

Overview of Medicare Cost Reporting for Hospitals (CMS 2552-10)

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Agenda

- 1 Overview of what the Medicare Cost Report is and what type of information it reports
- 2 Discuss how the cost report impacts various types of hospitals
- 3 Overview of how the cost report computes Medicare cost
- 4 Learn who utilizes the cost report and how you can leverage it as a strategic tool in your organization

What is the Medicare Cost Report?

Series of worksheets that collects information on the characteristics of a hospital, financial data, and statistical data that is used to:

- ▲ Determine settlement amounts due to/from Medicare
- ▲ Establish payment rates
 - Future payment rates under Prospective Payment Systems (PPS)
 - Interim payment rates for cost-based reimbursement systems
- ▲ Request various exceptions and determinations
- ▲ May have impact on other payors
 - Medicaid payments, depending upon the State
 - Medicare Advantage payment rates

Type of information in the Hospital Medicare Cost Report

Facility characteristics

Provider type
Rural/urban
Ownership status
Teaching facility
... and more

Statistical data

Number of beds, patient days and discharges, FTEs
Wage Index data including average hourly wages, contracted labor, benefits cost
Statistics used to allocate overhead costs

Cost and charge data

Segregates overhead, routine, ancillary, outpatient, and other costs at a cost center level
Hospital-based physician costs
Related party transactions
Analysis of Capital Costs
Uncompensated Care Costs

Financial data

Balance Sheet
Change in Net Assets
Breakdown of Patient Revenue
Income Statement with a breakdown of other income

Who is required to file a Medicare Cost Report?

- ▲ Hospitals
- ▲ Skilled Nursing Facilities
- ▲ Home Health Agencies
- ▲ Hospices
- ▲ Renal Dialysis
- ▲ Rural Health Clinics
- ▲ Federally Qualified Health Centers



Private physician
practices do NOT file
Medicare Cost
Reports

How the cost report impacts various types of hospitals

Prospective Payment System (PPS)

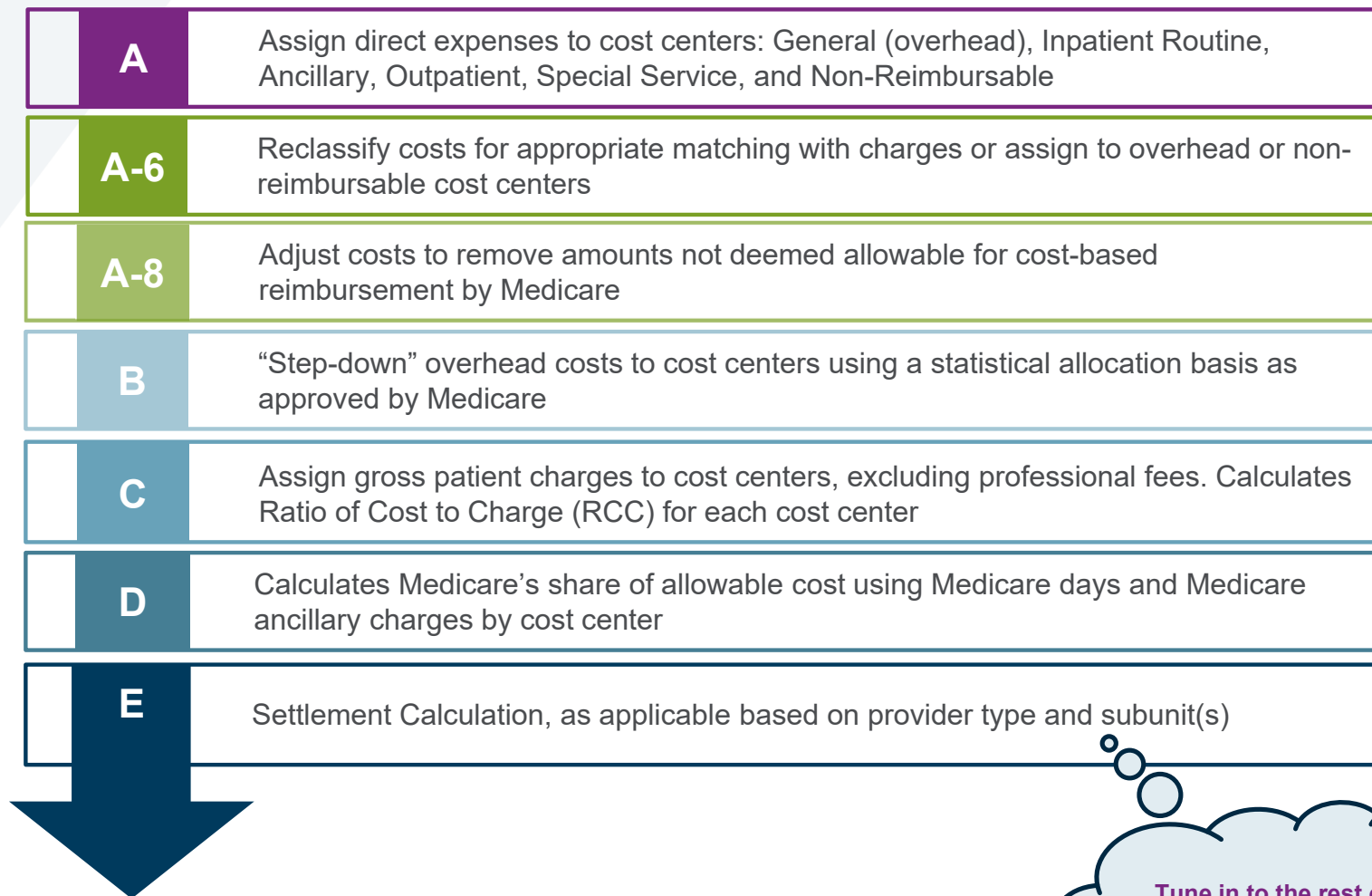
- ▲ Hospital payment rates established in advance for a particular period
- ▲ No future settlement of amount owed
- ▲ However, some components may be subject to settlement in cost report
 - Medicare bad debt
 - Disproportionate share (DSH) payments
 - Graduate medical expenses (GME)
 - Periodic Interim Payment (PIP) settlement
 - Settlements related to special payments for certain designations

