

# FINANCIAL SCENE



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healthcare financial management association

## 2002 Program Schedule

**WINTER SEMINAR**  
January 25, 2002  
Lexington, KY

**SPRING INSTITUTE**  
April 18–19, 2002  
Covington, KY

**MID-ATLANTIC INSTITUTE**  
May 8–10, 2002  
Washington, D.C.

**ANNUAL NATIONAL INSTITUTE**  
June 16–20, 2002  
Seattle, WA

### *In This Issue*

Medicaid Reimbursement.....	1
President’s Message .....	3
Editors Insight .....	4
Profile of Tony Miranda.....	4
Certification .....	5
Chapter Website .....	5
Committee Chairpersons .....	6

Leading

## Hospital Medicaid Reimbursements and the Upcoming General Session

As they wrestle with the present budgetary shortfall in the upcoming legislation session, legislators need to understand that inpatient Medicaid reimbursements for hospitals have been severely curtailed since 1993. It is doubtful though that the Cabinet for Health Services will explain the effect of its Medicaid rate setting policies on hospitals to the legislators. The Cabinet’s stock answer of late has been that they are implementing a prospective payment system (“PPS”) based on diagnosis related groups (“DRG”) that will correct existing problems. Experience indicates, however, that this change in methodologies may be further delayed and real rate relief may not be forthcoming soon. If a PPS is eventually established, but on an already inadequate payment base, then payments under the new methodology may also, on the whole, be inadequate. Hospitals need to educate their legislators on the effects and shortcomings of the reimbursement methodologies that have been in place for nine years and to let them know that, in effect, hospitals have already taken a substantial rate cut. This article explains, in a nutshell, the history of the present methodology and some of its most egregious problems.

Beginning in 1993 the Cabinet imposed an inflation limitation (commonly referred to as the “rate of increase control” or “RIC”) to limit increases in Medicaid rates. The RIC allowed, however, only what amounted to market basket increases. It did not take into consideration changes in technology and other advances in medicine or pharmaceuticals, the addition of new services, changes in treatment patterns and other factors affecting the delivery of hospital services in the last ten years. The Cabinet routinely states that through the weighted median upper limit (employed until 1999), its methodology took such changes and industry wide trends into effect in setting Medicaid rates. The weighted median upper limit (or median

operating cost) is determined for each peer group (hospitals are peer grouped according to licensed bed counts) and costs above that upper limit are not reimbursed. The weighted median upper limit might take into account industry trends, etc., if it were not for the RIC. Once the RIC applies to a hospital, it cuts off costs regardless of the weighted median upper limit making the latter limit meaningless. Since all but three hospitals in the state were impacted by the RIC by 1998, the weighted median upper limit has not affected hospital rates for a long time and industry trends have not been reflected in setting rates for the better part of the last decade.

For the 1999 and 2000 rate years, the Cabinet abandoned even the RIC and the rest of its complicated, weighted median upper limit, peer grouped, capital occupancy limited methodology altogether for a new “rate-on-rate” methodology. What the rate-on-rate methodology meant simply was that hospital rates for 1999 and 2000 were increased by 3 percent and 2.8 percent, respectively, from the previous year regardless of industry trends, new regulatory requirements, or changes in individual hospital circumstances. Thus, hospital costs have played a decreasing role in the rate setting process since 1993 and have had no effect on rates since 1999. Finally, the Cabinet imposed a total rate freeze for the present rate year beginning July 1, 2001, allowing no increases, whatsoever, from the previous year’s rate.

Whatever methodology the Cabinet has employed, it has limited annual increases in hospital reimbursements at ever declining rates (see chart).

Thus, the Cabinet has reduced the amount of annual increases from 6.3 percent in 1993 to zero in 2001. This has resulted in the under-reimbursement of Kentucky hospitals for almost a decade now.

*Continued on page 2*



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*Financial Scene*

**Newsletter Committee Members**

- David Kottak, Chair
- Ronda Beck, Vice Chair
- Mike Stigler
- Katie Black
- Melanie Watson
- Michele Lawless
- Mary McKinley
- Larry Vaughn
- Mick Welscher

**Editorial Policy**

Opinions expressed in articles or features are those of the author and do not necessarily reflect the view of the Kentucky Chapter, the Healthcare Financial Management Association, or the Editor. The Editor reserves the right to edit material and accept or reject contributions whether solicited or not. All correspondence is assumed to be a release for publication unless otherwise indicated.

