



COST (PRICE) MODEL 101 TRAINING

A New Way of Approaching the Business of Long Term Care Services and Supports

PRESENTERS AND CONTRIBUTORS:

AAA Cost Model Core Team Members

- ◎ Barb Kallenbach
- ◎ David Wolfzorn
- ◎ Deb Gully
- ◎ Gary Cook
- ◎ John Bleau
- ◎ Ken Wilson
- ◎ Linda Gillespie
- ◎ Susan Sigmon
- ◎ Sharon Fusco

OBJECTIVES

Modeling will
change how we
think about our
business.

- ◎ Participants will understand why price models are important in today's environment
- ◎ Program and fiscal staff will share a common language that translates the work of the organization into the cost of doing business to facilitate managing to outcomes.
- ◎ Participants will understand the basic definitions used in price models
- ◎ Participants will understand how to translate their work into the elements of a price model
- ◎ Participants will understand how price models are used in day to day business operations management

AGENDA

- ① Why model?
- ① Basic Definitions
- ① Basic Model Construction
- ① Using Models Everyday
- ① Questions and Answer

WHY MODEL?

Sharon Fusco

WHY MODEL?

- ⊙ Our funding streams are changing!
 - ⊙ Past: We were reimbursed for our costs by ODA.
 - ⊙ Present: We will be reimbursed per units of service delivered by MCOs and CMS (for those in the ICDS and/or with CCTP grants) and/or for the outcomes we achieve.
 - ⊙ Future: We will sell our services on a per unit basis to MCOs with a promise to achieve certain outcomes.
- ⊙ Using models can answer the “what if” questions we have to answer when we determine what it will take to achieve promised outcomes for a given price. For example,
 - ⊙ What if I staff a program with an LSW instead of an RN?
 - ⊙ What if I increase case load sizes?
- ⊙ Create consistency across the AAA Network through the use of standard pricing methodology (note that we are aiming for a standard of practice, not the same prices).

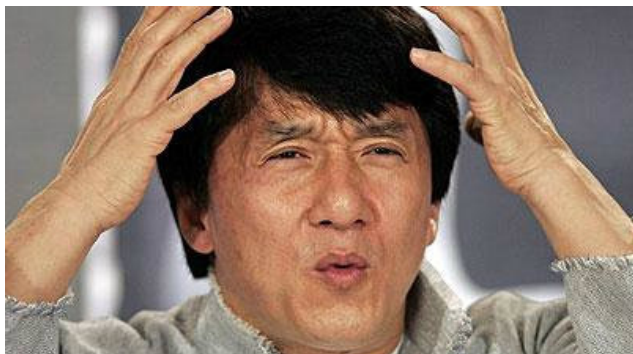


WHY MODEL?



In short, we model to prepare for the future and know:

- we are able to offer **the highest quality** services
- at a **competitive price**
- to maintain our **market share** and **profit margin**.



WAIT A MINUTE...

“Social

Entrepreneurship” is a new name for an old idea: Non profits selling products and services as a means to supporting services that don’t have a funding stream.

Examples include:

- ✓ Goodwill
- ✓ Girl Scouts
- ✓ Boy Scouts
- ✓ Building Value (Easter Seals)
- ✓ Cincinnati Cooks (Freestore Foodbank)

- ⊙ Did you say “**profit margin**”?
- ⊙ Yes.
- ⊙ But we are non-profits, isn’t that illegal?
- ⊙ No.
- ⊙ I am still not sure this is right.
- ⊙ Non-profits that earn revenue put their revenue back into programs and services to provide **Better Service** to **More Clients**.

Disclaimer to make the CFO’s happy: There is a bit more to it and there are a few rules, but as long as they are followed, it’s okay for a nonprofit to bring in more than it costs them to provide services.



BUT WAIT, THERE'S MORE...

- ⊙ We are nonprofits – why should we be concerned about being “competitive” and having a “market share”?
- ⊙ Because:
 - ⊙ Aging is a **hot** market
high demand + low supply = profit potential
 - ⊙ Others believe they can do it better.
 - ⊙ Others can do it at a lower cost.
 - ⊙ Others can do it and make money at it.

AND...

PLAYING TO WIN...



**...MEANS WE CAN CONTINUE TO
SERVE OUR CLIENTS!**

BASIC DEFINITIONS IN MODELING

Sharon Fusco

BASIC DEFINITIONS

- ⊙ Assumptions – Guesses and estimates based on experience and research about how we conduct our business. Assumptions come from how we define our work and are used in “what if” scenarios.

