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# *PACE: What Is It and What Should You Consider Developing a Program?*

Health Dimensions Group

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## *Your Presenters*

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## *Triple Aim: Foundation for Reform*

- Better care and patient experience
- Better population health
- Reduction of rise of Medicare costs (bending the cost curve)



## *Federal Coordinated Health Care Office*

- Section 2602 of Affordable Care Act
- Purpose: improve quality, reduce costs, and improve the beneficiary experience
  - Ensure dual eligibles have full access to services to which they are entitled
  - Improve coordination between federal government and states
  - Develop innovative care coordination and integration models
  - Eliminate financial misalignments that lead to poor quality and cost shifting



*Source: Centers for Medicare & Medicaid Services*

## *What is PACE?*

- Program of All-inclusive Care for the Elderly (PACE)
- **Provider-based** health plan caring for nursing home eligible seniors over the age of 55
- PACE provider is at full risk and receives Medicare and Medicaid capitation
- Care model:
  - ADHC based
  - Integrates primary, acute, and long-term care
  - Uses interdisciplinary teams to assess need and provide and manage all needed services

## *What is PACE? (continued)*

- Service area:
  - Serves defined service area (defined by ZIP code or county)
  - Most states do not allow overlapping service areas so once awarded, there is no competition from other PACE providers
- Service delivery:
  - Typically employs interdisciplinary team (IDT)
  - Narrow network of providers for contracted care

## *Why PACE Now?*

- PACE programs offer financially viable model of care
- PACE operates as patient-centered medical home (PCMH) and an accountable care organization (ACO)
- PACE is fully accountable for costs, quality, and outcomes
- PACE is aligned with hospital incentives to reduce readmissions and increase value
- PACE is proven model of care for nursing home facility eligibles that meets health care reform goals

## *Topics*

- Understanding PACE
- Critical Success Factors
- Building a Financial Pro Forma
- Decision-Making

# *Understanding Program of All-inclusive Care for the Elderly (PACE)*

# PACE Nationally: 75 Programs in 28 States



## *PACE Enrollees*



Mean Age	80
Gender	75% women
Average Number of Basic ADL Deficits	3.5
Cognitive Impairment	63%
Average Enrollment	2-3 years

## *PACE Eligibility Criteria*

- 55 years of age or older
- Live in a PACE service area
- Be certified as eligible to receive a nursing home level of care
- Be able to live safely in the community at point of enrollment



# *PACE: A Model of Integrated Care*

## Traditional Model: Fragmentation

### Care

- Multiple providers
- Discontinuity across sites

### Financing

- Multiple payors
- Institutional bias
- Restrictions

## PACE Model: Integration

### Care

- Outpatient care
- Acute care
- Long-term care

### Financing

- All-inclusive
- Full risk
- No restrictions

## *PACE Financing*

- **Medicare** Capitation

- Medicare Advantage risk adjustment
- PACE frailty factor
- Part D bid process
- Medicare rates = \$1,926 with a range of \$1,238–\$2,739



- **Medicaid** Capitation

- Methodology varies state to state
- Reflects cost of comparable population
- Rates typically calculated for Medicaid only and dual eligibles
- Medicaid dual rate = \$3,277.08

## *PACE Center*

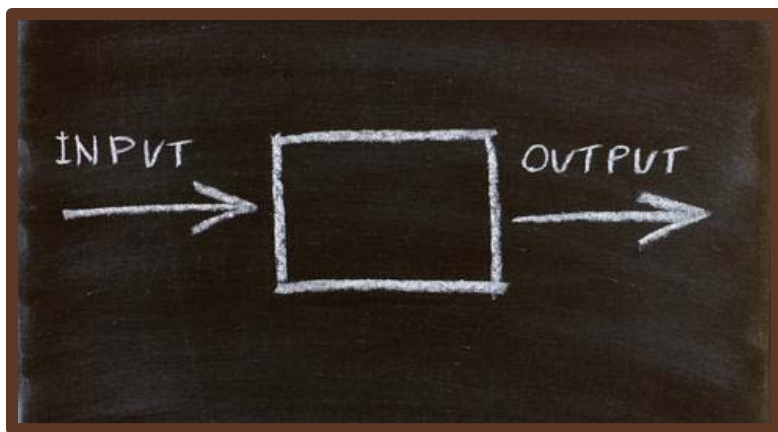
- ADHC
- Social center
- Observation and care environment
- Full-service clinic
- Team base



