American Medical Rehabilitation Providers Association

11th Annual AMRPA Educational Conference

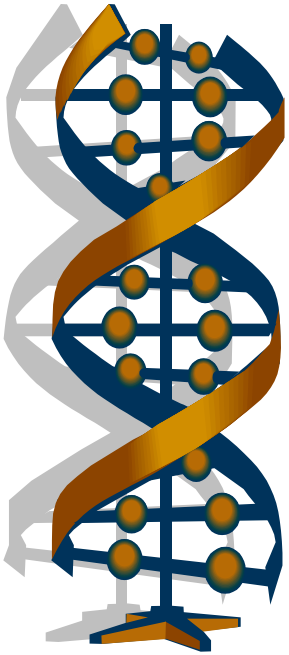
Amelia Island, FL

IRF Success In A Changing Environment

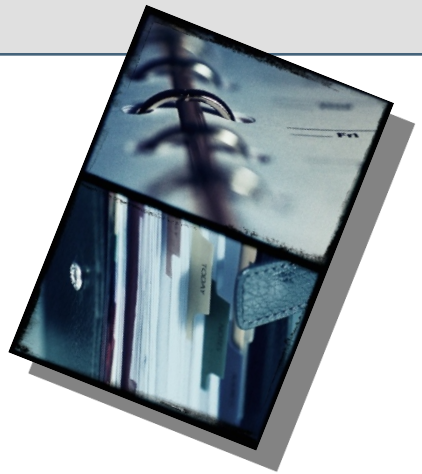
September 17, 2013

Walter CONSULTING

Focus of Today's Session



- Speaker Introduction
- Review IRF Best Practices benchmarks
- Discuss financial impact of census development
- Review Case Study – Central Georgia Rehabilitation Hospital
- Discussion



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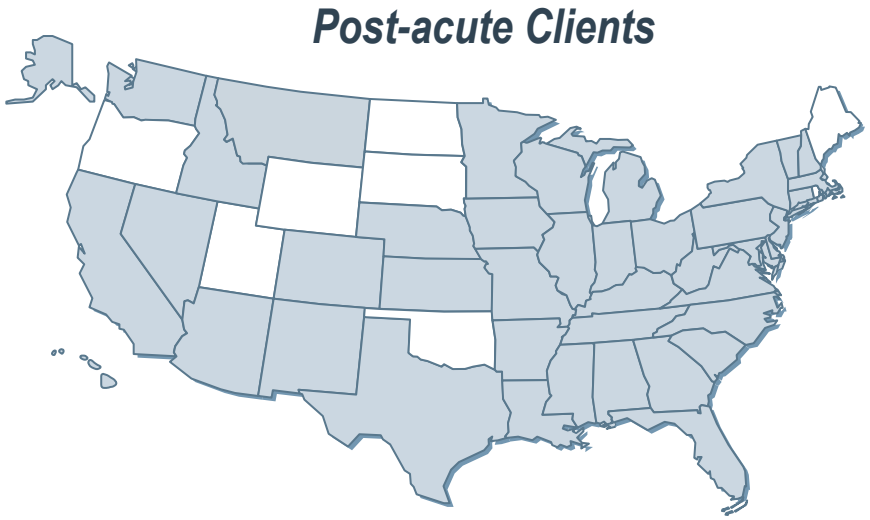
National Rehab and Post-acute Consulting Experience

- Over one-third of the +/- 100 freestanding NFP IRFs nationally
- Multiple proprietary IRFs and systems
- Major academic medical centers and integrated health systems
- Community hospitals and faith-based organizations
- Freestanding and hospital-based SNFs
- Freestanding and hospital-based HHAs
- Proprietary and NFP LTCHs
- Clients in 40+ states
- Other



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IRF Financial Pressures Likely to Continue Into The Future

