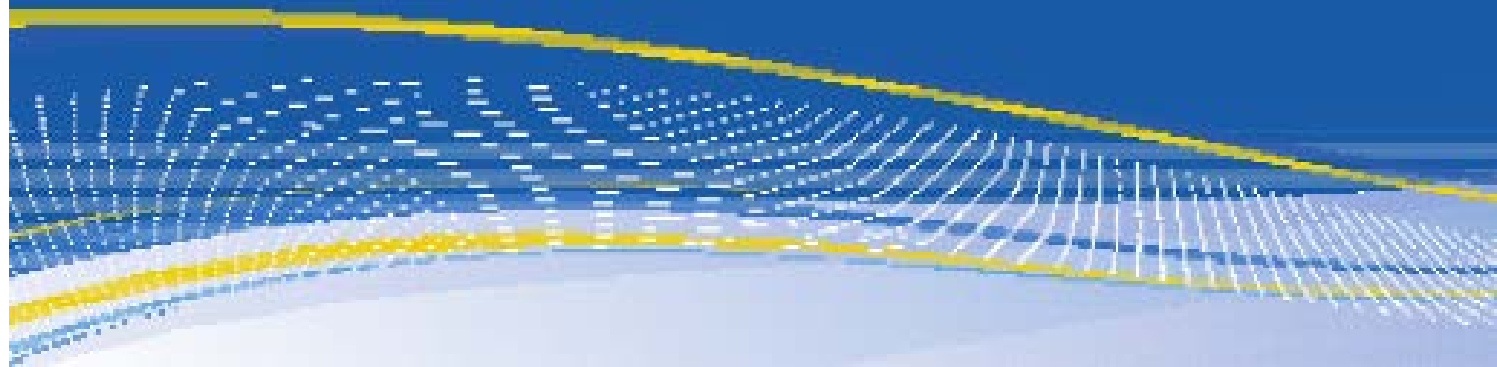




Fee Schedule HCBS Rate Setting: Developing a Rate for Direct Service Workers



Division of Long Term Services and Supports
Disabled and Elderly Health Programs Group
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Training Objectives

- To define fee schedule rate setting.
- To demonstrate a fee schedule rate setting methodology in detail by setting a rate for direct service workers.
- To review various factors that should be considered when developing a fee schedule rate that is consistent with efficiency, economy, and quality of care, and is sufficient to enlist enough providers so that care and services are available under the plan at least to the same extent that such care and services are available to the general population in the geographic area.

Overview of Rate Models

- Fee schedule rate methodology results in a consistent rate paid to all providers for the same service.
- Fee schedule rate models may be comprised of various factors, depending on the service.* Some examples of these factors include:
 - Wages
 - Productivity Assumptions
 - Benefits Factor
 - Administrative Overhead
 - Program Support Costs
 - Paid Time Off and Training Time
 - Staffing Ratios

* *Common factors in FFS Rate Models will be further defined later in the presentation*

Rate Factors Defined

➤ **Wages**

- The periodic (hourly, quarter-hour, etc) amount paid to direct support staff, excluding benefits and taxes. We refer to hourly rates in this presentation, but there may be different units for services.

➤ **Productivity Assumptions**

- The amount of “billable” time spent during an 8-hour day or 40-hour week in which service was directly provided to a participant.
- Can include a factor for overtime, if applicable.

➤ **Benefits Factor**

- The amount or percentage that must be added to the base wage rate to account for employee benefits such as employee related taxes, health benefits, etc.

Rate Factors Defined

- **Administrative Overhead**
 - Costs related to operations and not related to the direct provision of services (e.g., administrative staff, executive leadership, accounting, human resources, office supplies, office leases, etc.).
- **Program Support Costs**
 - Costs that are neither administrative nor direct care; are program-specific, but not directly billable (e.g., program development, quality assurance, staff training and expenses associated with these staff).
- **Paid Time Off and Training Time**
 - Time in which an employer cannot bill directly for services on behalf of the employee, due to holidays, sickness, vacation, or training.
- **Staffing Ratios**
 - The number of staff members needed per participant.

Overview of Rate Models - Introduction

- This is a demonstration of a fee schedule hourly rate development.*
- The foundation for this rate is the wage rate for the direct care worker(s) staff.
- Other costs to the employer are then added to develop an hourly rate that takes into account overhead of providing the service.