- ⊙ Examples from our work:

- Caseloads will be 65 to 1.
- We will hire 1 PSS to support 15 Care managers.
- We will hire only RNs.
- We will remain in the same facility.
- The volume of clients will increase by 5% annually.

**E
XAM
INE YOUR
ASSUMPTIONS**

FIXED VS. VARIABLE COSTS

- ⦿ Fixed Cost – do not change as volumes increase.
 - ⦿ Example from our work: Rent
- ⦿ Variable Costs – Rise and fall as volume increases or decreases.
 - ⦿ Example from our work: The number of care managers we hire.





DIRECT VS. INDIRECT COSTS

- ◎ Direct Cost – Easily traced to providing the service
 - ◎ Example from our work:
 - Variable: Care Manager Salaries
 - Fixed: Care Management Software System

- ◎ Indirect Cost – Not easily traced to providing the service.
 - ◎ Example from our work:
 - Variable: Cost of providing IT support.
 - Fixed: Rent

BASIC DEFINITIONS

"Informed decision-making comes from a long tradition of guessing and then blaming others for inadequate results."

~ Scott Adams

- ◎ Margin – A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings. Remember, it's okay. Non profits can earn a profit.
- ◎ Contingency – Used to cover uncertainty. The more "conservative" (or certain) the model, the less contingency required.

May be added into the cost of an item or included as a separate line item.



BASIC MODEL CONSTRUCTION

Sharon Fusco



BASIC MODEL CONSTRUCTION

- ⊙ A model that provides a consistent methodology for all AAAs to use when pricing their services.
- ⊙ A model that is flexible – that allows us to change our assumptions and see what happens.
- ⊙ A model that will help us develop a “menu” of services that includes:
 - ⊙ Standardized definitions for services
 - ⊙ Cost/price per unit of service.



Sample Menu of Services

The following is for demonstration only and is intended to visualize how the definitions and rates will be used in the marketing of AAA services. Units of service and definitions are “made up” for the purposes of demonstration.

Provider Management

Standard Provider Management Package

\$ ##.## per provider per month

The standard package includes: Pre-Certification Review, Compliance Review, Provider Relations Management, Technical Assistance, and Basic Contracting.

Premium Provider Management Package

\$ ##.## per provider per month

Includes the standard package plus: Provider Quality Reporting and Selective Contracting.

Custom Provider Management Package

Rate dependent upon customer requirements

Provider management services will be defined by the customer.



STEP 1: DEFINE THE SERVICE

If you're not out front defining your vision, your opponent will spend gobs of money to define it for you.

~Donna Brazile

- ⊙ What services are required to achieve an outcome?
- ⊙ What functions required to perform the service?
- ⊙ How much time is required to perform the function?
- ⊙ What level of staff is required to perform the function at the level required to achieve the outcome?
- ⊙ What other resources are required to perform the function to achieve the desired outcome?
- ⊙ What will MCOs want that might add cost to providing the service?
- ⊙ What is the value added to the MCOs (why will MCOs want it? How will it positively impact their bottom line)?

STEP 2: DEFINE THE ASSUMPTIONS

- ◎ Fringe Benefit rate of 28%
- ◎ Other direct cost rate of 24%
- ◎ Indirect cost rate of 15%
- ◎ Purchase software at total cost of \$500,000 . Cost to be recovered in 3 years
- ◎ Lease hold improvement to space \$50,000. To be recovered in 8 years.
- ◎ Inflation rate used: 2.8% based on Bureau of Labor Statistics.
- ◎ 5% contingency added to cover risks (e.g., inaccuracy in volume estimates, problems with contractors, etc.)
- ◎ 10% margin
- ◎ Caseload: 75 clients to 1 care manager



STEP 3: BUILD THE MODEL

Data Input:
Turn the
assumptions
into numbers.