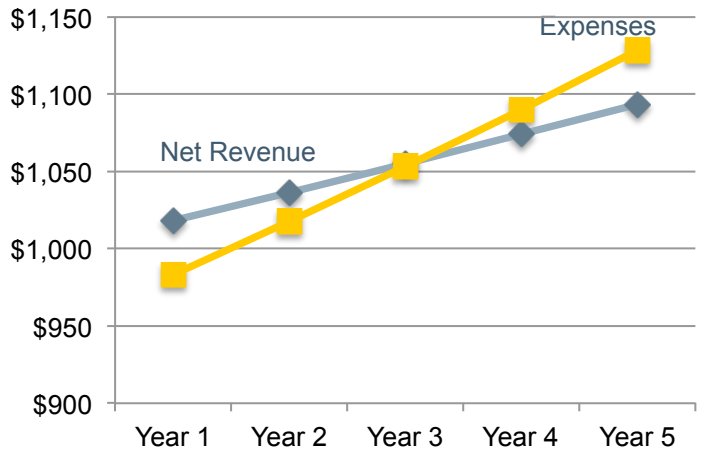
- Because Medicare is largest IRF payor, modest reimbursement increases that do not keep pace with inflation present significant challenges for provider

Impact of Revenue Adjustments Remaining Lower Than Expense Adjustments

	Base Year	Annual Inflation	Projections				
			Year 1	Year 2	Year 3	Year 4	Year 5
Net Revenue	$1,000	1.8%	$1,018	$1,036	$1,055	$1,074	$1,093
Expenses	$950	3.5%	$983	$1,018	$1,053	$1,090	$1,128
Net Income	$50		$35	$19	$2	-$16	-$35
Operating Margin	5.0%		3.4%	1.8%	0.2%	-1.5%	-3.2%

*While expense management is critical, **Top Line** revenue growth (i.e., **volume**) will be critical for long-term success*

*IRF/IRU providers must ensure that they are capturing **every possible referral** to maintain a strong financial position*



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Sample Internal IRF Demand Models

Ideally, it would be best to identify an estimated volume **by diagnosis** (and by target hospital), to establish **target admissions** for each program

Tracking mechanism should also be in place to make adjustments when actual admissions lags target potential

Memorial Hospital Internal IRF Demand Projections

Diagnosis	Admits	ALOS Low	ALOS High	ADC Low	ADC High	Bed Need (a) Low	Bed Need (a) High
Neurology	304	16	18	13.3	15.0	16	18
Orthopedics	207	10	14	5.7	7.9	7	9
Brain Injury	46	17	20	2.1	2.5	3	3
Non-Traumatic SCI	38	17	19	1.8	2.0	2	2
Traumatic SCI	35	25	28	2.4	2.7	3	3
Mjr Mltp Trm	34	20	23	1.9	2.2	2	3
Cardiology	39	10	12	1.1	1.3	1	2
Pulmonology	28	10	14	0.8	1.1	1	1
Other Medical	116	12	14	3.8	4.4	4	5
Total	**847**	**14**	**17**	**32.8**	**39.1**	**39**	**46**

(a) Assumes 85% occupancy.

Rehabilitation and Post-Acute Utilization Rates

*Nationally, approximately **3.2 percent** of all Medicare acute care discharges utilize IRF/IRU services post-discharge*

Best Practice** standards of aggressive providers, however, suggest actual potential between **4 – 6 percent

Medicare utilization critical benchmark, because **+/- 65 percent** of all IRF/IRU discharges are Medicare

While IRF admissions have decreased since 2006, Medicare acute care admissions have also decreased, so the percentage has remained fairly consistent (3.4%)

2006 National Post-acute Utilization Rates

Discharge Disposition	All Medicare (a)	Best Practices (b) Low	Best Practices (b) High
IRF	3.2%	4.0%	6.0%
SNF	17.3%	12.0%	15.0%
HHA	16.0%	22.0%	24.0%
LTCH	1.0%	1.5%	2.0%
Hospice	2.1%	2.5%	3.0%
Total	**39.6%**	**42.0%**	**50.0%**

(a) Source: MedPAC June 2008 Annual Data Book.
(b) Source: Walter Consulting.

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Where is IRF Utilization Headed Post-Healthcare Reform?