** All numbers and calculations are for demonstration purposes only.*

Overview of Rate Models – Introduction

- To determine the cost of a direct care worker, consider:
 - Wages, factoring in educational and professional experience, licensure and certification.
 - Employer costs related to the specific employee (e.g., Employer-paid taxes including Federal Insurance Contributions Act, Social Security Administration, worker's compensation).
 - Benefits (e.g., health, dental, vision, retirement).
 - Paid time off and training.
 - Productivity (i.e., amount of billable time in an 8-hour day / 40-hour week).

Overview of Rate Models – Rate Calculation

- Wage rate assumptions and the benefits factor can be based on provider survey results.*
 - Wage survey results can be examined at the mean, median and percentiles to determine the preferred base wage for a service.
 - Provider survey results should represent HCBS providers.
- Wages can also be based on wage data from the Bureau of Labor Statistics.*
 - BLS wages can be state-specific but are not HCBS provider-specific.
 - States might choose to use BLS data if provider survey data is not available and/or determined to be unreliable.

** Wages should be chosen for the service provider who would perform the service (i.e., skilled nursing might include wages for registered nurses or licensed practical nurses or both, depending on state licensing rules and waiver service definitions).*

Overview of Rate Models - Sample Model Inputs

Category	Cost (Example Only)
Staff base wage cost per hour	\$20.00
Productivity Adjustment ¹	1.18
Employee Benefits Factor ²	0.15
Paid time off and training time ³	0.17
Administrative Costs	0.09
Program Support Costs	0.02
Staffing Ratios	1:1

¹ Assumes 6.8 hours billable per 8 hours.

² Includes employee related taxes plus any health and other benefits.

³ Calculated as a number of hours divided by 2,080 hours in a year.

Overview of Rate Models – Productivity Assumptions

Productivity Assumptions

- Accounts for hours when staff must **perform duties that prevent them from providing direct services** (i.e., “non-billable activities”).
- The resulting **Productivity Adjustment** is applied to the hourly base wage in the rate model.
- These amounts can be based on results of **provider surveys** and/or through discussions among state staff.

Total Hours	8.00
Assessment Time	-
Transporting Individuals	-
Travel Time Between Clients	0.60 hours
Recordkeeping	0.40 hours
Employer Time	0.10 hours
Program Development	0.10 hours
Average On-site Time, “Billable Hours”	6.80 hours
Productivity Adjustment Calculation	Hours/Billable Hours
Productivity Adjustment	$(8/6.8) = 1.18$

Overview of Rate Models – Productivity Assumptions

Productivity Adjustment Example

An employee earns \$20 per hour and works 8 hours per day.

$$\begin{array}{|c|} \hline \text{Total cost to} \\ \text{employer for} \\ \text{the day} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Hourly wage x} \\ \text{hours per day} \\ \hline \end{array} = \begin{array}{|c|} \hline \$20 \times 8 \text{ hours} \\ = \$160 \\ \hline \end{array}$$

However, the employer can only bill for 6.8 hours per day because of non-billable time (i.e., assessment time, recordkeeping).

$$\begin{array}{|c|} \hline \text{Total billed} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Hourly wage x} \\ \text{hours of} \\ \text{billable time} \\ \hline \end{array} = \begin{array}{|c|} \hline \$20 \times 6.8 \\ \text{hours} = \$136 \\ \hline \end{array}$$

The employer seeks to bill \$23.60 per service hour (an 18% increase) to cover the cost of the employee. Therefore, a **productivity adjustment of 1.18** is required to cover the cost.

$$\begin{array}{|c|} \hline \$20 \times 1.18 = \$23.60 \\ \$23.60 \times 6.8 \text{ hours} = \$160 \\ \hline \end{array}$$

Overview of Rate Models – Benefits Factor

- A benefits factor provides for costs incurred by the employer on behalf of the employee, including:
 - Employment taxes: Federal Insurance Contributions Act, Federal Unemployment Insurance, state Unemployment Insurance.
 - Workers compensation.
 - Insurance premiums paid by the employer might include: health, dental, vision, etc.
- For this demonstration, the benefit factor was determined as the ratio:

$$\frac{\text{Total costs incurred by the employer on behalf of the employee}^*}{\text{Total employee salaries and wages}}$$