## *PACE Center: Triage*

- **Input = Information**

- Families/Caregivers
- Home Health/Personal Care Providers
- Drivers
- Facilities



- **Output = Deployment of Resources**

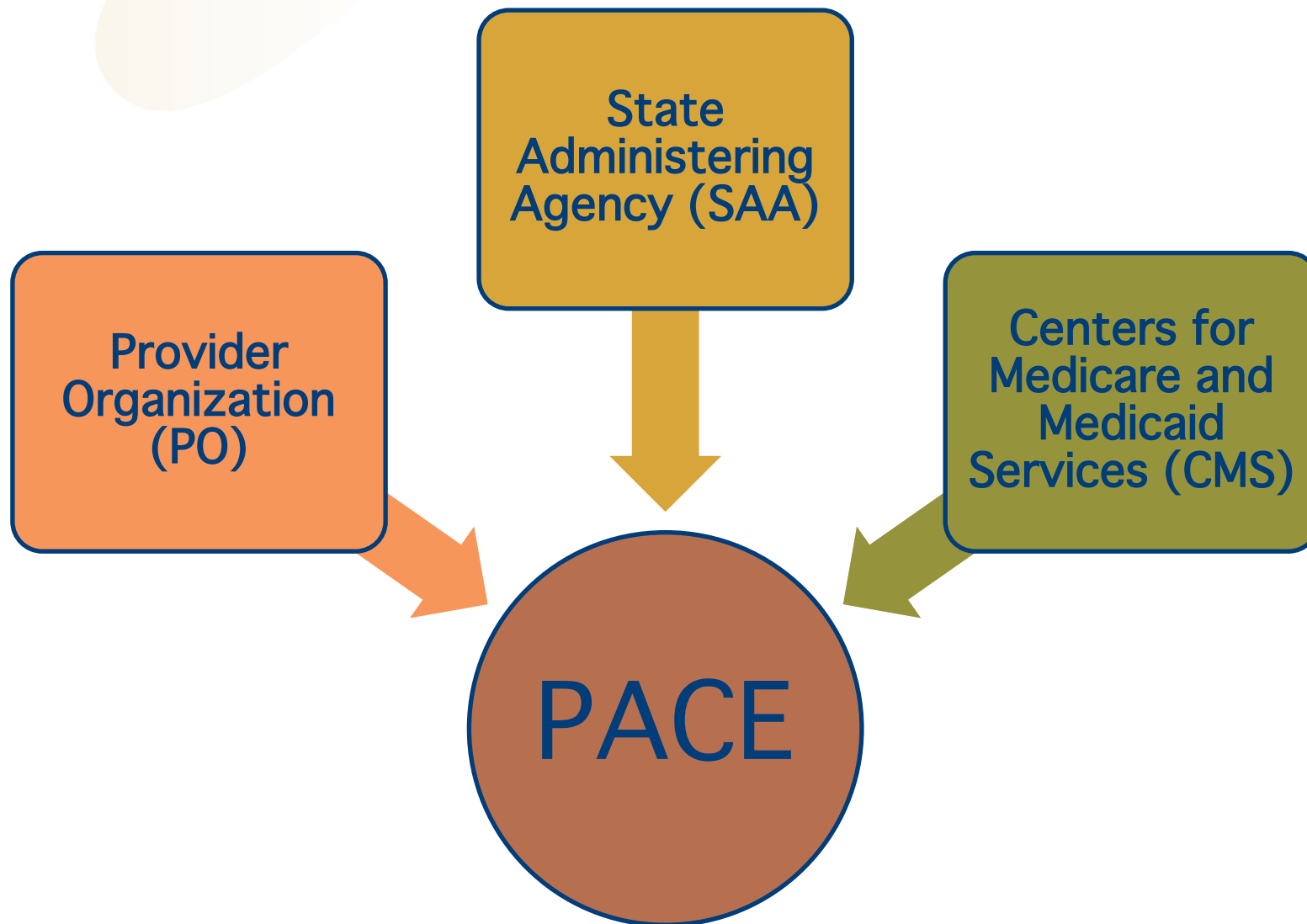
- Center Visits
- Home Visits
  - Nursing
  - Primary Care
  - Rehab
- Transportation
- Deliveries
  - Meds
  - Supplies
  - Meals

