

Rapid Cost Savings Strategies and Opportunities for Senior Care Providers



The senior care industry is bracing for severe reductions in Medicare and Medicaid reimbursement coupled with stifling changes in therapies reimbursement. Industry wide, Medicare payments will drop by 11.1 percent, nearly \$4 billion, for the 2012 federal fiscal year. The Alliance for Quality Nursing Home Care (AQNHC) stated that this reduction “will dangerously destabilize health facilities, place patients at risk, and put tens of thousands of health jobs in immediate jeopardy.” The American Health Care Association (AHCA) echoed these concerns saying the cuts “...will threaten its ability to provide quality care to America’s seniors.”¹

Marsh has been speaking with our clients as this financial crisis has unfolded. You have asked for cost-cutting tactics and solutions with a demonstrable return on investment. In response, we have assembled the leaders within our SeniorCare Practice to aggressively examine several cost of risk components and offer suggestions for immediate savings. We specialize in developing innovative strategies and solutions to help you generate substantial cost

reductions now and into the future. We stand ready to help you implement the following recommendations.

Immediate Cost Reduction Strategies (Savings Within First 12 Months)

Workers’ Compensation Claim Closure Project

- Close 30 percent of open claims in the first 12 months on average.
- Reduce collateral by as much as 23 percent to gain access to allocated cash.
- Realize additional cost savings if a letter of credit is used.

Implementing cost reduction strategies can offset up to 38% of your decreased Medicare Part A reimbursement.

Professional Liability Claim Collateral Release Project

- Reduce required collateral by negotiating settled-but-not-yet-paid claims to be treated as closed claims.
- Improve cash flow via collateral reduction or reduced self-insured funding requirements, by as much as 14 percent.
- Reduce letters of credit charges.

Risk Bearing Analysis/Insurance Program Optimization

- Improve cash flow while reducing premium and frictional costs.
- Evaluate the need/purchase of insurance by line.
 - Is it a critical need for external constituencies?
 - Can certain lines of insurance be eliminated, reduced, or more efficiently covered elsewhere?
- Explore funding retentions through the proprietary Marsh cell captive.
- Execute changes yielding meaningful cost savings—in some cases, by as much as 20 percent.

Intermediate Cost Reduction Strategies (Savings Within 12 to 24 Months)

Equipment Maintenance Insurance

- Save up to 35 percent on equipment maintenance contracts with no disruption in service providers.
- Restructure existing equipment maintenance contracts for additional savings.

Human Capital Cost Control

- Review provider discounts (and administrative fees) in specific geographic markets to validate “best of class.”
- Benchmark what is required to be competitive in the senior care space, potentially scaling back the benefits program or shifting costs, potentially reducing costs up to five percent.
- Restructure the benefits program to maximize cost savings and to prepare for the 2014 implementation of the Health Care Reform Act.
- Introduce an “integrated benefits” strategy through the use of voluntary benefits.
- Conduct an eligibility/claim audit to ensure only appropriate claims are being paid.
- Reduce the cost of traditional lump-sum severance by as much as 30 percent.

Workers’ Compensation Loss Trend Analysis

- Analyze workers’ compensation claim history.
- Perform a GAP analysis or specific consulting/claims activities to drive to peer-level performance.
- Achieve ROI when loss control and claims programs perform at peer levels.

Long-Term Cost Reduction Strategies (Savings After 24 Months)

HUD Insurance Program Restructuring Support

- Restructure insurance program to achieve Department of Housing and Urban Development (HUD) endorsement
 - Many insurance programs are composed of regulations set forth by various lenders, industry agencies, and other HUD-supported programs.
 - Review requirements to find greater efficiencies in upfront costs as well as collateral requirements.