Critical Access Hospital (CAH)

- ▲ Reimbursed on the basis of allowable costs determined in annual cost report filing
- ▲ Interim payment rates established based on previous cost report period
 - Inpatient Per Diem
 - Outpatient Cost-to-Charge Ratio
- ▲ Cost report filing settles amounts actually owed

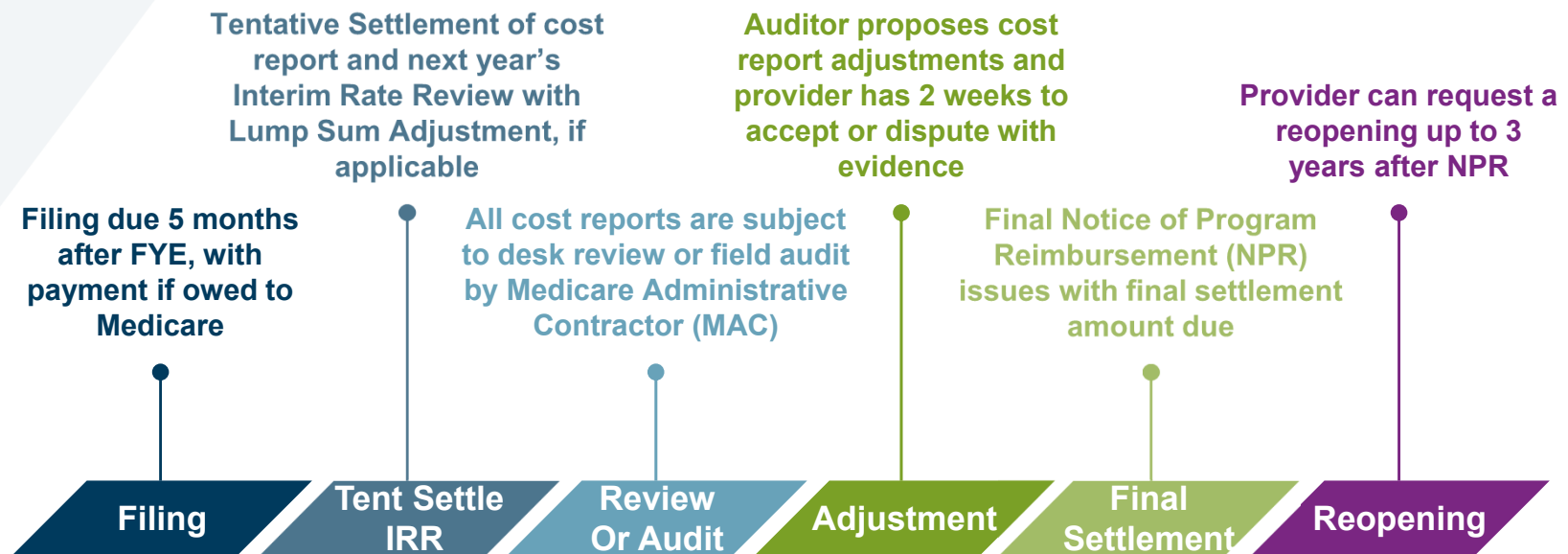


How the Cost Report Calculates Medicare Allowable Cost



Lifecycle of a Hospital Cost Report

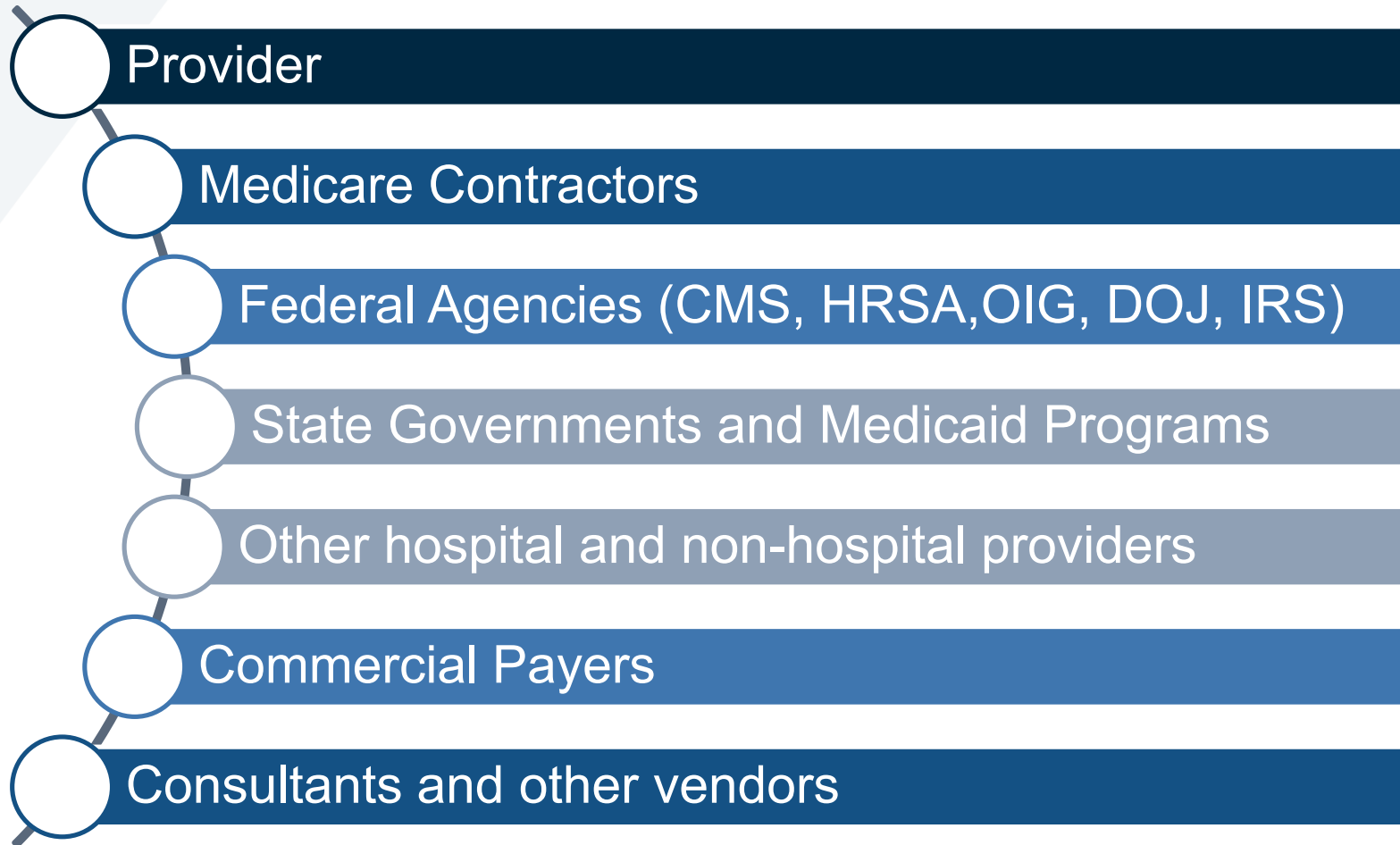
What happens after filing a Cost Report?



**Providers can file amended cost reports before the initial NPR is issued, with exceptions related to wage index and DSH*

Who Uses Medicare Cost Reports?

Filed and Settled Medicare Cost Reports are publically available under the Freedom of Information Act



The Medicare Cost Report can be used as a Strategic Tool

The Medicare Cost Report may be one of your best resources when evaluating high level financial issues. Making strategic decisions requires extensive resources for assessing a financial situation with a plan of action. The process can involve many reports, hours of analysis, and additional FTE's. If you are looking for a quick tool for making strategic decisions look no further than your Medicare Cost Report.