- When bundled payments or other shared-risk financial models are in place, IRF utilization likely to mimic Medicare Advantage health plans that are current at full financial risk…

2012 Post-acute Utilization – Three Sample Markets and Health Systems

Market	Discharges	Discharge Disposition					
		SNF	IRF	LTCH	HHA	Hospice	Total
Health System A - Texas							
Medicare	35,000	12.4%	**5.1%**	10.2%	13.4%	3.1%	**44.2%**
Medicare HMO	12,000	11.0%	**3.2%**	3.9%	16.9%	3.2%	**38.2%**
Health System B - Arizona							
Medicare	8,700	12.8%	**5.6%**	1.0%	16.6%	7.4%	**43.4%**
Medicare HMO	8,000	12.9%	**3.0%**	0.5%	17.7%	5.5%	**39.6%**
Health System C - Illinois							
Medicare	12,000	23.4%	**6.5%**	2.0%	18.6%	3.3%	**53.8%**
Medicare HMO	3,000	21.1%	**4.0%**	0.5%	22.2%	3.2%	**53.0%**

Sample External IRF Demand Model

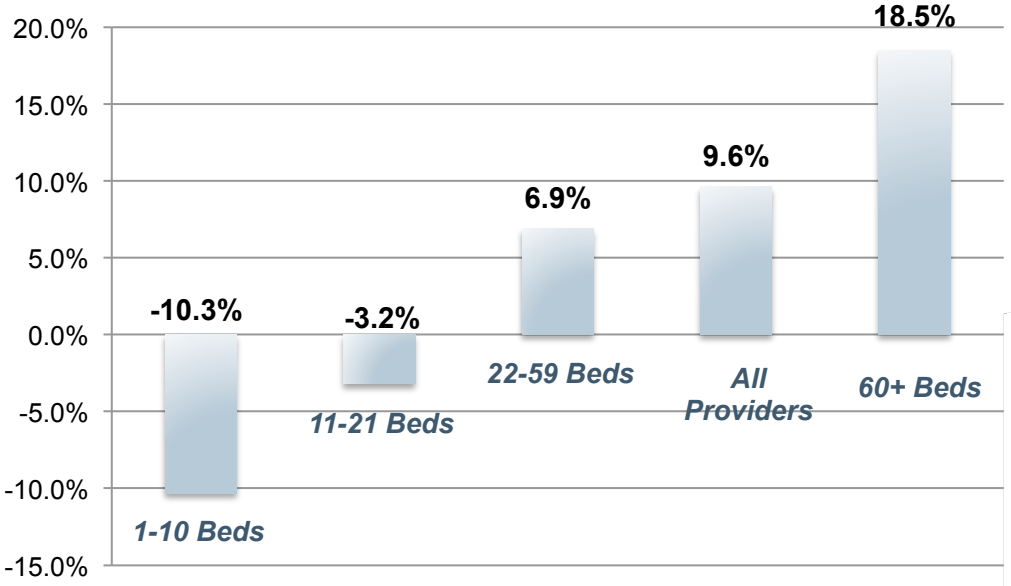
- Also helpful to understand the **total service area** IRF demand
  - Are there potential referrals outside of your hospital?
  - Are there enough (surplus) of IRF beds in the area?