Merger and Acquisition Due Diligence Support

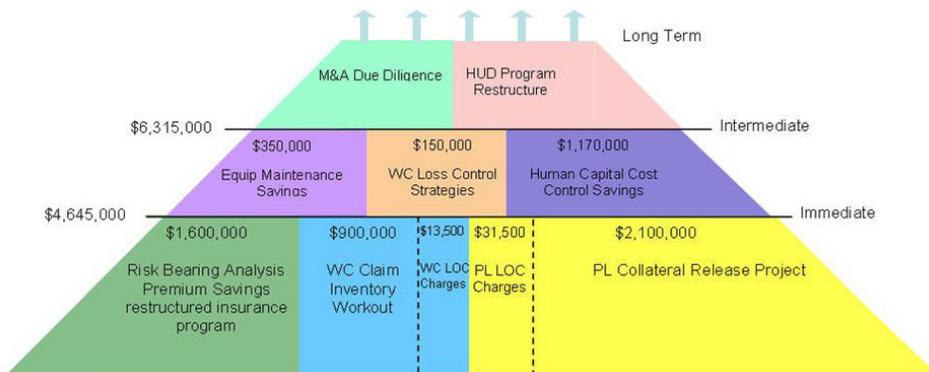
- Review the adequacy of insurance and risk management programs for acquisition targets including clinical risk policies and procedures, risk management policies and procedures, claims handling processes, and third-party vendor relationships.
- Analyze options for retaining or transferring liabilities during a divestiture.
- Plan for assuming liabilities via commercial or alternative risk vehicles.

Case Study

The following scenario outlines potential savings available to a midsize provider with the following attributes:

Income	Key Risk and Insurance Expenses
\$300 million in total 2010 revenue <ul style="list-style-type: none"> \$150 million comes from Medicare Part A reimbursement \$16.650 million potential revenue loss \$283.35 million in total 2012 revenue <ul style="list-style-type: none"> \$133.350 million comes from Medicare Part A revenue reflecting the 11.1% reimbursement reduction 	<ul style="list-style-type: none"> \$3 million in annual workers' compensation premium with \$5 million in legacy letters of credit \$5 million in annual professional liability premiums with \$15 million in legacy letters of credit \$7 million in annual medical, dental, and life insurance premiums \$8 million in annual total property and casualty insurance premiums, including loss funding for retentions \$1 million in annual equipment maintenance service contract costs

How can Marsh help solve for \$16.65 million? We can help drive cost reductions that will offset 38 percent of the reduced Medicare Part A reimbursement.



Immediate Savings

Risk Bearing Analysis

- 20 percent reduction in \$8 million total property and casualty premium
- Premium savings of \$1.6 million

Workers' Compensation Claim Inventory Workout

- 30 percent of claims closed in 12 months
- Reduced collateral by 18 percent to 23 percent
- \$900,000 collateral release at 18 percent
- \$13,500 in saved collateral charges

Professional Liability Collateral Release Project

- 14 percent reduction in collateral
- \$2.1 million collateral release
- \$31,500 in saved collateral charges

Immediate savings:
\$4.645 million

- Offsets Medicare Part A reimbursement reduction by 28 percent.

Intermediate Savings

Equipment Maintenance Insurance

- 35 percent reduction in \$1 million cost
- \$350,000 maintenance contract savings

Workers' Compensation Loss Control Strategies

- \$150,000 in annual savings

Human Capital Cost Control

- Best in class preferred provider discounting to reduce medical claim spend \$1.170 million on an annual basis

Intermediate savings:
\$1.67 million

- Offsets Medicare Part A reimbursement reduction by an additional 10 percent.

Total cost savings

- \$6,315,000 (Immediate + Intermediate)
- Offsets 38 percent of reduced Medicare Part A reimbursement

NOTE: The above example is illustrative. Results may vary by client and jurisdiction.

How to Get Started

- Meet with your Marsh team to discuss the above listed savings opportunities.
- Analyze and prioritize savings opportunities.
- Align your resources with Marsh's resources.
- Drive an action plan to immediate results.

For More Information

Contact your local Marsh HealthCare Practice resource or call:

Cindy Lusignan
Senior Vice President
414 290-4763
cindy.l.lusignan@marsh.com

Get to know us better at
www.marsh.com

Endnote¹ http://www.ahcancal.org/research_data/funding/Documents/Economic%20Impact%20of%20Medicare%20Nursing%20Facility%20Payment%20Cutback%20in%20Hawaii.pdf
Source: <http://www.hfma.org/templates/blogpost.aspx?id=28279>
<http://seniorhousingnews.com/2011/08/08/cms-decision-to-slash-3-87-billion-of-skilled-nursing-payments-has-dire-implications/>

Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the "Marsh Analysis") are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. This document contains proprietary, confidential information of Marsh and may not be shared with any third party, including other insurance producers, without Marsh's prior written consent. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, accounting, tax, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Except as may be set forth in an agreement between you and Marsh, Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party with regard to the Marsh Analysis or to any services provided by a third party to you or Marsh. Marsh makes no representation or warranty concerning the application of policy wordings or the financial condition or solvency of insurers or re-insurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage

Copyright © 2011 Marsh Inc. All rights reserved.

Compliance No. : MA11-11037