## *PACE Utilization: Key Indicators*

Key Indicator	Average
Hospital days per thousand	3,494
Permanently placed in nursing homes	6.47%
Day center attendance per month	9.69
Transportation encounters per month	17.34



## *PACE: Three-Way Partnership*



# *Critical Success Factors*

## *Critical Success Factors*

- Sufficient demand
- Positive market factors
- Strong state support
- Adequate Medicaid payment
- Strong organizational capacity
- Adequate capitalization



## *Sufficient Demand*

- Issues to consider:
  - Demographic analysis of potential PACE demand, supported by your understanding of the market for community-based long-term care services
  - Carefully consider Medicaid eligibility when calculating potential demand and size of market
  - Consider location of low-income housing
  - Consider strength of referrals from partners and other referral sources
  - Determine ability to:
    - Sustain adequate census growth over time; and,
    - Generate strong start-up census

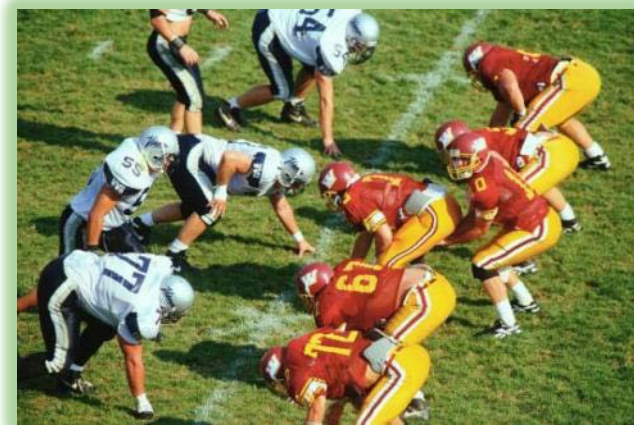
## *Positive Market Factors*

- Consider all competitive programs:
  - New programs coming as a result of health care reform
  - Managed integrated long-term care programs
  - Traditional providers—nursing homes, assisted living
  - Home- and community-based waiver programs



## *Strong State Support*

- Issues to consider:
  - PACE as part of the state's long-term care and rebalancing strategy
  - Licensure requirements—adult day care, home health, clinic, PACE specific
  - HMO licensure requirements
  - Enrollment caps
  - Level playing field for referrals



## *Adequate Medicaid Payment*

- Determined by each state based upon the costs of caring for a comparable population
  - Dual eligible rate
  - Medicaid-only rate
- Great variability in state PACE rates
  - Mean = \$3,000
  - Range = \$1,500–\$4,000 for dual eligibles
- Determine if your PACE program will break even at the proposed rate



## *Strong Organizational Capacity*

- Issues to consider:
  - Experience of senior management team
  - Organizational experience with risk-based programs
  - Longstanding reputation in the community caring for frail elderly
  - Development of strategic relationships with partners



## *Adequate Capitalization*

- Capital needs determined during feasibility study
- Can range from \$1 million to \$5 million
- Capital needs include:
  - PACE center building
  - PACE center equipment
  - IT hardware/software
  - Start-up expenses
  - Initial operating losses
  - Risk reserve