**Publication Objective**

The *Financial Scene* is the official publication of the Kentucky Chapter Healthcare Financial Management Association. Our objective is to provide members with information regarding chapter and national activities, with current and useful news of both national and local significance to serve as a forum for the exchange of ideas and information.

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## Medicaid Reimbursement...continued from pg. 1

This steep decline in the inflation factor is only part of the problem leading to hospital under reimbursements. Medicare, with its DRG methodology, has been encouraging hospitals to decrease their average lengths of stay ("ALOS") whenever feasible since the mid-1980's. Improvements in medicine and technology have made this possible with improvements in patient outcomes. With its per diem methodology, however, the Cabinet penalized hospitals that reduced their ALOS. Ancillary costs (which are costs associated with patient care consisting of such things as surgery, medicines and other special procedures) tend to remain the same or even increase on a per discharge basis even as the ALOS is reduced. For example, a patient who needs open heart surgery still needs open heart surgery even though improvements in case management and more sophisticated medical procedures now result in the patient being discharged in six days instead of eight. Or perhaps less invasive surgery is available now allowing the patient to be released in four days instead of eight. That less invasive surgery may have been made possible, however, because the hospital now administers a thrombolytic costing \$2,500 per dose when the patient is first admitted in to the Emergency Room, or a diagnostic catheterization revealed that the problem could be resolved with a stent costing

anywhere from \$800 to \$5,000. These sometimes costly new developments may increase the ancillary costs of providing services even while the routine costs (which include, for example, the cost of staffing a ward with nurses) are decreasing on a per discharge basis due to shortened lengths of stay.

Inpatient Medicaid reimbursements to Kentucky hospitals have dropped precipitously as a percentage of hospital costs in recent years indicating that Kentucky hospitals have been penalized in the manner described above. In 1995 Cabinet witnesses testified that overall Kentucky hospitals were receiving between 93 to 96 percent of their total Medicaid allowable costs in inpatient Medicaid reimbursements. The same experts examined inpatient Medicaid reimbursements rates paid hospitals in 1998 and determined that overall Kentucky hospitals were receiving only 80 percent of their total Medicaid allowable costs. Thus, in three years the gap between Medicaid costs and Medicaid reimbursements increased by 13 to 16 percentage points. This gap has only widened since 1998 with the more limited rate-on-rate increases employed in 1999 and 2000 and the present total rate freeze. For all practical purposes, hospitals have already had their rates severely cut and that should be made clear to the Legislature.

*by Stephen R. Price, Sr.*

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Maximum % Increase Allowed	.3%	5.7%	5.03%	5.0%	5.0%	4.0%	3.0%	2.8%	0.0%

### Winter Institute

Need a break from all the Holiday rush? Make plans now to attend the KY Chapter Winter Institute. The program will be packed with information regarding HIPPA, Human Resource Issues, A Mock trial, insight from a local Healthcare Leader and much more. The Embassy Suites in Lexington will be hosting the event. January 25, 2002 is the magic date. If you would like to have more information or just pre-register, please contact Sheri Gould @ (859) 879-2306 or email your request to [sheri.gould@lifepointhospitals.com](mailto:sheri.gould@lifepointhospitals.com). Look for the mailing soon. You won't want to miss this.

# President's Message



*Tony Miranda*

Dear HFMA members!

How this year seems to be flying by! It's four months into my year as President and I have some great news to share with you.

But, before I do that I would like to recognize the tragedy of September 11th. It has changed us all. We lost one member from the Maryland Chapter who was on the plane that crashed into the Pentagon. Your Board approved a donation to the American Red Cross made on behalf of the New York and Washington DC chapters. Our prayers and thoughts are with them as they rebuild their community. Please see the National WEB Site for more information on ways you can assist.

The Summer Institute at Lake Barkley was a wonderful time of sharing with each other as well as our families. The educational opportunities were superb and the lake was an ideal place to relax and reflect. A tremendous amount of effort went into the planning of the institute and the activities for our families. Thanks to all who made this a great time.

The Fall Institute held at Caesar's Riverboat Casino was tremendous! We celebrated our 50 years of success as well as National's 55 years of success. Ron Roe did a wonderful job of giving us insight to the formation and special accomplishments we have made over the years. My congratulations and appreciation goes out to the individuals who helped put this Institute together.

