Journal of Life Care Planning, Vol. 1, No. 4, 265-274.

Perspective...

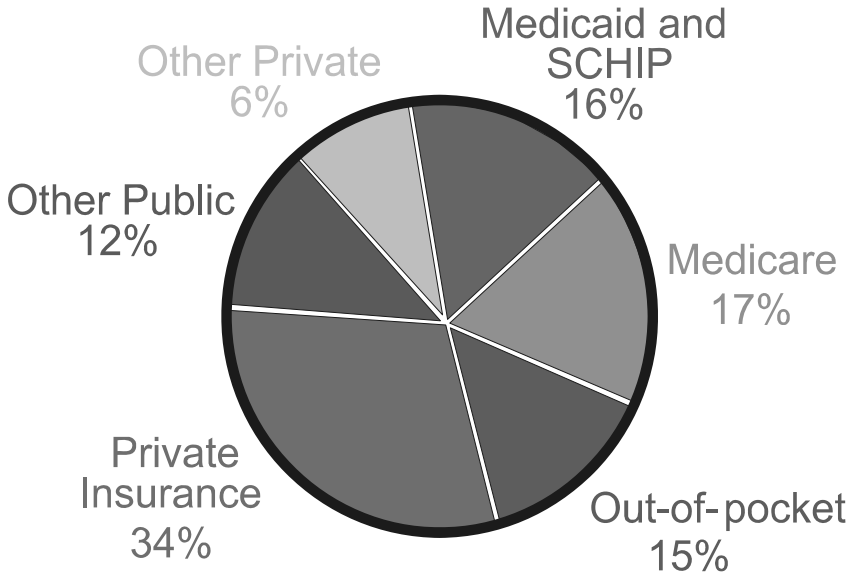
Editor's Note: This article represents a new concept in life care planning costing methodologies as suggested by the author. The author points to changes in the health care field which impact the availability of cost data as well as the potential impact on health care delivery, resulting from legislation. The relevancy and efficacy of this approach as well as the potential for including this concept in life care planning training procedures has not been evaluated. The Editorial Team of the JLCP invites your comments.

Financial Diagnostic Tools and Comprehensive Life Care Planning

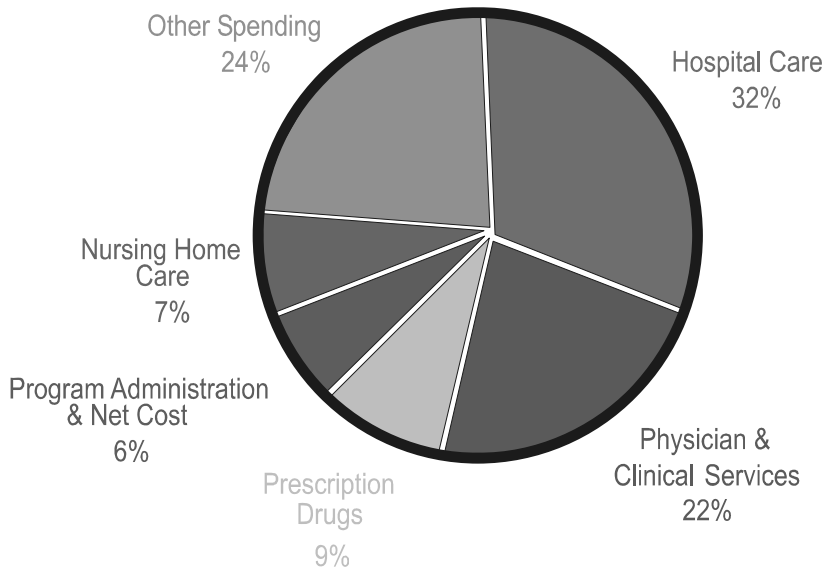
Rebecca S. Busch

The Life Care Planning market has relied on a variety of methods for determining the monetary impact of care projected in a life care plan. Costing methodologies have varied in their approach, formulary, and comprehension. This article introduces a five-step approach to facilitate the development of a comprehensive clinical and financial picture. The objectives of this article will be three-fold: 1) a general overview of the market problems in understanding health care reimbursement and existing costing methodologies; 2) a review of a five-step approach costing methodology with a primary objective of streamlining the efficacy of a final payment determination; 3) what can go wrong.