# *PACE Market and Financial Feasibility Study*

# *Feasibility Study*



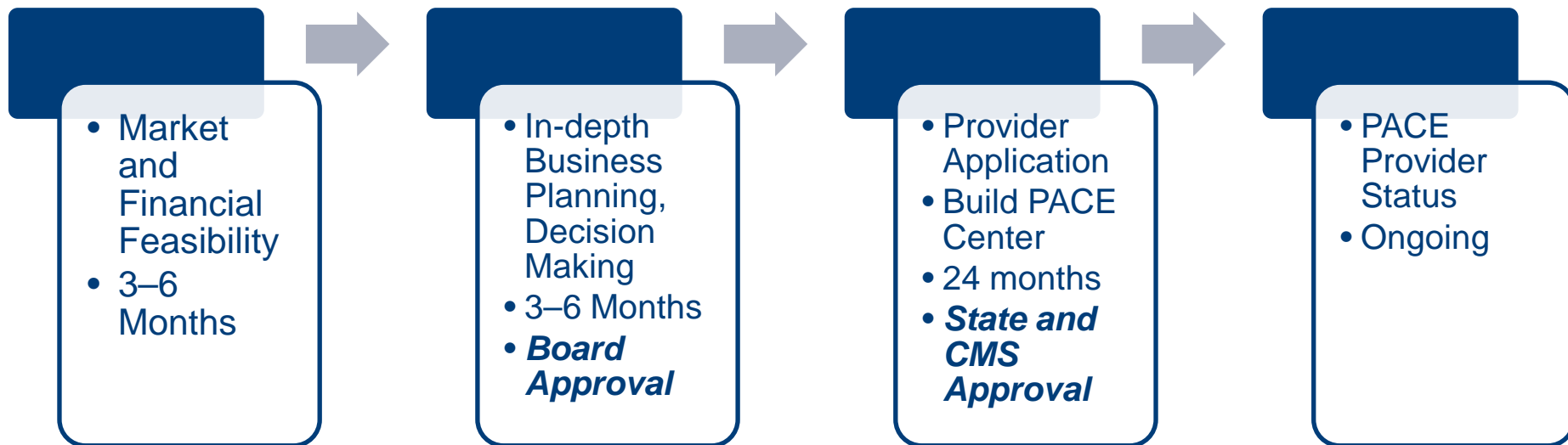
- First, consider critical success factors
- Feasibility study gives you information to make a go or no-go decision
- Likely to be required as part of the RFP process

## *Feasibility Study Components*

- Market and demand analysis
- Internal organizational assessment
- External market assessment
- Financial pro forma analysis



# Decision-Making Process



# *Building the PACE Pro Forma and Determining Financial Feasibility*

## *Developing the PACE Pro Forma*

- Key assumptions
- Analysis of results
- Sensitivity analysis
- Using the pro forma analysis

## *Key Assumptions*

- Enrollment projections
- Capitation rates
- Expense assumptions
- Capital requirements



## *Capitation Rate Example*

- Estimated dual-eligible rate for Los Angeles for 2011
- Medicare capitation estimated based on an average HCC risk adjuster including estimate for reduced frailty factor
- Medicaid rate estimate based on estimated California rate

Medicare Part A and B rate	\$2,000
Medicare Part D (estimated)	\$ 450
Medicaid	\$4,100
<b>Total Dual-Eligible Cap Rate</b>	<b>\$6,550</b>

# *Per Member Per Month Cost National Averages*

<b>Category</b>	<b>PMPM Cost</b>	<b>% of Cost</b>
General/Administrative	\$1,131	23%
Adult Day Health Center	\$960	18%
Hospital Services	\$611	12%
Pharmacy	\$525	10%
Nursing Home	\$487	9%
Home Care	\$481	9%
Transportation	\$330	6%
Specialists/MD	\$237	5%
Therapy	\$167	3%
Social Services	\$125	2%
Meals	\$111	2%
AL/Group Home	\$74	1%

