

New Mexico Department of Health Developmental Disabilities Supports Division

Mathematical Rate Study Example

Overview: Federal Rules around Rates

- ❖ The Medicaid program, including Home and Community Based Services (HCBS), operates according to laws set forth in the federal Social Security Act
- ❖ §1902(a)(30)(A) of the Social Security Act states that rates must be “consistent with **efficiency, economy, and quality of care** and are sufficient to enlist enough providers so that services under the plan are available to beneficiaries at least to the extent that those services are available to the general population”
- ❖ Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program.



Overview: DDSD and CMS

- ❖ CMS requires that the state only reimburse Medicaid qualified providers who provide a service as it is defined in the federally approved HCBS waiver for an eligible person enrolled in Medicaid.
- ❖ The state shall only pay with rates developed using the rate methodology described in the HCBS waiver and approved by CMS.
- ❖ DDSD has a fee schedule that lists each service and its current reimbursement rate; the rate is approved by CMS and can only be updated with CMS approval.
- ❖ CMS reviews changes to the fee schedule by comparing the new rates to rates of other payers, and Medicaid rates for other comparable services.



Overview: Balancing Cost, Quality, Fairness, and Simplicity

- ❖ No set method for Medicaid rate setting, but there are standard principles that frame rate development (next slide)
- ❖ There are some federal considerations and parameters that limit Medicaid rates

Quality Control	Simplicity	Equity & Politics	Cost
<ul style="list-style-type: none"> • Individualized client choice • Provider flexibility and capacity • Services match waiver definitions • Services produce desired outcomes • Use of evidence-based practices 	<ul style="list-style-type: none"> • Stability from year to year • Common rates or standard methodologies for all providers or certain provider types • Limited reporting requirements 	<ul style="list-style-type: none"> • Stakeholder satisfaction • Geographical equity • Disproportionately favoring one type of service or delivery • Positive relationships between individuals and providers • Compliance with federal/state 	<ul style="list-style-type: none"> • Increased accountability • Reduced fraud • Balanced budget • Optimizing multiple funding streams • Efficiency • Cost containment



Rate Study

- ❖ To develop a consistent rate paid to all providers of the same services, you must consider **Direct Care Costs**, **Administrative Overhead**, and **Program Support Costs** (continued on next slide).
 - ❖ **Direct Care Costs**
 - ❖ Base Wages
 - ❖ Amount paid to direct support staff, excluding benefits (including health care, vision, etc.) and taxes.
 - ❖ Productivity
 - ❖ The amount of “billable” time spent in which services are directly being provided to a participant.
 - ❖ Benefits Factor
 - ❖ The amount or percentage that is added to the base wages amount to account for employee benefits (including health care, vision, etc.)
 - ❖ Full Time Equivalent Factor
 - ❖ Accounts for time that cannot be billed for services due to holidays, vacation, training, sickness
 - ❖ Staffing Ratios
 - ❖ The number of staff members needed to deliver a service per participant



Rate Study

- ❖ In addition to **Direct Care Costs** listed on the previous slide, you must also consider:
 - ❖ **Administrative Overhead**
 - ❖ Costs related to operations and not direct service provision (e.g., administrative staff, executive leadership, accounting, human resources, office supplies, rent)
 - ❖ **Program Support Costs**
 - ❖ Costs that are neither administrative or direct care; program-specific but not billable (e.g., program development, quality assurance, training of direct care staff).

Demonstration: Rate Setting

- ❖ This is a demonstration of developing an hourly rate, but rates have various units of time as needed
- ❖ The next slides walk through populating the table below

Category	Cost/Factor	Calculation	Final Rate (per hour)
Base wage cost per hour			
Productivity Adjustment			
Benefits Factor			
Full Time Equivalent Factor			
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Rate Setting

❖ First, consider the Direct Care Costs.