<u>Positions</u>	<u>Salary</u>	<u>Ratio</u>	
Manager	\$ 75,000	1	
Program Assistant	\$ 35,000	1	
Clinical Supervisor	\$ 40,000	10 CMs to 1	
Supervisor 1	\$ 40,000	10 CMs to 1	
Care Manager	\$ 32,000	75 clients to 1	
Care Manager - Intensive	\$ 34,000	25 clients to 1	
Care Manager - RN 1	\$ 36,000	75 clients to 1	
Program Support	\$ 29,000	15 CMs to 1	
Turnover Rate			
Fringe Benefit / Payroll Taxes Rate	28.0%	Percentage	
Other Direct Cost Rate	24.0%	Percentage	
Indirect Cost Rate	15.5%	Percentage	
Contingency Rate	5.0%	Percentage	
Desired Margin	10.0%	Percentage	
Inflation Factor	2.8%	Percentage	
Capital Investment	Cost	Recovery Period (years)	Annual Amount
Software	500,000	3	166,667
Equipment	100,000	3	33,333
Lease Hold Improvements	50,000	8	6,250
Total Investment	\$ 650,000		\$ 206,250

For example, look at care management. The salary and caseload may differ by position and type of care manager.

STEP 3: BUILD THE MODEL

Volume drive your variable costs. It is critical to understand how volume of service impacts your price.

	Beginning Ce	Enrollment r	Disenrollment r	Client Months	Avg Census	Community Bas	NF Based	Case load ratios- Comm.	Case Load Ratios NF/AL	CM/FTEs
PASSPORT	4027	3%	2.60%	50,883	4,240	3816	424	75	85	55.87
Assisted Living	395	4%	3%	5,160	430				85	5.06
Choices	250	2%	1.50%	3,176	265			50		2.94

- ⊙ This model starts with the beginning census (assumption) and projects growth based on enrollment and disenrollment rates (more assumptions).
- ⊙ Then, using case load sizes (another assumption), the model determines the number of Care Managers required to serve the population. This model also shows the number of managers and support staff required.

Example: If the average census is 4240, then approximately 56 care managers are required.

STEP 3: BUILD THE MODEL

Example: changing the enrollment rate to 6% increases the number of Care Manager FTEs from 56 to just over 68.

	Beginning Ce	Enrollment r	Disenrollment r	Client Months	Avg Census	Community Bas	NF Based	Case load ratios- Comm.	Case Load Ratios NF/AL	CM FTEs
PASSPORT	4027	6%	2.60%	61,976	5,165	4648	516	75	85	68.05
Assisted Living	395	4%	3%	5,310	443				85	5.21
Choices	250	2%	1.50%	3,269	272			90		3.03

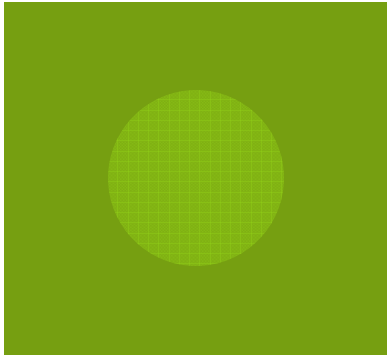
Example: Changing the caseload from 75 to 85 decreases the number of Care Manager FTEs from 56 to just over 49.

	Beginning Ce	Enrollment r	Disenrollment r	Client Months	Avg Census	Community Bas	NF Based	Case load ratios- Comm.	Case Load Ratios NF/AL	CM FTEs
PASSPORT	4027	3%	2.60%	50,883	4,240	3816	424	85	85	49.89
Assisted Living	395	4%	3%	5,160	430				85	5.06
Choices	250	2%	1.50%	3,176	265			90		2.94



STEP 3: BUILD THE MODEL

- ⊙ The final model incorporates all of the assumptions.
- ⊙ All of the costs are included:
 - ⊙ Staff directly involved in providing the service.
 - ⊙ Other costs such as mileage, supplies, printing, fringe benefits, and so forth.
 - ⊙ Indirect costs such as rent, overhead, major capital investments.
- ⊙ All of the costs are added and divided by the volume of services to get a per unit of service price.



			<u>Care Management</u>		<u>Total</u>
% Referred for Service				100.0%	100.0%
Volume	4,000			4,000	4,000
Labor Cost					
Position	Salaries	Number / Ratio	FTEs		
Manager	\$ 75,000	1	1	75,000	75,000
Program Assistant	\$ 35,000	1	1	35,000	35,000
Clinical Supervisor	\$ 40,000	10	5.33	213,333	213,333
Supervisor 1	\$ 40,000	10	5.33	213,333	213,333
Care Manager	\$ 32,000	75	53.33	1,706,667	1,706,667
Program Support	\$ 25,000	15	3.56	88,889	88,889
Total Labor				2,332,222	2,332,222
Fringe Benefits	28.0%				653,022
Total Labor Cost					2,985,244
Other Direct Cost	24.0%				716,459
Additional Direct Cost				100	400
Return on Investment					206,250
Total Direct Cost					3,908,353
Indirect Cost	15.5%				605,795
Sub-total					4,514,148
Inflation Factor	2.8%				252,792
Sub-total					4,766,940
Contingency Rate	5.0%				238,347
Desired Margin	10.0%				476,694
Total Cost					5,481,981
Volume					4,000
Annual Unit Rate					\$ 1,370.50
Monthly Unit Rate	12				\$ 114.21



