

Setting Rates for CBO Services

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Assumptions/Experience

- There is no competition offering exactly what we do, so difficult for customer to have an anchor price in mind
 - Offer at high end of reasonable rate
 - **Know ROI (if you have info) for various prices - VALUE**
 - You're probably competing against "DIY"
 - Do it yourself, i.e., build vs. buy
- First year of contract is a pilot
 - Volume will be low
 - Pain will be short lived if we set the wrong price
- Learning and building a résumé may be worth losing \$ in the short run

The evolution of a pricing model: Cost

- Find a program in the agency that fully allocates all costs, both direct and indirect
 - Grants usually do not allocate full costs
 - For us it was our waiver program
- Derive a % of variable direct program costs for:
 - Administrative support & other fixed direct cost
 - Indirect cost
- Apply % to direct program costs
- Overestimate everything so there's room to negotiate

Types of cost

- Direct variable costs
 - Change based on # of clients/patients/participants
- Direct fixed costs
 - Difficult to gauge for small/pilot programs
 - % allocation of program costs based on similar programs
 - Can also use for breakeven analysis approach
- Indirect costs – keeping the agency whole
- Margin – no margin, no mission
- Something new: Network management costs

What are the variable direct costs?

- Staff to deliver program
 - Time study - Budget hours high
 - Budget salaries high
 - But know your lowest reasonable cost
 - Consider inefficiencies built into old ways of doing business
 - CMs (MSW/RN) spending as much time on data entry as on home visit
 - Direct data entry in home or have admin asst. do data entry
 - LCSW required to sign off on each assessment
 - 15 minutes of an existing staff member until volume is sufficient
 - Program variations lead to cost variations
 - Service plan to Health Plan CM vs. arranging services vs. long-term CM
 - **Service plan startup \$:** in first months high because of previously unmet needs
 - **Population:** Frail, high medical risk, moderate risk, Medicare, Medicaid
- Mileage & parking
 - High average distance traveled at federal mileage rate
- HomeMeds license & pharmacist review for home visit programs
- Materials/handouts

Fixed direct costs – single agency

- Oversight/supervision
 - Be realistic – for a pilot you probably can't afford a project manager in the price
- Admin staff, student stipends, etc.
- IT system specific to the program/service
- Cell phone/mobile hotspot
- Program supplies, copying, general admin, etc.

Indirect Costs

- These are real costs
 - HR – staff will be hired and managed
 - Finance – more billing
 - Case rate involves many more transactions than grants
 - Communications
 - Rent – more people=more space
 - Insurance
 - Coverage limits doubled; new cyber policy required
 - General admin staff
 - IT Infrastructure & Security
- If your bottom line is healthy, then you can negotiate price down and allocate less indirect

Network Costs

- Value to the plan is the convenience
 - E.g., one contract has cost us \$40,000 in legal, at least 2,000 hours executive-level staff time
 - BUT the plan has matched us hour for hour in legal and staff time
 - Multiple versions of the same process would be untenable

Startup Costs

- Here's where grants can help
 - Some healthcare organizations will advance \$ and deduct from future invoices
 - Some will be willing to guarantee a minimum volume to cover fixed costs and startup
- Furniture & Equipment; new office space
- Supervisory/management staff to hire & train staff
- Cost of staff before first payment
- Infrastructure, security & insurance improvements to conform with higher standards

Network Cost in Subcontract Mode

- **Billing** Cost (Finance Staff)
- **Insurance** Differential or \$ directly attributable to network contracts
- **Legal** related to network contracts & network management
- Marketing/**Sales**/Business Development/Contract Negotiations Staff & Consultants Related to Network Contracts
- **Credentialing, QA** and **Oversight** of Network Providers
- **Software** (Clinical/Billing/Client Management)
- **Accreditation/Training** Requirements
- **Fiscal Intermediary** Expenses to enable billing (Staffing agency; medical group)
- **Call Center**
- **Customer relations** with plans – coordination
- Member/patient **satisfaction surveys**, metrics, analysis