How exactly is the money spent in health care? According to the Centers for Medicare and Medicaid (CMS, 2001) statistics, health care expenditures had a 6.9% increase from the prior year, which is a record increase noted since 1988. Overall Medicare expends about $224 billion and $1.3 Trillion is spent by non-government entities. Two significant areas include a 17% increase in pharmacy expenditures and a 5.1% increase in hospital care. In fact, recent 2002 statistics indicate that outpatient services are leading with a 16.3% increase while inpatient care expenditures grew at 7.1%. The next chart provides an overview of health care funding.



The chart above demonstrates that health care is funded about 50% from public sources and 50% from private sources. This should emphasize the importance of staying current and understanding public or government directed fee schedules. The next chart provides insight into where health care dollars are spent.



At the conclusion of any life care plan, it would be interesting to note how the plan distributes it allocation of resources. For example, in a given plan how much money is dedicated to hospital care versus physician care? Review how distribution of monetary expenditures compares to the national averages of utilization.

In understanding health care reimbursement and the overall health care environment, it is important to stay current regarding pending legislation and newly enacted laws. For example, Congress is debating how exactly to address medical errors. In some reports a medical error factor rate is included for projection of expenses.

Another pending act is the Patient Safety Improvement Act (H.R. 4889) (House Ways & Rules, 2002). This is still relatively new but it may provide valuable statistics that may impact any costing projections. In addition, legislation that supports caps on medical malpractice lawsuits may in fact promote the increasing importance of having an accurate cost projection in personal injury cases. The patient will become increasingly dependent on the accuracy of the life care plan to ensure the sufficient funding of a long-term health condition.

What does this all mean? First, the function of life care planning will increasingly become more significant. Second, the margin for error will tighten and the need for patient advocacy through the life care planning process will become critical for quality cost effective care. In addition, the lack of dollars will create the need to have an accurate clinical picture to fully comprehend the short and long-term patient needs. It will be important to project a comprehensive picture of dollars associated with providing that care. And finally, how are those dollars impacted by the rising segmented costs, ancillary players, legislative changes, market changes, medical errors, billing errors, and complications errors?

Exactly what does effective costing require in a life care plan? It begins with the specified payment required for receipt of goods and services. It needs to provide a clear identification of those goods and services. Finally it should have a reliable basis for the determination of those goods and services.

This article presents a five step scientific approach to streamlining the costing methodology of a life care plan. It includes the following:

Step 1: Define Scope of Audit and Review
Step 2: Define Data Necessary for Evaluation
Step 3: Define Parties to be Interviewed
Step 4: Audit Review and Data Analysis
Step 5: Market Comparison, Analysis, Final Report

Step one involves defining the scope of audit and review. Prior to initiating the development of a life care plan, discuss and agree upon the objectives of the review. Make sure to discuss parameters and limitations set by expert testimony. Have a mitigation strategy for expert opinions or testimony when research demonstrates a conflict or results in a different opinion. With respect to actual data, it is important to discuss parameters and limitations that are set due to incomplete data. For example, how to address missing medical records or an incomplete assessment of relevant injuries?

Step two involves defining materials for review. Create an inventory for all materials obtained. If appropriate, index these materials by information to be reviewed versus not reviewed and those relevant to the clinical issue in question versus those that are not. This author strongly suggests that all materials on a subject should be reviewed. Materials labeled

as "non-related" may often contain pertinent and helpful information that may impact a current understanding or etiology of a condition as well as have an impact on long term care decisions.

Step three of the review process requires defining the parties to be interviewed. This section should be included in the plan. The interview subjects should be segmented by patient, care providers, and other experts that could impact long term care decisions or current understanding of clinical issues. Provisions should be created for comprehension, accuracy, and further determination of experts required. A special note should be made with reference to privacy regulations. The interviewer should ensure that consent has been provided for such interviews to take place. For example, the following authorization is utilized to obtain health information. In an environment of changing laws with respect to the handling of health information as well as the privacy laws, it is suggested that legal counsel should be obtained when making a final determination of the appropriateness of any consent form.

SAMPLE AUTHORIZATION

Medical Business Associates, Inc. of Oak Brook Illinois has authorization to receive on behalf of **XXXXXXXXX** with information (by review and photocopy or both) concerning care or treatment provided the patient, employee, or deceased named in the attached authorization. This may include information relating to mental illness, communicable or infectious diseases, HIV testing, Acquired Immune Deficiency Syndrome, AIDS related complex, use of drugs or alcohol.

