

## **Quality or Productivity?**

Therapy staffing after the Balanced Budget Act.

**By Cherilyn Murer, J.D., C.R.A.  
President and C.E.O., Murer Consultants, Inc.**

The implementation of the Balanced Budget Act of 1997's provisions has affected all providers of post acute healthcare. Providers in today's Medicare reimbursement environment must quickly adapt their management and care-giving practices in order to provide quality care while reducing costs. The elimination of cost-based reimbursement has required providers to realign to bottom-line thinking and return to the basics of business. The efficiencies that result from this new approach will benefit healthcare.

However, cost-containment must coincide with maintaining quality. This is especially true for the provision of therapy services. Healthcare administrators must carefully consider the method of delivering therapy services they choose to ensure that it will enhance the productivity, quality and financial performance of their institutions.

### **Providers Under The Balanced Budget Act**

The management and staffing of skilled nursing facilities/units (SNFs/SNUs), long term care hospitals, and other providers which are exempt from the prospective payment system (PPS) will be greatly affected by the Balanced Budget Act of 1997 (BBA). These providers had previously received Medicare reimbursement that was cost-based. Now, however, they must operate under formula-driven systems of reimbursement.

SNFs and SNUs will be particularly affected by the BBA. These providers had previously been reimbursed on a reasonable cost basis

which capped their routine service costs at a facility cost limit. Physical, occupational, and speech therapy were among ancillary services which were reimbursed without any facility cost limits. Now, however, the reimbursement methodology for skilled nursing facilities and units is quite different. The BBA mandates that, beginning on July 1, 1998, facilities which received payment for services before October 1, 1995 will be paid a blend of the facility-specific rate and a federally-determined rate. "New providers," those first receiving payment for services on or after October 1, 1995, will be reimbursed according to the federal rate. After July 1, 2001, all SNFs and SNUs will be paid according to a PPS. The PPS will include all ancillary services including therapy. SNFs and SNUs are no longer able to focus solely on patient outcomes from therapy. Now, in addition to quality, therapy costs must also be monitored.

Like SNFs and SNUs, all post acute providers must control therapy costs. These providers must furnish a significant amount of therapeutic care by utilizing therapists and/or entering vendor agreements with outside agencies. Therefore, the issue the obtaining productive, quality therapy is more keen to post acute providers.

### **Maximizing Therapy Productivity: Choosing Between Employees And Vendors**

Today's healthcare managers and administrators must ensure that patient services are provided in the most cost-effective manner possible while simultaneously attaining the expected clinical outcome for the patient. This responsibility includes the provision of therapeutic services. Whether employing therapists or contracting for therapy services, providers must evaluate not only the quality but also the productivity of therapy providers.

Productivity in healthcare is a controversial issue for many providers. They believe that the human and caring elements of healthcare may be compromised if the focus is shifted to productivity. However, healthcare remains a business and for it to survive and continue to provide high tech and quality care it must be treated as a business. Enhancing productivity is a necessary component of survival. Productivity is not the antithesis of providing caring and quality

services, however. Instead, for a therapist to be truly productive, the patient must be satisfied and the appropriate clinical outcome must be achieved.

### Employing Productive Therapists

Employing physical, occupational, and speech therapists, as opposed to contracting with a vendor, offers both advantages and disadvantages for providers. On one hand, providers have more control over their employees. Control allows employers to demand and develop a high level of quality. They also enjoy the fixed costs employment offers when developing their budgets. However, providers must endure employment-related expenses such as turnover, skill-development and recruitment in addition to scheduling problems. These dilemmas can be particularly difficult for smaller providers. Maintaining and improving productivity has also been a concern when employing therapists. Traditionally, employed therapists are paid a salary and do not share any financial risk with the employer. Thus, some employees are content to remain adequate rather than highly productive. Employers can deviate from this trend, however.

Employers may use performance-based compensation to improve the productivity of their employed therapists. The performance-based formula utilized, however, should not focus solely on the number of therapy units provided within a certain period of time. To advance the quality of therapy care, therapists should also be evaluated and compensated on the basis of other factors. Two such factors include patient satisfaction and physician evaluations. To enhance productivity therapists can be rewarded for not merely accumulating hours worked but for the number of therapy units provided for each hour worked that are, in fact, reimbursed by Medicare or other third-party payors. Compensating therapists, in part, according to reimbursed therapy provided allows them to share risk with the institutional provider.

For example, an employed therapist could be compensated in a manner which considers his or her productivity, patient satisfaction and physician approval. The compensation could include base salary of \$35,000. Successful performance on quarterly physician

evaluations would add \$6,000. High performance ratings by patients would provide an additional \$4,000 in compensation. Finally, the therapist would be eligible to earn up to \$12,500 depending on his or her level of productivity measured in reimbursable therapy units provided per hour (See accompanying chart).