Memorial Hospital – External Market IRF Demand Projections

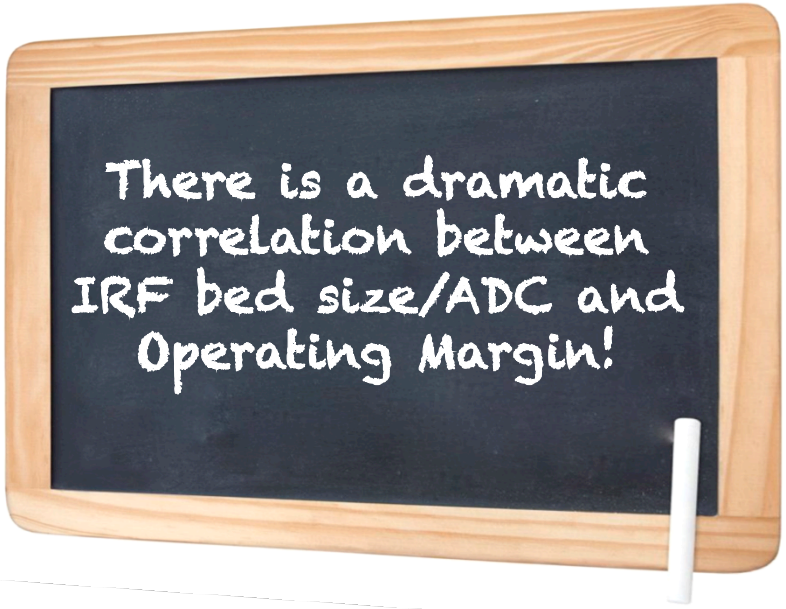
	Ortho		Neuro		SCI		BI		Other Medical		Total	
County	**Admits**	**Beds**	**Admits**	**Beds**	**Admits**	**Beds**	**Admits**	**Beds**	**Admits**	**Beds**	**Admits**	**Beds**
PSA												
County 1	151	6	210	11	36	2	47	2	190	8	634	29
County 2	225	9	319	16	54	3	72	4	287	12	957	44
PSA Total	***376***	***15***	***529***	***27***	***90***	***5***	***119***	***6***	***477***	***20***	***1,591***	***73***
SSA												
County 3	101	4	125	7	30	2	33	2	124	5	413	20
County 4	40	2	55	3	11	1	12	0	51	2	169	8
County 5	30	1	40	2	7	0	9	0	37	2	123	5
County 6	39	2	56	3	9	1	12	0	50	2	166	8
County 7	19	1	24	1	5	0	6	0	23	1	77	3
SSA Total	**229**	**10**	**300**	**16**	**62**	**4**	**72**	**2**	**285**	**12**	**948**	**44**
Total	**605**	**25**	**829**	**43**	**152**	**9**	**191**	**8**	**762**	**32**	**2,539**	**117**

IRF Volume Has Greatest Impact to Financial Performance

2011 IRF Medicare Margin by Bed Size *(a,b)*



(a) *March 2013 MedPAC Report to Congress*
(b) *MedPAC estimate of 9.6 percent FY 2011 margin & 8.5 percent FY 2013 for all provide*



What Will You Do To Increase IRF Census?

Est. FY 2013 Impact of 1 Occupied Bed	
FY 2013 Base Rate	$14,343
Avg CMI (a)	1.26
Avg Payment	$18,072
Est. Cost (assumes 8% margin)	$16,717
Est. Variable Cost (b)	$8,358
Est. Contribution Margin	$9,714
Est. Margin PPD (c)	$747
Est. Annual Impact of 1 ADC	$272,734

(a) Source: erehabdata
(b) Assumes cost structure is 50/50, fixed/variable
(c) Assumes 13.0 ALOS (erehabdata)

Nationally, every 1.0 increase in IRF ADC drives **$250K-$300K** to the bottom line

With a 13.0 ALOS, this equates to 28 admissions/year, or just over **2.0 admissions/month**

For smaller programs with a current margin less than 8.0 percent, the impact **may be greater** because they probably have a higher percentage of fixed costs, and the true, incremental "cost" of having 1 additional patient is not high

What could you do *TODAY* to get 2 more admissions this month?

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Case Study #1

- Mid-size acute care hospital in Northeast with 20-bed IRU
- IRU ADC = 12.0
- 90+ percent of IRU admissions come from host hospital
- High compliance, with relatively few “Other Medical” or Miscellaneous cases

Community Hospital – FY 2012 IRF Market Assessment

Current Admissions	300
Compliant Cases	225
Compliance Percent	**75%**
Target Compliance	65%
Potential Admissions	345
Potential Increase	**45**
Percent Increase	15.4%
Increase ADC (a)	1.7
Incremental Operating Income	**$450,000**