The following information is requested:
_____An onsite appointment to review the original records.
_____A ***complete*** copy of all records, including patient medical record documents, ancillary department reports, procedure reports, physician orders, consults, general notes, and billing statements (please do not forward an abstract of the medical record). Please include copies of records received by other providers.
____All billing statements indicating the amount originally billed.

This authorization is valid from the date signed and for a period of two years thereafter unless revoked by me or by my legal representative in writing. I agree that a copy of this authorization shall be as valid as the original.

_____	_____	_____
Name of Patient	**Date of Birth**	**Social Security #**

If a patient is able to sign, please fill in blanks in section #1 below. If patient is a minor, deceased, adjudged incompetent, or otherwise unable to sign, please fill in all blanks in section #2 below.

1. _____ _____
Date of Signature Signature of Patient

2. _____ _____
Date of Signature *Person authorized to sign for the patient

_____ _____
Relationship to patient Why is the patient unable to sign?

*Note: Person authorized to sign for the patient generally includes the parent, guardian, or legal custodian of a minor patient, the guardian or conservator of a patient judged incompetent, the personal representative or spouse of deceased patient, or any person authorized in writing by the patient. If you have any questions about this form, you may contact MBA authorization department. Please forward the information to MBA Inc. _____ ATTN: Case Management or fax information to _____. Feel free to call _____ with any questions.

Step four involves the actual audit and review process. Review of materials should take on a methodical approach to ensure accuracy and comprehension of facts. Clearly a majority of time will be spent completing this step of the process. Proprietary data base software may be used in order to abstract health information into a relational database and facilitate the analysis and data mining of the health information. Regardless of the use of software or narrative text format for a report, this is the opportunity for a life care planner to provide structure into a plan. This article specifically addresses the costing portion of the report. However, upon completion of a report, the information as a whole should be reviewed. First has an overall picture of this individual's life care needs been presented. Second, has a complete list of resources to meet those needs been identified? Do any open issues remain? Finally, do the numbers make sense?

Step five provides for final conclusions, analysis, summaries, and production of a final report. Identify and utilize reliable databases. Know and understand the numbers. Looking at the "big picture," does the overall plan reflect the total care required for this patient? Are any providers of care by category missing? For example, if a surgery has been projected, does the report include all the diagnostic testing and post surgical care?

The final report should indicate sources of all financial information and formularies to determined current and future expenditures. The life care plan should make provisions for other new and emerging factors such as medical error rates. Currently databases are being developed to provide financial information on the monetary impact of medical errors. The definition of a medical error is currently being debated and discussed between health care professionals and legislators wanting to enact mandates in the monitoring of such events. A resource to stay current in this area is (Martin, 2003).

A second type of error rate that has been utilized in life care plans includes a financial error rate factor. The health care industry has significantly high error rates on the processing of bills for services rendered. This is complicated by the voluminous managed care contracts that individual provider entities need to manage among their patient population. For example, a 250-bed hospital may easily have over 1,000 managed care contracts. The net effect is that the business office at that hospital must be prepared to bill the correct contract based on the individual patient who receives services. Attempts to call a provider to obtain a price for a service may be difficult because the fees associated with a particular service vary among controls. The market has established databases on financial error rates among various health care providers, and statistics generated by this author's company reveal that variances and error rates in overcharges as well as undercharges have been noted as high as 20% in some of the cases they have reviewed.

Finally, complication rate factors should also be included. Typically, cases that involve the development of a life care plan are complex and involved; and typically these patient's are prone to developing complications in the routine provision of care. For example, if a patient is to have repeated surgeries, the provision for budgeting for infection is a plausible assumption that can justifiably be included in a life care plan.

The manner in which to derive this information begins by identifying the appropriate ICD 9CM code to designate the infection potential. A CPT code should be chosen to appropriately reflect the treatment for the ICD9CM code selected. Once this information is obtained appropriate databases may be searched for prices to reflect these services. From this point, a decision needs to be made whether the care will be provided on an inpatient or outpatient basis. Based on the selection of provider type, a final price.

The following case study is an illustrative sample of a life care plan in which limited amounts of information were utilized.