This compensation example allows the employed therapist to obtain total bonus compensation of \$22,500, or nearly 65 percent of his or her base salary. However, this is just one of many performance-driven compensation formulas available to providers. Other factors may be considered and the levels of the base salary and bonuses may be adjusted. Such formulas do provide the impetus for the therapist to maintain productivity while providing quality services as evaluated by both patients and their physicians. In addition, the risk-sharing by the therapist allows him or her, although an employee, to retain an entrepreneurial interest in the success of the therapy department.

### Evaluating Vendors for Compatibility with Your Organization

While employed therapists may be compensated to instill a risk-sharing element to their performance, vendors of therapy services offer the another risk-sharing opportunity. To share risk, vendors must be willing to abandon traditional per unit billing to accept more of a managed care model. Therapy vendors' success will then rely on their productivity toward achieving positive patient outcomes.

In addition to a willingness to share risk, therapy vendors must be evaluated to ensure that they have the experience to perform in a PPS environment. Ideally, they should be able to demonstrate successful performance with managed care organizations and providers who already operate under a PPS. In controlling costs, vendors should be able to utilize both group therapy and therapy aides. However, therapist aides and assistants must only be used in the correct proportions and circumstances. The provider should have control over what these circumstances and proportions are. Vendors must also be able to provide services during a wide time frame. SNFs/SNUs, under the Resource Utilization Groups (RUGs) system, must provide a large amount of therapy within specific time frames.

Vendors they contract with must be able to provide the appropriate amount of therapy by the RUGs required day even if it is a weekend day.

In addition to the willingness to share risk and experience with managed care and PPS, providers must evaluate other factors before entering into a contract with a therapy vendor. Each vendor considered by the provider should be rated and compared with one another on the following factors:

- Cost
- Risk of Conflict of Interest
- Compatibility with the Mission of the Provider
- Stability of Organization
- Ability to Recruit and Retain Staff
- Sufficient References
- Accreditation and/or Certification
- Personal Compatibility

The evaluation of therapy vendors must not end once the contract for services is entered. The provider must continually monitor the quality and cost of therapy services to ensure that it is maximizing the services received for each healthcare dollar. As with employed therapists, evaluating performance by patient and physician evaluations is a useful tool. In addition, providers must evaluate existing contracts and services to:

- Review terms and conditions to revise and update them when needed;
- Audit vendor compliance with contract deliverables to ensure that all items and services are being furnished as per the contract;
- Renegotiate pricing to levels appropriate for the reimbursement system.

Another compelling reason for providers to continually monitor existing vendor contracts is to check for the ability to terminate or renegotiate the contract if market conditions or the reimbursement system changes. Some vendor contracts may include provisions

which allow them to be renegotiated or terminated at a party's discretion if there is a significant change in the market or Medicare reimbursement. The continual adjustments to the reimbursement system under the BBA may give providers the opportunity to seek new, more competitive therapy services contracts.

As post acute care moves steadily towards PPS reimbursement, providers must make adaptations to their methods of furnishing healthcare services. This is particularly true of therapy services. Whether employing therapists or contracting with vendors, providers must ensure that the therapists in their facilities understand the requirements and constraints of PPS and are willing to share a measure of risk with the providers. Providers must continually evaluate the quality, productivity and cost of its therapy services to ensure they are obtaining the best service for most competitive price.

About the Author:

Cherilyn G. Murer, J.D., C.R.A. is CEO and founder of the Murer Group, a legal based health care management consulting firm in Joliet, IL, specializing in strategic analysis and business development. Ms. Murer may be reached at (815) 727-3355 or viewed on web site: <http://www.murer.com>

### Compensation Example for a Therapist Employee

**Base Compensation**

**\$35,000**

<i>Type of Bonus</i>	<i>Criteria</i>	<i>Amount of Bonus</i>
Patient Satisfaction	Must achieve average score >85 on quarterly patient satisfaction survey.	\$1,000 per quarter; maximum of \$4,000 annually.
Physician Evaluation	Must achieve average score >85 on quarterly evaluation by referring physicians	\$1,500 per quarter; maximum of \$6,000 annually.
Productivity	Annually must provide, on average, >3.5 reimbursed therapy units per productive hour.	\$500 per hundredth of a unit greater than 3.5 up to a maximum of 25 hundredths; maximum of \$12,500 annually.
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**Total Possible Compensation**

**\$57,500**

About the Author: Cherilyn G. Murer, J.D., C.R.A., is C.E.O. and founder of The Murer Group, a legal-based healthcare management consulting firm in Joliet, Illinois, specializing in strategic analysis and business development. Ms. Murer may be reached at (815) 727-3355 or viewed on website: <http://www.murer.com>.

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