I still encourage each of you to take an active roll in making this Chapter one of the best in the country. We need members participating in our various committees and planning the various education sessions we have through out the year. Assisting in the recruitment of new members is another way that you can help your Chapter grow.

Certification is one of the ways you can obtain career enhancement, and I encourage each of you to investigate this opportunity. A recent study conducted by National proved that obtaining certification enhances your salary potential. Katie Black, Chair of the Certification Committee has educational materials to assist you in your exam preparation.

Finally, please plan to attend our Winter Institute in Lexington on the 25th of January 2002. Details can be found on our website <http://www.hfmaky.org>.

I would like to wish you and your family a joyous holiday season and look forward to seeing you at our Winter Institute.

*Tony Miranda*



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**Kentucky Chapter  
Healthcare Management Association**

## **Officers and Directors for 2001/2002**

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*Business Publications*

## Editor's Insight



*David Kottak*

While the tragic events of September 11 have impacted each of us either directly or indirectly, we must press forward and piece our daily lives back together. I would like to thank Tony and the rest of our Leadership Team for starting this healing process by

authorizing a contribution to the Red Cross. The healing process will certainly be lengthy for all of us and this contribution is a way to begin that process.

The October/ November issue of the Financial Scene includes articles on a variety of topics of interest to all of our membership. Steve Price has provided some help insight with respect to the Medicaid Reimbursement Methodology and the Upcoming General Session. Steve has been a frequent presenter at our institutes and brings a wealth of knowledge on this subject to the table. Mary McKinley gives an account of her recent experiences related to HFMA Certification. Mary outlines her approach to preparing for Certification, which should put to rest the concerns many of you may have regarding this

process. In addition, Katie Black profiles our president Tony Miranda. Tony brings a unique background and skill set to the chapter as president.

As we move through the year don't hesitate to contact any of the Newsletter Committee members with ideas or suggestions for articles and improvements to the Financial Scene. Our objective is to provide members with information on current and useful news and to serve as a forum for the exchange of ideas and information to the members. To meet this objective we need your help and feedback.

Very truly yours,

*David C. Kottak*

David C. Kottak

## Profile of a Chapter Leader

### *Anthony R. Miranda*

*President, Kentucky Chapter HFMA*

Tony Miranda is the current (2001–2002) President of the Kentucky Chapter Healthcare Financial Management Association (KHFMA). He lives in Louisville and is the first Kentucky Chapter President with an extensive background in Physician Practice Management.

On the way to becoming President, he served on the Chapter's Board of Directors, was Vice President of Communication, a member of the Information Services Committee, and a former Chair of the Managed Care Committee.

Tony has been with *TPI Health Systems*, a subsidiary of *Symbion Physician Services*, for six years. As Chief Financial Officer of TPI he is responsible for the finances of *TPI Health Systems*, *TPI Management Services*, as well as *The Physicians Incorporated* and its subsidiaries.

He has over twenty total years of healthcare experience. Prior to joining TPI Health Systems, he served as Vice President and Chief Financial Officer of the University of Louisville Hospital. He holds a Bachelor of Science and

Commerce with honors and a major in Finance from the University of Louisville.

He is also the current Chairman of the Board of Directors for Medical Center, Inc., a not for profit company providing centralized services to the hospitals and university in the Louisville downtown medical center. He says that the hospitals downtown have no individual air conditioning, steam, chilled water, etc. Medical Center, Inc. provides those services and laundry services from a central plant. Tony has been a member of the Board since 1987 and has chaired it since 1995. Asked why he has stayed in the position so long, he replied, "I just like to stay involved."

Tony offers his finance skills and expertise for his parish functions at St. Patrick Catholic Church, having served as Chairman of the Finance Committee, and currently is a member of the Youth Commission there. He also serves on the fund raising committee for the College of Business and Public Administration at the University of Louisville.

The Miranda family consists of Tony's wife of 25 years, a daughter, 18, who attends the University of Louisville and a son, 16, who attends Trinity High School. He explained that he has always

made time for his family. That is why he has a boat on Lake Cumberland for years where he has uninterrupted time with the family. "There was not even a phone for a long time," he said.

Tony has recently taken up golf and hopes that the game will not go the same route as his piano lessons that he gave up after a year. "I'm just not an accomplished pianist," he said.

