

# Do It Now!

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*by Robert A. Fazzi, Ed.D.*

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A few years ago, there was a national television ad that featured a grease covered auto mechanic standing by a car with a broken transmission. He said only one thing, "Pay me now or pay me later."

His point? If you delay taking care of your problem now, you are going to pay more, much more, later. If that mechanic was around today, we could hire him to do the same advertisement, but this time it would be for home care. Of course, instead of a car, he'd have to stand by a copy of the Balanced Budget Act (BBA) of 1997. A boring image with a reality far more damaging than a broken transmission.

## **Home Care's Broken Transmission --- IPS**

For many agencies, the Interim Payment System (IPS) crisis and its per beneficiary limits pose a serious problem. It is a problem that, if not addressed immediately, can threaten the very survival of an agency-- even one with a strong balance sheet. The problem centers on the multiplying impact that occurs when an agency delays dealing with the realities of the per beneficiary limits imposed by IPS. It is the "pay me now, or pay me later" syndrome.

Here's what happens. In the past, agencies were considered in good shape if their actual cost were lower than the cost limits. As long as they operated in a manner that kept their actual cost below the cost limits, they (and their boards) were happy. But, thanks to the Balanced Budget Act of 1997, things have changed.

Now there is a new factor, a third factor, that agency directors need to consider. It's called the per beneficiary limit, which each agency will have. In the simplest of terms, agencies will only be able to bill the Health Care Financing Administration the sum of their per-beneficiary limit times their unduplicated patient count for a given reporting year. HCFA is scheduled to publish limits by April 1, 1998. Thanks to the National Association of Home Care and fiscal advisers nationwide, most agencies know how to calculate an estimate of what their limit will be.

The net result of all of this is that agencies will be reimbursed the lowest of three costs: the cost limits, the agency's actual cost or the agency's aggregate per-beneficiary limit. Most agencies will discover that even though they will be under the cost limits, their actual costs are still too high. They must cut costs even more, in some cases significantly, to get below their aggregate per- beneficiary limit.

## Remember the Auto Mechanic

Pay me now or pay me later. If you delay, even just a few months, you may not be able to recover. Here's why. If you do your analysis and discover the per-beneficiary limit is coming into play, you will quickly determine just how badly off you are. For example, assume your analysis shows you have to cut \$360,000 per year from what you originally estimated. \$360,000 means you must cut \$30,000 per month. What happens if you delay?

Affects of Delaying Cost Reductions					
<i>(Assumes you must cut \$360,000 annually - \$30,000/mth)</i>					
<u>Month</u>	<u>Multiplier</u>	<u>Results</u>	<u>Month</u>	<u>Multiplier</u>	<u>Results</u>
1	1.00	\$30,000	7	2.00	\$60,000
2	1.09	\$32,700	8	2.40	\$72,000
3	1.20	\$36,000	9	3.00	\$90,000
4	1.33	\$39,900	10	4.00	\$120,000
5	1.50	\$45,000	11	6.00	\$180,000
6	1.71	\$51,300	12	12.00	\$360,000

Take a look at the Compound Problem Chart above. If you made the change the first month, you would cut \$30,000 per month. What if you delay making the cuts? The per beneficiary limit still means you have to cut \$360,000 for the reporting year. If you delayed three months and didn't start until month four, \$30,000 per month won't do it. Then you must cut \$39,900 per month in order to come up with \$360,000. The question is, "Will you have enough resources and enough flexibility to pay later?"

### Don't Delay

What does it mean to you. Use the Compound Problem Chart to determine what would happen if you delayed. Calculate the average amount of money you must cut per month if you use the full year. That's month one and the multiplier is 1.00. If you delayed and didn't start until month two, the multiplier is 1.09. If yours is an October 1 reporting year and you didn't start until January, that means you are starting in month four. Your multiplier is 1.33.

The message is clear. Don't delay. As difficult as the IPS crisis is, the longer you delay, the greater your risk. And if you don't pay now, you may not have the resources to pay later. Do it now!

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