitals have seen increasing cuts to reimbursements, especially from Centers for Medicare & Medicaid Services (CMS). Due to the rise in restrictions on Medicare reimbursement, in the 2015 fiscal year half of the health systems and hospitals in the U.S. faced readmission penalties, meaning they received lower payments for all Medicare patients. With the thin margins that hospitals operate at, getting the maximum reimbursement possible is an important concern, so any cut to reimbursement is a big one.

A large factor in determining the amount of reimbursement a healthcare organization receives is its Medicare wage index. This figure runs between the range of 0.7 to 1.7, with 1.0 representing the national average wage for a hospital's employees. Anything above 1.0 exceeds the national average, and anything below is lower. Each 0.01 difference from the average is approximately \$70.00 in reimbursement per Medicare discharge. If the index exceeds 1.0, the hospital receives more reimbursement, while if it goes below 1.0, the hospital receives less.

A healthcare provider's wage index is determined by which of the nearly 500 Core Based Statistical Areas (CBSAs) it resides in. The CBSAs are CMS defined geographical regions that have a wage index based on the average wage of hospital workers in that area.

Fortunately, it is possible for a healthcare provider to get its wage index reclassified due to the numerous exceptions and reclassification options CMS offers. Given the importance the Medicare wage index has in determining reimbursement, it comes as no surprise that an increasing amount of healthcare organizations are turning to partners with special expertise in hopes that they will be able to help them get reclassified. Lehigh Valley Health Network of Allentown, Pennsylvania is one such healthcare provider that experienced a negative Medicare wage index and sought the help of an external organization to see if it could help them improve in this area.

Challenge

In the past Lehigh Valley has been able to reclassify into the Philadelphia CBSA, receiving a wage index greater than 1.0. However, in 2013, its wage index went down to 0.9017 due to changes in the occupational mix methodology and the wage index pension methodology. This wage index decrease resulted in \$5 million less in Medicare payments every year, meaning a potential \$15 million loss over three years. To combat this, Lehigh Valley Health Network was forced to institute a wage freeze for non-managerial employees, as well as reduce the salaries of managerial employees.

To address this growing problem Lehigh Valley Health Network's CFO called for an initiative to reclassify the organization's wage index. Rocco Iachini, Financial Analyst with Lehigh Valley Health Network, led the initiative, conducting a number of analyses in an attempt to solve the problem. Unfortunately, Iachini's analyses did not reveal a solution.

"We started off on the low basis and we continued on the low basis for wage, but our hours kept increasing," says Iachini. "Maybe that has a greater effect on the bottom line for an income statement, but it didn't help us toward the wage index and trying to retrieve that \$15 million dollars we lost."

At this point, Iachini was called upon by the CFO to enlist outside help. While Lehigh Valley Health Network prefers to work with consultants and vendors recommended by the Hospital Association of Pennsylvania, it did not have any recommendations for wage index specialists.

Results of Review of Lehigh Valley Health Network Documentation



\$2.7M
in Additional Wage Costs



17,223
More Allowable Hours

R-C Healthcare Management's analysis found seven areas in need of correction, ultimately resulting in an increase of \$0.23 in the S-3 Part II unadjusted average hourly wages.

lachini then looked at the recommendations of the neighboring Greater New York Hospital Association. When he found R-C Healthcare Management, he contacted the hospitals on the list of clients the company provided and only heard excellent reviews of its service. These testimonials inspired Lehigh Valley Health Network to partner with R-C Healthcare Management.

Solution

The key to R-C Healthcare Management's effort to reclassify Lehigh Valley was a thorough review of its documentation. Analysts checked Lehigh Valley Health Network's occupational mix for the years 2010 and 2013, making sure that employees were put into the proper categories. They also reviewed invoices and prior cost reports among other information.

Lehigh Valley Health Network's primary contact with R-C Healthcare Management was its President and CEO K. Michael Webdale. Part of the motivation for R-C Healthcare Management's thorough collection of data was so that Webdale could make his onsite visit as fruitful as possible. Once onsite, Webdale talked to the CFO and payroll personnel to get a better understanding of Lehigh Valley Health Network's labor hours and how its cost reports were compiled.

R-C Healthcare Management provided Lehigh Valley Health Network with a pair of recommendations: Add cost hours into the Medicare cost report for legal consulting and accounting costs, and adjust the basis of hours being used on a specific schedule of the wage index from paid hours to accrued hours. Lehigh Valley Health Network opted for the first recommendation, preferring not to institute the second as they would be required to have the same basis of hours every year.

"We're here to offer advice," Webdale says. "We're not going to put a change through that a hospital doesn't agree with. It's the hospital's cost report, it's the hospital's information. We're just here to

provide an extra set of eyes, so that the hospital can have confidence that the information is good, or so we can offer what we see in the information."

Results

R-C Healthcare Management's review of Lehigh Valley Health Network's documentation turned up seven errors that needed correcting in the S-3 Part II. As a result, the healthcare organization found itself with an additional \$2,685,436 in wage costs and 17,223 more allowable hours. With these changes, the unadjusted hourly wages in S-3 Part II were increased by \$0.23.

Since the contract labor in the wage S-3 Part II saw an increase of more than 31% from the year before, the Medicare Administrative Contractor (MAC) auditor had to investigate the variance, opting for a 100% invoice audit. While onsite, Webdale made copies of the relevant invoices for the amount of money that Lehigh Valley Health Network was trying to add to the S-3 Part II. Webdale's diligent work helped to get the MAC's approval of the additional costs and hours.

After continuing to follow R-C Healthcare Management's recommendations in its cost reporting for 2014, Lehigh Valley Health Network was able to move closer to the threshold set to qualify for reclassification in 2015. With its continued improvement, Lehigh Valley Health Network is set to qualify for reclassification in 2015.

Lehigh Valley Health Network has continued its relationship with R-C Healthcare Management. lachini is always able to consult R-C Healthcare Management whenever he has an inquiry about the wage index. When Lehigh Valley Health Network recently acquired a new hospital, R-C Healthcare Management was able to provide helpful documentation and guidance on this particular location's Medicare wage index situation. Additionally, R-C Healthcare Management provides suggestions to Lehigh Valley Health Network as CMS regulations change, and will help them challenge any potential MAC audits, appealing the case up to CMS if need be.

"I feel very confident in dealing with R-C Healthcare Management," says lachini. "I feel that they give me the attention that I need, and they are always great when I have a question that needs answering."

Lehigh Valley Health Network's successful partnership with R-C Healthcare Management is a prime example of the improvements in a healthcare provider's wage index that can be made by employing the expertise of an external organization. The process of attempting to increase a healthcare organization's Medicare wage index often calls for such specialized knowledge that even an experienced financial analyst may have trouble finding spots to make effective changes. By partnering with an external organization, it is possible to rectify gaps in knowledge, and ultimately, achieve a notable change in a healthcare organization's Medicare reimbursement. +

About R-C Healthcare Management

- R-C Healthcare Management's mission is to help clients optimize their internal data reporting so they maximize reimbursement dollars. They have documented client savings of more than \$2.7 billion during the company's 24-year history.
- R-C Healthcare Management offers onsite and remote coaching, data analysis and reporting assistance, policy and regulation updates, and data inconsistency corrections. In addition,

the company helps healthcare organizations respond to CMS and fiscal intermediary issues.

- R-C Healthcare Management specializes in Medicare wage index issues. Since 1990, the company has worked with more than 50% of the total payroll volume in the U.S. hospital industry.
- For more information, please visit: rcmgmt.com