(a) Assumes 13.5 day ALOS

Findings

Opportunity identified to admit 40 – 50 non-ortho/ neuro patients, mostly cardiac and pulmonary patients with general debility, with **significant financial impact**

Case Study #2

- Three-hospital health system – 1,100 total beds (all 15-20 min apart)
- 40-bed IRU in 600-bed academic medical center
- IRU program historically had very low risk tolerance for potential denials

University Hospital – FY 2012 IRF Market Assessment

	% of Acute Pts Discharged to PAC	
PAC Program	**Medicare**	**Medicare Advantage**
IRF	2.0%	3.1%
SNF	21.0%	18.0%
LTCH	1.3%	0.7%
HHA	19.5%	18.8%
Hospice	4.0%	3.7%

Medicare and Medicare Advantage population similar diagnostically, but MA Case Managers actually utilizing IRU at a higher rate than Medicare FFS patients,

Findings

Market Assessment showed potential to double Medicare IRU admissions, increasing ADC by 8.0 - 10.0 patients, and Operating Income by > $2.0 million

Case Study #3

- Large multi-hospital system in the Midwest – approximately 60,000 total discharges
- One freestanding IRF and one HB-IRF unit
- Non-CON state, many LTCHs in service area (none within health system)

FY 2012 Potential IRF admissions by Hospital and Diagnosis

	Neurology/BI			Orthopedics			SCI/MMT			All Other			Total			
	Admits			Admits			Admits			Admits			Admits			
Hospital	Potential	Actual	Percent	Potential	Actual	Percent	Potential	Actual	Percent	Potential	Actual	Percent	Potential	Actual	Percent	Variance
Hospital 1	122	51	41.4%	102	120	118.2%	12	4	30.4%	45	52	115.6%	280	226	80.7%	-54
Hospital 2	54	32	58.3%	48	68	143.2%	9	4	47.1%	20	26	127.5%	130	129	99.2%	-1
Hospital 3	71	30	42.3%	34	57	166.2%	5	5	90.0%	33	41	126.2%	143	132	92.6%	-11
Hospital 4	284	219	77.1%	76	110	144.9%	134	85	63.7%	137	145	106.2%	630	559	88.7%	-71
Hospital 5	55	48	87.3%	57	128	223.7%	17	13	73.5%	17	20	117.6%	146	208	142.5%	62
Total	**586**	**379**	**64.7%**	**316**	**482**	**152.6%**	**176**	**110**	**62.4%**	**251**	**284**	**112.9%**	**1,328**	**1,254**	**94.4%**	**-74**

Findings

1. Although system doing a good job of capturing Ortho and Debility/Misc. patients, there was significant opportunity to improve capture of **Neurology and Trauma patients**
2. An additional 275 admissions would increase IRF ADC by 12.0 patients, and improve Net Income by **$3.0+ Million annually**

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Capturing New Referrals Requires Planning and Discipline

Know where to go for patients

Ensure effective-ness with "getting them in the door"

Initiative	Success Criteria
Market Assessment	• Know what the referral potential is within your market or hospital, and where to go to increase census
Marketing	• Dedicated staff for census development/case finding • Open referral funnel as wide as possible
Admission criteria	• Have clear message to the market • Evenly applied by all liaisons and medical staff
Admissions process	• Set response times and stick to them • Screen patients "In" not "Out"

- Gaining the admission is only ***Step 1***
- ***Delivering on Your Promise***, is the only way to ensure that your IRF keeps this business for the long-term!
  - Good outcomes, patient satisfaction, and referral source satisfaction

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Central Georgia Rehabilitation Hospital

- **58-bed freestanding IRF** located in Macon, GA, established 1988
- Part of the **Central Georgia Health System**, which is the largest health system in Central Georgia
  - Main campus, the **Medical Center of Central Georgia**, has approximately 600 acute care beds, is a Level 1 Trauma Center, and is a tertiary provider for most specialty services
- CGRH admits approximately **1,000 patients per year**, with approximately 75 percent of patients coming from MCCG
- XX
- XX

GA Map, w/ star for Macon

Questions?

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