USING MODELS EVERYDAY

- ③ How can models be used to manage your business?
- ③ What value do these models add?
- ③ Does it change the way you think about how we provide services?



What if?

USING MODELS EVERYDAY

- ⦿ See what happens when you change how we deliver services...
 - ⦿ Decrease the case load size
 - ⦿ Increase growth rate
 - ⦿ Change the average salaries
- ⦿ See what happens when you invest in something new
 - ⦿ Buy new software
 - ⦿ Remodel your office space

So, let's try some!

What if....

I want to buy new software at a cost of \$150k for three years?

My Return on Investment line will increase to \$356,250 and my monthly rate will increase from \$134 to over \$138

				Care Management	Total
% Referred for Service				100.0%	100.0%
Volume	4,000			4,000	4,000
Labor Cost					
Position	Salaries	Number / Ratio	FTEs		
Manager	\$ 75,000	1	1	75,000	75,000
Program Assistant	\$ 35,000	1	1	35,000	35,000
Clinical Supervisor	\$ 40,000	10	5.33	213,333	213,333
Supervisor 1	\$ 40,000	10	5.33	213,333	213,333
Supervisor 2	\$ 40,000	10	5.33	213,333	213,333
Supervisor 3	\$ 40,000	10	5.33	213,333	213,333
Care Manager	\$ 32,000	75	53.33	1,706,667	1,706,667
Program Support	\$ 25,000	15	3.56	88,889	88,889
Total Labor				2,758,889	2,758,889
Fringe Benefits	28.0%				772,489
Total Labor Cost					3,531,378
Other Direct Cost	24.0%				847,531
Additional Direct Cost				100	400
Return on Investment					356,250
Total Direct Cost					4,735,538
Indirect Cost	15.5%				734,012
Sub-total					5,469,570
Inflation Factor	2.8%				306,296
Sub-total					5,775,866
Contingency Rate	5.0%				288,793
Desired Margin	10.0%				577,587
Total Cost					6,642,246
Volume					4,000
Annual Unit Rate					\$ 1,660.56
Monthly Unit Rate	12				\$ 138.38

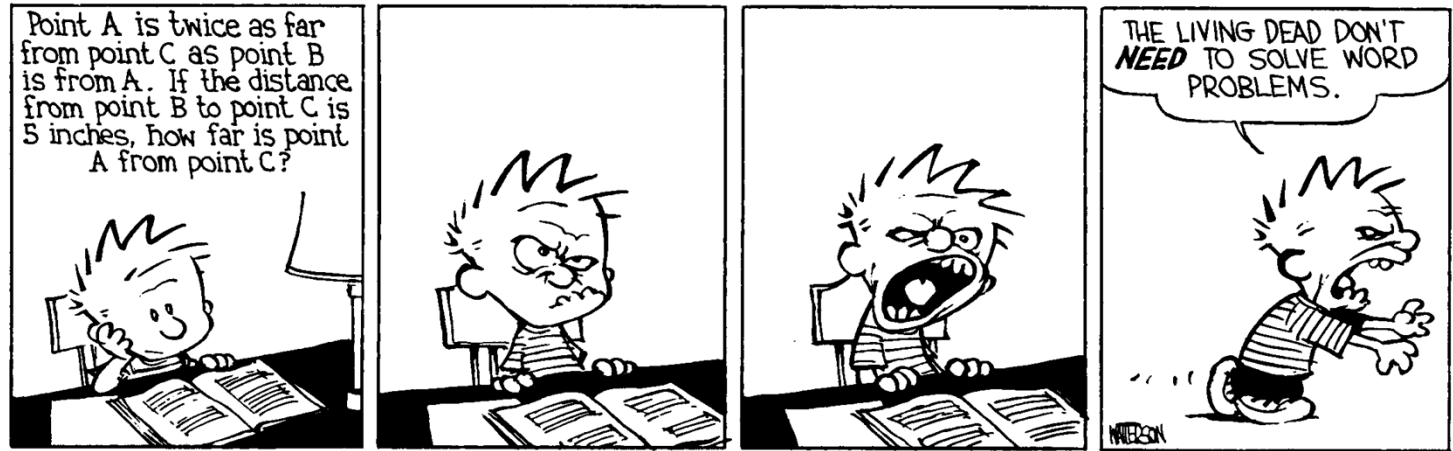
What if ...

