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