Original Findings

Future Surgical Procedures			
Total Knee Replacement (Approximate surgeon's fees)	**Every 10**	**$5,000.00**	**$500.00**
Hospital Stay (minimal)	**7**	**$865.00**	**$6,055.00**
Medical Follow up	**7 days/year**	**$75.00**	**$525.00**
			$7,080.00

Upon receipt of this case file it was noted that the report did address therapy, medical, personal care, home rehabilitation equipment, mobility aides and transportation modifications. However, the report did not include coverage over a life time period and it did not include all the professional components typically required to execute these services. Finally, the report created a dilemma from a professional perspective since a prior testimony had to be supplemented in order to truly serve in the role of patient advocate by developing a plan that clearly represented the patient's needs. The five-step process previously described was applied:

Under Step One, define scope of audit: The plan of care was to include the care required for temporary and permanent injuries throughout the estimated life span. This significantly broadened the scope and impacted the remaining review. Under step two, "Define the data necessary for collection," complete set of all medical records, complete billing information, all depositions, and clinical, industry specific information with respect to the injuries involved had to be obtained. This collection of information allowed expansion of the scope of the original life care plan.

The review proceeded with step three in the process, "identify parties to be interviewed." Once again, due to the limitations in the original report, it was considered appropriate to interview the patient, current treating physicians, and various experts that had specific clinical expertise. The information from the experts was incorporated to address life long needs and pricing information required to appropriately reflect a life long budget, to serve this patient from a financial and clinical perspective.

In step four, "audit review and data analysis," extensive information was collected. The attorney provided the authorization required to obtain information and initiate review with parties directly, as well as in review of materials. A complete copy of all medical records and respective medical bills was obtained. Since this individual had extensive medical treatment, the compilation of bills provided sufficient ICD9CM, CPT and DRG group data to project future expenditures. All the opinions from depositions were aggregated as well as the expert reports. This information generated a preliminary analysis, which was then utilized to initiate market research on the questions involved.

Finally, in step five "Market comparison, analysis and report" several significant issues were noted in this case. Overall the report noted a $943,000 short fall in the monetary requirement to address the care this patient would require. The report continued with an omission of four long-term surgical procedures identified in depositions. Finally a key omission is noted

throughout the original report: The typical routine fees associated with the diagnostic, follow-up and management of various health care episodes were omitted.

These omissions included anesthesia fees, radiology fees, pre-admission testing, and pathology fees, actual diagnostic testing between procedures, annual check ups, post surgical rehabilitation, and home health care services. Finally, due to the severity of this injury, this life care plan did incorporate complication rates, financial error rates, and direct medical error rates for consideration. The following chart demonstrates the impact that this five-step process had in this case.

