



Rural Link

Up-to-date information for Rural Health Hospitals

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Coming up in the next Rural Link issue, we will return to our Low Volume Adjustment (LVA) series, focusing on challenges for providers in identifying and successfully adjudicating LVA opportunities.

In this issue, we would like to share an article written by one of our consultants that was recently published in HFMA newsletters.

Does your facility qualify for additional Medicare reimbursement?

Background

Recognizing that rural hospitals were more financially vulnerable under the constraints of the Prospective Payment System (PPS), effective April 1, 1990 the Medicare program established special payment provisions to provide financial assistance to hospitals classified as Sole Community (SCH) or Medicare Dependent (MDH) Hospitals. Both types of hospitals are paid the higher of the PPS rate or a hospital-specific rate based on costs per discharge for a certain base year determined by Medicare regulations. In addition to the hospital-specific rate a provision for a special payment adjustment has also been created and is often referred to as a Low Volume Adjustment (LVA).

Payment Adjustment

There are two basic criteria that qualify an SCH or MDH for the LVA payment. First, the hospital must experience a decline in discharges greater than 5% as compared to the immediately preceding cost reporting period. The number of discharges should include only adult and pediatric inpatients; newborn, swing bed, and distinct unit discharges should be excluded. Second, the decrease in volume must be due to circumstances beyond the hospital's control. This could include unusual situations or occurrences such as strikes, inability to recruit essential physician staff, floods, unusual prolonged severe weather conditions, or other similar occurrences.

To qualify for the payment, a written request must be filed with the Fiscal Intermediary (FI)/Medicare Audit Contractor (MAC) within 180 days following the Notice of Program Reimbursement (NPR) date. A request may also be filed for a cost report that has not received an NPR date, allowing the request to be incorporated into the audit cycle. Extensive documentation must be submitted with the request and should include a detailed description of the circumstances that resulted in the volume decline and efforts made by the facility to control costs.

The LVA is designed to fully compensate a hospital for the fixed costs it incurs and may not be able to reduce during the period in which a decline in volume occurred. This includes the reasonable cost of maintaining necessary core staff and services. Many costs in a hospital are neither specifically fixed nor variable, but are semi-fixed; that is, there are costs that are necessary to maintain operations but also may vary somewhat with volume.

Per the LVA regulations, when experiencing a decline in discharges, a cost-effective hospital would take measures to decrease unnecessary operating costs. It is for this reason that the allowable costs the LVA payment is based upon are limited to the prior period costs updated for inflation. When making an LVA determination the FI/MAC is required to review semi-fixed costs; particularly whether the level of core nursing staff was adjusted appropriately for the decline in census. To do this, the hospital's actual Full Time Equivalent (FTE) nursing staff is compared to the staffing levels of peer hospitals. The comparison data is obtained from the Occupational Mix Survey results. If the nursing FTEs for the year in which the volume decline occurred are greater than the comparable nursing staff level, an adjustment will be made to reduce total acceptable costs for the excess staff and therefore reduce the LVA payment.

Payment Adjustment Strategies

No hospital wants to experience a significant decline in volume but it does happen. The fact that these occurrences are unanticipated means they cannot be planned for. However, there are several strategies a hospital should employ in order to be prepared for a potential low volume opportunity.

- Review the cost report structure and allocation methodologies each year. Since the LVA payment is limited to the prior year's updated costs, each cost report should be viewed as a possible base year for setting the next year's LVA cap in the event a qualifying volume decline occurs. Certain cost report elections and allocations can be made, consistent with Medicare regulations, to optimize a potential LVA payment. The Rybar Group routinely counsels its SCH and MDH clients regarding the importance of these reviews as part of a long term strategy to take full advantage of all available Medicare reimbursement opportunities.
- Track discharges monthly in order to identify as early as possible a 5% or greater decline in discharges. Requests for many cost report elections and changes in allocations must be submitted to the FI/MAC prior to the end of the fiscal year; early detection of an LVA opportunity will allow time to analyze and request changes to optimize the potential payment amount.
- The response to the Occupational Mix Survey (OMS) data should be carefully reviewed to ensure that core nursing staff is reported accurately and within the proper categories. The OMS data is used for comparisons for a period of three years. The LVA payment may be significantly reduced for excess nursing staff and the OMS report is often referred to when determining a hospital's core nursing FTEs.

Sole Community and Medicare Dependent hospitals face many significant challenges, specifically financially. The low volume adjustment payment is designed to assist rural providers that have lost discharge volume and significant Medicare revenue due to unanticipated circumstances. It is essential for SCHs and MDHs to put into place policies and procedures aimed towards the successful completion and optimization of a potential low volume opportunity.

Please call or email Michele Causley if you have any questions.



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