Direct
Care
Costs

Category	Cost/Factor	Calculation	Final Rate (per hour)
Base wage cost per hour			
Productivity Adjustment			
Benefits Factor			
Full Time Equivalent Factor			
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ Direct Care Costs are for the position(s) providing the service, i.e., skilled nursing service includes wages for registered nurses, or licensed practical nurses, or both, depending on state licensing rules and waiver service definitions).
- ❖ This cost factor can be informed by provider survey data.
- ❖ It can also be informed by wage data from the Bureau of Labor Statistics (BLS) which provides wage data for certain defined positions (e.g., registered nurse, occupational therapist, personal care aide)
 - ❖ BLS data is a good source if survey data are not reliable, are widely variable, or in instances where HCBS provider wages are not competitive with others of the same position title.

Demonstration: Direct Care Costs

❖ In this example, the **provider cost survey** or **BLS data** show **\$20** per hour wage for the position providing the service.

Direct
Care
Costs

Category	Cost/Factor	Calculation	Final Rate (per hour)
Base wage cost per hour	\$20		
Productivity Adjustment			
Benefits Factor			
Full Time Equivalent Factor			
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Direct Care Costs

- In this example, the provider **time study survey** shows that the position providing the service has 6.8 hours of billable time per 8-hour day. Billable time is the time spent providing the service as defined in the state’s HCBS waiver.
- The remaining time may be spent on travel time, record keeping and other service-related non-billable activities. The **productivity adjustment** is $8 \div 6.8 = 1.18$ (see next slide)

		Category	Cost/Factor	Calculation	Final Rate (per hour)
Direct Care Costs	}	Base wage cost per hour	\$20		
		Productivity Adjustment	1.18		
		Benefits Factor			
		Full Time Equivalent Factor			
		Direct Care Cost Per Hour			
		Administrative Overhead			
		Program Support Costs			
		Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ The productivity adjustment is used to ensure that the rate paid for billable time is enough to compensate for the service-related costs incurred during non-billable time.
 - ❖ If an employee costs \$20/hour for 8 hours (\$160 per day) and the employer only bills 6.8 hours:
 - ❖ Billing \$20/hour would leave the employer at a loss ($\$20/\text{hour} \times 6.8 = \136 per day)
 - ❖ Billing \$23.60/hour allows the employer to break even ($\$23.6/\text{hour} \times 8 = \160 per day)

Direct
Care
Costs

Category	Cost/Factor	Calculation	Final Rate (per hour)
Base wage cost per hour	\$20		
Productivity Adjustment	1.18	$\\$20 \times 1.18 =$	\$23.60
Employee Benefits Factor			
Full Time Equivalent Factor			
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ Like the Productivity Adjustment Factor, the **Benefits Factor** provides for costs incurred by the employer beyond wages. The calculation is:
 - ❖ Total non-wage costs incurred by employer for employee ÷ Total base wages

		Category	Cost/Factor	Calculation	Final Rate (per hour)
Direct Care Costs	}	Base wage cost per hour	\$20		
		Productivity Adjustment	1.18	\$20 x 1.18 =	\$23.60
		Benefits Factor			
		Full Time Equivalent Factor			
		Direct Care Cost Per Hour			
		Administrative Overhead			
		Program Support Costs			
		Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ In this example, the Benefits Factor is informed by the provider survey and/or assumptions informed by required expenses (i.e., Employer-paid taxes including Federal Insurance Contributions Act, Federal and State, Unemployment Insurance, Social Security Administration, worker’s compensation as well as health and other benefit premiums).
 - ❖ \$3 per hour for the above expenses ÷ \$20 per hour of wages = **0.15**

		Category	Cost/Factor	Calculation	Final Rate (per hour)
Direct Care Costs	}	Base wage cost per hour	\$20		
		Productivity Adjustment	1.18	\$20 x 1.18 =	\$23.60
		Employee Benefits Factor	0.15	\$20 x 0.15 =	\$3.00
		Full Time Equivalent Factor			
		Direct Care Cost Per Hour			
		Administrative Overhead			
		Program Support Costs			
		Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ The calculations so far assume that a provider is generating revenue (providing services) while incurring expenses (paying employees), but providers are unable to bill for vacation, personal or sick time, holidays, or are at training. We account for this with a **Full Time Equivalent Factor**. The calculation is:
 - ❖ Number of hours available or used on average annually for the above ÷ by 2,080 hours in a year.