When asked what his vision of the future of healthcare is, he answered, "In general, there will be an increased need for healthcare, from technology to bio-engineering. The healthcare profession will grow both on the clinical side and the management side." He continued, "What we will see in our lifetime—in the next 5 to 10 years—will be unbelievable. Look at our progress with DNA, for example. Technology will also take over administrative simplification, paperless work environments and gene therapy. It will be unbelievable."

"The biggest challenge for healthcare finance professionals will be to control the costs so that we may be able to provide needed services," he added.

*by Katie Black,*

*KHFMA Newsletter Committee*

## Certification on the Beach

For the last two years, I have seriously been considering becoming certified as a CHFP. National HFMA is placing increasing emphasis on developing more certified members, and I think it's important that our Chapter's leaders hold the CHFP designation. Not only is it a personal satisfaction goal, I think it shows our employers and peers the level of specialization we have developed in the healthcare industry through HFMA. Certain employers are even listing HFMA certification in their job requirements.

While I could see the importance of certification, it seemed like I just never had the time to devote to the intensive studying I anticipated I would need to pass the exam. So, I decided that if I was going to do this, I needed to set aside some study time and set a goal for a time to take the Core Exam.

This spring, around the time I had finally decided to put my nose to the

grindstone, so to speak, my sister called with what turned out to be the perfect opportunity. She was growing quite tired of the Milwaukee winter and wanted me to accompany her to a Florida beach for some sunbathing. I'm not much on sitting still and doing nothing, so I decided this was the perfect chance to read the Core Exam study guide. I know I looked like a really nerdy accountant lying on a chaise lounge with a fruity drink and an HFMA study guide, but it kept me occupied, kept my sister happy and gave me the time I needed to start my certification.

I was pleasantly surprised to find that the study guide was easy to read and the content was not mind-bending. As a matter of fact, the material was quite familiar to me, after working in the healthcare industry. During that week on the beach, I read all of the chapters of the study guide and answered the questions at the end of each chapter. Then, the fol-

lowing week, I spent approximately 5 hours reviewing the highlights of each chapter before I took the test at the end of that week.

I've learned that everyone approaches learning and studying differently. For me, this slightly unorthodox self-study habit helped me pass the Core Exam. Some people respond better to coaching courses, like the ones that are held at the ANI and the ones we hope to have in our Chapter in the upcoming months. Others might do well with formalized classroom-style sessions.

Whatever the method, I encourage you to take a little time to brush up on your healthcare knowledge and take the Core and Specialty Exams. I just hope that my sister needs another sunbathing trip sometime soon, so I can study for the Specialty Exam!

*by Mary McKinley,  
Deloitte & Touche, LLP*

## New Look for Chapter Website

Are you getting all the benefits of your Kentucky HFMA membership? You aren't if you have not recently visited the chapter's newly updated website, [www.hfmaky.org](http://www.hfmaky.org). The website provides the same information as your membership handbook but has the advantage of timely updates.

The chapter website was created in 1998 by the Information Services Committee to mirror the chapter handbook. Tony Miranda arranged Tom Coyle from TPI Healthnet to make the site easier to navigate. The new look displays the chapter mission and educational calendar on the home page along with quick links to HFMA National, Medical

Links, Medical News and Stock information. The left hand side of the screen prominently displays the other pages: vision, history, organization, education, sponsors, who to call and members area.

The chapter budget, merit awards, annual report and newsletter will be found in the members area. You may also access the chapter directory through a direct link to HMFA National at this location. You will need your national ID number to enter as user name and password you establish. The password is set as your last name until you update it. It is important that you keep current your demographic information, including fax number and e-mail address. This infor-

mation is critical to you receiving your newsletter and brochures for educational events.

The Kentucky chapter website will be used to communicate with our members. Committee chairs will be able to post dates of meetings, agendas and minutes. Founder awards will be displayed in near future as well as educational institutes brochures and online registration.

Please visit the Kentucky Chapter Website at [www.hfmaky.org](http://www.hfmaky.org) and take advantage of a great benefit of your membership. Send any suggestions for the website to Tony Miranda at [amiranda@tpihealth.net](mailto:amiranda@tpihealth.net) or any chapter officer.

**Think Certification!**

# 2001–2002 Committee Chairpersons

**Annual Report**

Mike Stigler  
Blue & Co.

**Entertainment**

John Neary  
Ernst & Young LLP

**Past Presidents' Advisory**

Mike Stigler  
Blue & Co.

**Audit and Financial Reporting**

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**Newsletter**

David Kottak  
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