I want to use RNs to deliver services.

Their average salary will be \$38,500.

My monthly rate will increase from \$114 to over \$135

				Care Management	Total
% Referred for Service				100.0%	100.0%
Volume	4,000			4,000	4,000
Labor Cost					
Position	Salaries	Number / Ratio	FTEs		
Manager	\$ 75,000	1	1	75,000	75,000
Program Assistant	\$ 35,000	1	1	35,000	35,000
Clinical Supervisor	\$ 40,000	10	5.33	213,333	213,333
Supervisor 1	\$ 40,000	10	5.33	213,333	213,333
Care Manager	\$ 38,500	75	53.33	2,053,333	2,053,333
Program Support	\$ 25,000	15	3.56	88,889	88,889
Total Labor				2,678,889	2,678,889
Fringe Benefits	28.0%				750,089
Total Labor Cost					3,428,978
Other Direct Cost	24.0%				822,955
Additional Direct Cost				100	400
Return on Investment					356,250
Total Direct Cost					4,608,582
Indirect Cost	15.5%				714,330
Sub-total					5,322,913
Inflation Factor	2.8%				298,083
Sub-total					5,620,996
Contingency Rate	5.0%				281,050
Desired Margin	10.0%				562,100
Total Cost					6,464,145
Volume					4,000
Annual Unit Rate					\$ 1,616.04
Monthly Unit Rate	12				\$ 134.67



ENOUGH WITH THE WORD PROBLEMS!!!



WHAT OTHER USES DO MODELS HAVE?

- ⊙ Compare prices with competitors
- ⊙ See impact of investments on the unit price of services
- ⊙ Identify which investments or cuts will have the biggest impact
- ⊙ Determine required staffing levels
- ⊙ Grant evaluation and preparation
- ⊙ Others????

SOMETIMES WE JUST NEED
TO KNOW...



...WILL IT WORK?

QUESTIONS?



THE ANSWER.



BREAK

AAA COST MODEL PROJECT UPDATE

Cost Model

Core Team

AGENDA

- ⊙ Project Goals and Deliverables (5 min) – Sharon Fusco
 - ⊙ Project Teams and Structure
 - ⊙ Review of the project deliverables
 - ⊙ Timeline
- ⊙ Service Definitions (10 min) - Deb Gully
- ⊙ Cost Model Review (15 min) – Barbara Kallenbach and John Bleu
- ⊙ Cultural Shift: What we need from the Directors (15 min) – Sharon Fusco
 - ⊙ Leadership Project
 - ⊙ Standardization across the network
 - ⊙ Examples of success



PROJECT TEAM STRUCTURE

- ① Sponsors
- ① Consultant
- ① Core Team
- ① Project Team



PROJECT GOALS

- ◎ Goal: Build cost models for the services we are most likely to sell
 - ◎ Group 1: Assessment, Care Management, Care Transitions, Provider Management, Caregiver Support
 - ◎ Group 2: Screening, CDSMP, and Pre-Ad Review
- ◎ Goal: Develop rates for each site in the AAA Network using a common methodology.
 - ◎ Rates will be vetted
 - ◎ Sites will have the ability to explain variance in price

DELIVERABLES

- ③ *Aggregate estimated cost for care management services statewide.*
- ③ *Cost model with assumptions and definitions for all regions to use that provides a consistent methodology for establishing rates for the products they will offer managed care companies.*
- ③ *Vetted rates per product per region.*

PROJECT TIMELINE

Action Item	Due Date
Care Management Rates – Fiscal Team to follow-up with individual AAAs	7/13 – rates due from AAAs
CM Rates assembled/vetted	7/18
Care Transitions Rates	Rates 7/27 from AAAs Finalized 8/3
Provider Management Cost Model	8/10 Definitions 8/17 model draft 8/24 out to AAAs 8/31 rates returned 9/14 rates finalized
Assessment Cost Model	7/20 – Model, 8/3 – rates returned AAA 8/10 – Rates finalized
Definitions for remaining services (Group 2)	8/17
Cost Models for Group 2 Products	September 15
Rates for Group 2 Products	November 15