Future Surgical Procedures (3) (4) (5)					
Total Knee Replacement	every 10 years	$5,000.00	$500.00	30	$15,000.00
(approximate surgeon's fees)					
Hospital Fees	every 10 years	$125,000.00	$12,500.00	30	$375,000.00
Post Surgery Rehabilitation Fees	every 10 years	$35,000.00	$3,500.00	30	$105,000.00
Complications	every 10 years	$40,000.00	$4,000.00	30	$120,000.00
			$20,500.00		$615,000.00
Arthroplasty-Removal of Hardware	1 time	$12,090.00	$12,090.00	1	$12,090.00
Anesthesiology	1 time	$2,469.00	$2,469.00	1	$2,469.00
Radiologist	1 every year	$3,606.00	$3,606.00	2	$7,212.00
Follow up Radiologist	1 every year	$500.00	$500.00	5	$2,500.00
Pathologist	1 time	$800.00	$800.00	1	$800.00
Hospital Fees (DRG 406)	1 time	$30,000.00	$30,000.00	1	$30,000.00
Post Surgery Rehabilitation Fees	1 time	$7,000.00	$7,000.00	1	$7,000.00
Medication Management	1 time	$4,200.00	$4,200.00	1	$4,200.00
Complications	1 time	$9,000.00	$9,000.00	1	$9,000.00
			$69,665.00		$75,271.00
Osteotomy of Tibia	1 time	$4,800.00	$4,800.00	1	$4,800.00
Anesthesiology	1 time	$1,500.00	$1,500.00	1	$1,500.00
Radiologist	1 every year	$3,606.00	$3,606.00	2	$7,212.00
Follow up Radiologist	1 every year	$500.00	$500.00	5	$2,500.00
Pathologist	1 time	$500.00	$250.00	1	$250.00
Hospital Fees (DRG 418)	1 time	$22,000.00	$22,000.00	1	$22,000.00
Post Surgery Rehabilitation Fees	1 time	$7,000.00	$7,000.00	1	$7,000.00
Medication Management	1 time	$4,200.00	$4,200.00	1	$4,200.00
Complications	1 time	$6,600.00	$6,600.00	1	$6,600.00
			$50,456.00		$56,062.00
Amputation, below the knee	1 time	$7,500.00	$7,500.00	1	$7,500.00
Anesthesiology	1 time	$1,800.00	$1,800.00	1	$1,800.00
Radiologist	1 time	$1,803.00	$1,803.00	1	$1,803.00
Follow up Radiologist	1 a yr/5 yrs	$500.00	$500.00	5	$2,500.00
Pathologist	1 time	$250.00	$250.00	1	$250.00
Hospital Fees (DRG 411)	1 time	$18,000.00	$18,000.00	1	$18,000.00
Post Surgery Rehabilitation Fees	1 time	$7,000.00	$7,000.00	1	$7,000.00
Home Health Care	30 times	$2,850.00	$2,850.00	1	$2,850.00
Medication Management	1 time	$4,200.00	$4,200.00	1	$4,200.00
Complications	1 time	$5,400.00	$5,400.00	1	$5,400.00
			$49,303.00		$51,303.00
Total Hip Replacement	1 every 15 yrs	$5,000.00	$5,000.00	2	$10,000.00
Anesthesiology	1 per total hip	$2,469.00	$2,469.00	2	$4,938.00
Radiologist	1 per total hip	$3,606.00	$3,606.00	2	$7,212.00
Follow up Radiologist	1 a yr/5 yrs per hip	$200.00	$200.00	10	$2,000.00
Pathologist	1 per total hip	$500.00	$500.00	2	$1,000.00
Hospital Fees (DRG 404)	1 per total hip	$35,000.00	$35,000.00	2	$70,000.00
Post Surgery Rehabilitation Fees	1 per total hip	$7,000.00	$7,000.00	2	$14,000.00
Home Health Care	30 times/total hip	$2,850.00	$2,850.00	2	$5,700.00
Medication Management	1 per total hip	$4,200.00	$4,200.00	2	$8,400.00
Complications	1 per total hip	$10,500.00	$10,500.00	2	$21,000.00
			$71,325.00		$144,250.00

The excerpt from this case example clearly demonstrates financially what can go wrong in a life care plan. A $943,000 shortfall ultimately leaves the patient in jeopardy to effectively receive the services advised or agreed upon in any agreement or settlement. Patient's with catastrophic injuries can also find themselves in jeopardy with future insurance coverage in having the services related to this injury denied as pre-existing, thus, without funds to continue treatment.

Many errors were noted in the handling of this case. For example, the case did not have a central focus or defined objective. Controls for managing treatment were not effectively communicated to all parties involved. Expert opinions from treating physicians were used as a basis for physician fees and hospital fees. Hospital databases were never used to confirm average prices. Overall, the five-step approach discussed in this article served in this case as an effective financial diagnostic tool to ensure that all financially and clinically pertinent information was included in the development of a comprehensive life care plan.

Suggested References

CMS (2001). Health Care Expenditures. Retrieved January 2, 2003, from http/www.cms.hhs.gov/media/press/release.asp?Counter=409.

House Ways & Means (2002). H.R. 4889 The Patient Safety Improvement Act. Retrieved January 2, 2003, from http://waysandmeans.house.gov/legacy.asp?file=legacy/health/107cong/hl-2act.htm.

http://cms.hhs.gov/statistics/nhe/historical/chart.asp.

Martin, N. (2002). What does the word "iatrogenic" mean? Retrieved January 2, 2003, from http://www.iatrogenic.org/define.html.

United States Healthcare Statistics. Retrieved September 2002, from http://www.cms.gov.

Recommended Resources

http://www.iatrogenic.com
http://www.mbanews.com

About the Author

Rebecca S. Busch RN, MBA, CFE, CCM, FHFMA is founder and president of Medical Business Associates, Inc., Oak Brook, IL. She is a recognized expert for risk exposure in medical, clinical, financial and compliance issues.