The Medicare Cost Reports can be used by providers to help:

- ▲ Understand trends in inpatient and outpatient costs
- ▲ Determine cost center profit margins in lieu of a cost accounting system
- ▲ Examine facility characteristics
- ▲ Identify strategies to improve financial performance

The Medicare Cost Report can be used as a Strategic Tool

Analyze Routine and Ancillary Cost

- Review Routine direct cost per day, total cost per day, or total charge per day within routine service areas.
- Providing insight into staffing and pricing issues.

INPATIENT ROUTINE COST PER DAY ANALYSIS

UNIT	B Pt I Col 0 Direct Cost	B Pt I Col 27 Total Cost	C Pt I Col 8 Charges	S-3 PT I Col 6 Days	Direct Cost Per Day	Total Cost Per Day	Total Charges Per Day
Adult & Pedi	\$3,450,000	\$7,850,000	\$7,360,000	8,250	\$418	\$952	\$892
ICU	\$2,850,000	\$3,330,000	\$3,825,000	1,565	\$1,821	\$2,128	\$2,444
Sub Provider	\$3,150,000	\$ 625,000	\$285,000	925	\$3,405	\$676	\$308

The Medicare Cost Report Tool Can be used as a Strategic Tool

Analyze Routine and Ancillary Cost

- ▶ You can prepare an Ancillary Cost analysis using the cost-to-charge ratios on worksheet C Part I.

ANCILLARY COST			
Department	Worksheet C Pt I Column 3 Total Cost	Worksheet C Pt I Column 8 Total Charges	Worksheet C Pt I Column 9 C/C Ratio
Operating Room	\$10,160,000	\$34,515,741	29.44%
Laboratory	\$6,345,000	\$22,356,000	28.38%
Emergency Room	\$13,875,000	\$11,070,000	125.53%

- ▶ A cost to charge ratio greater than 1.0 could raise the question as to whether or not you should reduce cost to improve margin and/or evaluate price point.

The Medicare Cost Report Tool Can be used as a Strategic Tool

Controllable vs Incontrollable Cost

Fully allocated costs include all departmental expenses. To remove the attention and focus on expenses that are managed by other departments and out of a managers control you can measure a departments financial performance based on a direct cost-to-charge ratio.

ANCILLARY COST			
Department	B-1 Column 0 Total Direct Cost	C Pt I Column 8 Total Charges	C Pt I C/C Ratio
Operating Room	\$5,138,000	\$34,515,741	14.89%
Laboratory	\$3,608,000	\$22,356,000	16.14%
Emergency Room	\$5,872,000	\$11,070,000	53.04%

This cost to charge ratio analysis is helpful for understanding controllable cost.

For example, this exhibit reflects the direct cost-to-charge ratio for the operating room of 14.89%. This amount represents the controllable cost compared to the cost-charge-ratio of 29.44% reflected in the previous exhibit

Your Medicare Cost Report can be used as a strategic tool

Historical Trends

Compare routine cost per day and cost to charge ratios for a period of time

HISTORICAL ANALYSIS			
Department	2023	2022	2021
Routine Cost Per Day	\$2,084	\$1,830	\$1,795
Operating Room C/C	0.294397	0.267342	.024938
Laboratory C/C	0.283791	0.267905	.029832
Emergency Room C/C	0.72228	0.48150	0.54624

With a historical analysis you can observe changes that have occurred within your organization.

Your Medicare Cost Report can be used as a strategic tool

Outsourcing Services

Is your Hospital considering providing services to others or outsource services, such as rental space, housekeeping, meals or laundry?

Cost Center	Unit Cost Multiplier	Statistic
Building Depreciation	\$9.38	Square Footage
Housekeeping	\$17.02	Square Footage
Meals	\$4.18	Meals Served
Laundry	\$3.26	Pounds of Laundry

You can analyze the cost of services your organization provides to others for either rate setting or continuation of providing the service.

Your Medicare Cost Report can be used as a strategic tool

Benchmarking

Develop a summary of benchmarks comparing your organization with your competitors

BENCHMARK	Formula
Adults and Pedi Occupancy %	Worksheet S-3, Part I, Column 8, Line 1/Column 1, Line 1 (Beds) * 365
Adults and Pedi ALOS	Worksheet S-3, Part 1/Column 15, Line 1
Overhead expenses as a percentage of total expenses	Worksheet B, Part 1, Column 0, Lines 3-24/Column 0, Line 103
Outpatient charges as a percentage of total charges	Worksheet C, Part 1, Column 7, Line 103/Column 8, Line 103
Routine Cost Per Day	Worksheet D-1, Part 1 (hospital) Line 38

Questions?

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