SERVICE DEFINITIONS

Deb Gully

Susan Sigmon

AAA COST MODELS

John Bleau

Barb Kallenbach

CULTURAL SHIFT

Team



CULTURAL SHIFT

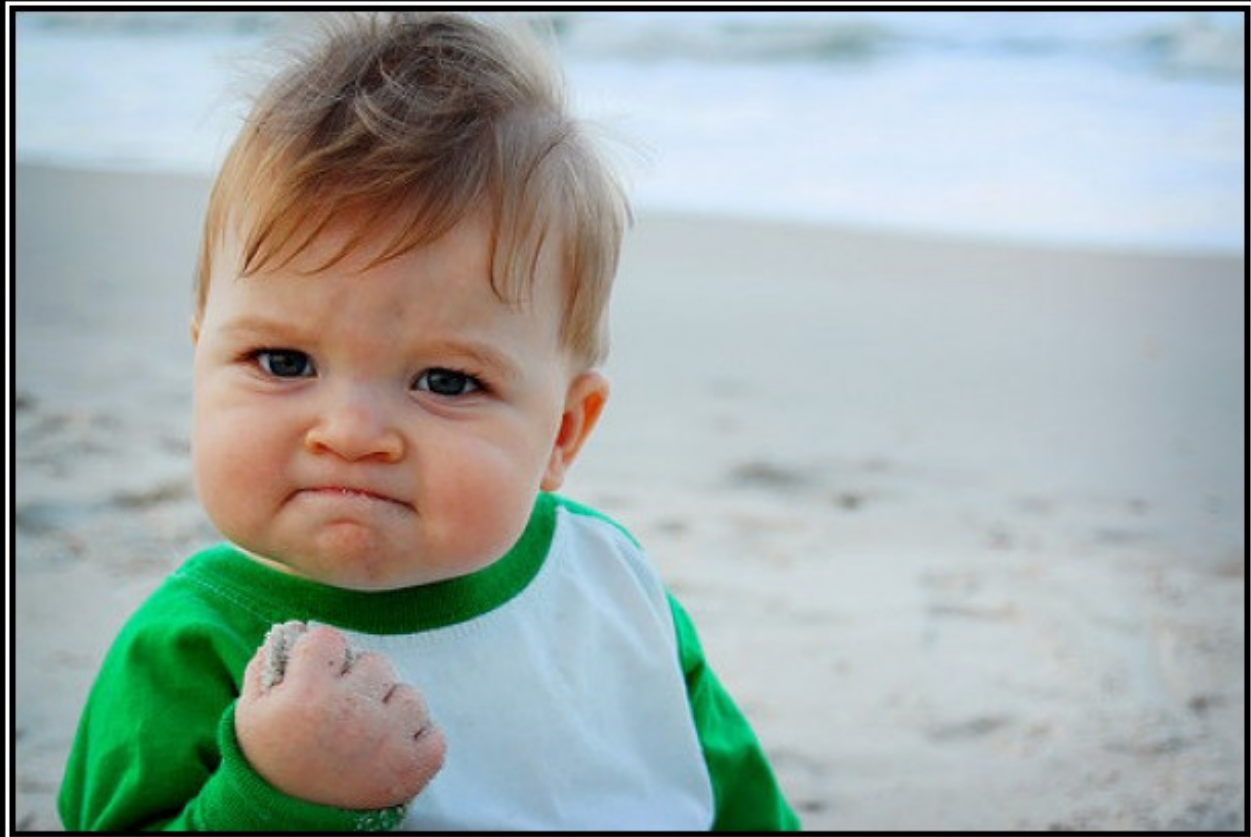
- ⦿ Integration with the Leadership Project
- ⦿ Standardization across the network
- ⦿ Changes the language to bridge programs and fiscal teams
- ⦿ Examples of success



INTEGRATION WITH THE LEADERSHIP PROJECT

- ◎ The Leadership Project is working to standardize the delivery of products and services.
- ◎ The Cost Model Project standardizes how rates are defined and set.
- ◎ The combined result of these two projects is more standardization across the network.
 - ◎ Enhance QI efforts
 - ◎ Makes us more competitive

EXAMPLES OF SUCCESS



S U C C E S S

Because you too can own this face of pure accomplishment

QUESTIONS?



STILL THE ANSWER.