Direct Care Costs

Category	Cost/Factor	Calculation	Final Rate (per hour)
Staff base wage cost per hour	\$20		
Productivity Adjustment	1.18	\$20 x 1.18 =	\$23.60
Benefits Factor	0.15	\$20 x 0.15 =	\$3.00
Full Time Equivalent Factor			
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Direct Care Costs

- ❖ In this example, the **FTE Factor** was informed by the **provider time study**, which showed:
 - ❖ The positions providing the service used 240 hours of Personal/Vacation/Sick/Holiday last year
 - ❖ The positions providing this service spent 120 hours at trainings required for service provision by the state.
 - ❖ Since there are 2,080 hours available, the calculation here is: $240 + 120 / 2,080 = 0.17$

Direct Care Costs

Category	Cost/Factor	Calculation	Final Rate (per hour)
Staff base wage cost per hour	\$20		
Productivity Adjustment	1.18	$\$20 \times 1.18 =$	\$23.60
Benefits Factor	0.15	$\$20 \times 0.15 =$	(+) \$3.00
Full Time Equivalent Factor	0.17	$\$20 \times 0.17 =$	(+) \$3.40
Direct Care Cost Per Hour			
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Other Costs

- ❖ We now have a rate that accounts for the direct care costs of the service. This is built based on the wage of the position providing the service, but also accounts non-billable time with the Productivity Adjustment, Benefits Costs with the Employee Benefit Factor, and other time off with the FTE Factor.
- ❖ The next slides will add on Administrative and Program Support Costs.

Category	Cost/Factor	Calculation	Final Rate (per hour)
Staff base wage cost per hour	\$20		
Productivity Adjustment	1.18	\$20 x 1.18 =	\$23.60
Employee Benefits Factor	0.15	\$20 x 0.15 =	(+) \$3.00
Full Time Equivalent Factor	0.17	\$20 x 0.17 =	(+) \$3.40
Direct Care Cost Per Hour			\$30
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Other Costs

- ❖ See slide 5 for definitions of **Administrative Overhead and Program Support Costs**.
- ❖ Like the Benefits Adjustment, these adjustments are used to ensure that the rate paid for billable time is enough to compensate for providers' other costs.

Category	Cost/Factor	Calculation	Final Rate (per hour)
Base wage cost per hour	\$20		
Productivity Adjustment	1.18	\$20 x 1.18 =	\$23.60
Benefits Factor	0.15	\$20 x 0.15 =	(+) \$3.00
Full Time Equivalent Factor	0.17	\$20 x 0.17 =	(+) \$3.40
Direct Care Cost Per Hour			\$30
Administrative Overhead			
Program Support Costs			
Rate Per Hour of Service			



Demonstration: Other Costs

- ❖ In this example, the **provider cost survey** demonstrates that providers spend about **9%** of what they spend on direct care costs on **Administrative Overhead**, and **2%** on **Program Support Costs**.
- ❖ These percentages are used to adjust the Direct Care Costs per Hour to determine the final Rate per Hour of Service as shown below.

Category	Cost/Factor	Calculation	Final Rate (per hour)
Staff base wage cost per hour	\$20		
Productivity Adjustment	1.18	$\$20 \times 1.18 =$	\$23.60
Benefits Factor	0.15	$\$20 \times 0.15 =$	(+) \$3.00
Full Time Equivalent Factor	0.17	$\$20 \times 0.17 =$	(+) \$3.40
Direct Care Cost Per Hour			\$30
Administrative Overhead Factor	0.09	$\$30 \times 0.09 =$	(+) \$2.70
Program Support Costs Factor	0.02	$\$30 \times 0.02 =$	(+) \$0.60
Rate Per Hour of Service			\$33.30



Questions & Comments



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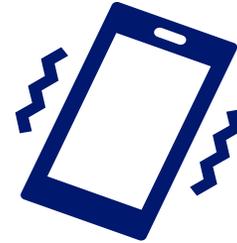
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