* *Does not include salaries and wages*

Overview of Rate Models – FTE Factor

Direct Care Full Time Equivalent (FTE) Factor

- Accounts for vacation time, personal days, sick time, holidays and training time.
 - The employer is unable to bill for direct services when an employee is on vacation, sick, or training. The FTE factor is used to consider the cost to the provider for such time.
- Training time varies based on the requirements of each service type; consider state requirements and provider surveys or discussions when calculating the FTE factor.
- This factor is calculated based on 2,080 hours for the year.
- **The FTE calculation is 360 hours/2080 hours.**

FTE Factors	Total Days	Days to Hours Conversion	Total Hours	
Vacation/Personal/Sick/Holiday	30	30 days x 8 hours	240	
Annual Training	15	15 days x 8 hours	120	
Total	45		360	360/2080 = 0.17
FTE Factor				0.17

Overview of Rate Models – Direct Care Cost

Category	Cost / Factor	Calculation	Factored Rate
Base Wage	\$20.00		
Productivity Adjustment	1.18	\$20 x 1.18	\$23.60
Benefits (including taxes)	0.15	\$20 x 0.15	(+) \$3.00
Annual paid time off & training	0.17	\$20 x 0.17	(+) \$3.40
Total Direct Care Cost Per Hour			\$30.00

- The direct care cost is built upon direct care wages by adding employment-related factors to the base wage to determine overall costs.
- For example, benefits of 15% equate to \$3.00 and is added to the base wage to build up to a total direct care cost per hour.

Overview of Rate Models – Administrative Costs

Administrative Costs

- Organizational operations that are not program-specific.
- Examples of administrative costs include:
 - Administrative Employee Salaries and Wages
 - Administrative Staff
 - CEO, Directors
 - Non-Payroll Administrative Expenses
 - Advertising, Office Supplies, IT, Dues
 - Licenses/Taxes (e.g., property taxes, vehicle license and registration)
 - Non-Payroll Related Personnel Expenses (e.g., background checks, recruitment)

Overview of Rate Models – Program Support Costs

Program Support Costs

- Expenses that are neither direct care nor administrative.
- Such activities are program-specific, but not billable.
- For residential services, room and board related expenses must be excluded from program support costs.
- Examples of program support costs include:
 - Staff responsible for training direct care workers and expenses associated with these staff (e.g., office space, utilities, etc.)
 - Program development activities (e.g., implementing a new service plan form, new service implementation, etc.)
 - Quality assurance

Overview of Rate Models – Final Rate

- **The final rate per hour** is determined after multiplying the direct care cost per hour by the percentages for:
 - Administrative
 - Program Support
- This demonstrates that the rate takes into account the costs to the provider; however these assumptions are usually applied statewide so some providers may benefit more than others from the final rate.

Category	Cost / Factor	Calculation	Final Rate
Base Wage	\$20.00		
Productivity	1.18	\$20 x 1.18	\$23.60
Benefits Factor	0.15	\$20 x 0.15	(+) \$3.00
Annual Paid Time Off & Training	0.17	\$20 x 0.17	(+) \$3.40
Total Direct Care Cost Per Hour			\$30.00
Administrative Costs*	0.09	\$30 x 0.09	(+) \$2.70
Program Support Costs*	0.02	\$30 x 0.02	(+) \$0.60
Rate Per Hour of Service			\$33.30

** Administrative and program support costs may seem small because they are factored across all individuals in the waiver program.*

Summary

- We demonstrated a fee schedule rate setting methodology by setting hourly rates for a direct service provider that included a number of factors.
- When setting rates for a fee schedule, consider factors such as productivity, benefits, and administrative factors.
- Considering all available factors listed above will help establish payments that are consistent with efficiency, economy, and quality of care, and that are sufficient to enlist enough providers so that care and services are available under the plan at least to the same extent that such care and services are available to the general population in the geographic area.

Additional Resources

- Direct link to the site with the webinar is:
<https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Long-Term-Services-and-Supports/Home-and-Community-Based-Services/Home-and-Community-Based-Services.html>

Questions & Answers

For Further Information

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**Thank you for attending
our session!**