# *PACE Capital Summary*

Component	Expense
Adult Day Center	Build = \$3 million to \$15 million Purchase = \$1 million to \$3 million Lease = \$6 to \$40/square foot/year
Leasehold Improvements	\$500,000 to \$2.5 million
Equipment	\$400,000 to \$950,000
Vans	\$40,000 to \$60,000 each
Start-Up Costs	\$500,000 to \$1.5 million
Operating Losses	\$500,000 to \$4 million

## *Analysis of Pro Forma Results*

- Analyze key statistics to determine feasibility:
  - Break-even month
  - Payback period
  - Operating margins
  - EBITDA margins
  - Capital requirement
- Determine whether PACE will work financially



# Sample Financial Pro Forma Analysis—P&L

Financial Analysis - Two Sites Program of All-Inclusive Care for the Elderly (PACE)							
Summary P & L							
	Startup 18 Mos Ended 6/30/2009	Year 1 Ending 6/30/2010	Year 2 Ending 6/30/2011	Year 3 Ending 6/30/2012	Year 4 Ending 6/30/2013	Year 5 Ending 6/30/2014	6 Year Total
<b><u>Census</u></b>							
ADC	-	31	105	177	249	321	
Member Months	-	375	1,260	2,124	2,988	3,852	10,599
<b><u>Revenues</u></b>							
Medicare	\$ -	\$ 1,037,503	\$ 3,670,169	\$ 6,154,008	\$ 8,831,972	\$ 11,732,385	\$ 31,426,036
Medicaid	-	1,897,690	6,480,771	11,137,721	15,975,517	21,003,818	56,495,517
<b>Total Net Operating Revenues</b>	<b>-</b>	<b>2,935,193</b>	<b>10,150,940</b>	<b>17,291,729</b>	<b>24,807,489</b>	<b>32,736,202</b>	<b>87,921,553</b>
<b><u>Operating Expenses</u></b>							
Salaries and Wages	332,020	1,305,320	2,488,600	3,884,227	5,072,487	6,480,597	19,563,252
Employee Benefits	99,606	391,596	746,580	1,165,268	1,521,746	1,944,179	5,868,975
Purchased Services	6,750	1,154,179	3,676,542	6,523,025	9,700,651	13,559,488	34,620,635
Insurance	80,000	106,574	169,597	252,597	290,120	330,764	1,229,651
Other	303,500	325,410	639,498	964,695	1,305,268	1,664,460	5,202,831
Depreciation	-	310,951	361,439	557,483	645,784	689,784	2,565,439
Interest	-	546,585	580,671	912,359	971,786	958,263	3,969,663
Building Rent/Utilities	320,000	320,000	441,183	615,322	633,782	652,795	2,983,082
Management Fee	200,000	250,000	406,038	691,669	992,300	1,309,448	3,849,454
<b>Total Operating Expenses</b>	<b>1,341,876</b>	<b>4,710,615</b>	<b>9,510,147</b>	<b>15,566,644</b>	<b>21,133,922</b>	<b>27,589,779</b>	<b>79,852,983</b>
<b>Net Income</b>	<b>(1,341,876)</b>	<b>(1,775,422)</b>	<b>640,793</b>	<b>1,725,085</b>	<b>3,673,567</b>	<b>5,146,423</b>	<b>8,068,569</b>
<b>EBITDA</b>	<b>(1,341,876)</b>	<b>(917,886)</b>	<b>1,582,903</b>	<b>3,194,926</b>	<b>5,291,136</b>	<b>6,794,470</b>	<b>14,603,672</b>
<b>Operating Margin Percent</b>	<b>0.00%</b>	<b>-60.49%</b>	<b>6.31%</b>	<b>9.98%</b>	<b>14.81%</b>	<b>15.72%</b>	<b>9.18%</b>
<b>EBITDA Margin Percent</b>	<b>0.00%</b>	<b>-31.27%</b>	<b>15.59%</b>	<b>18.48%</b>	<b>21.33%</b>	<b>20.76%</b>	<b>16.61%</b>

## *PACE Financial Performance*

### **Benchmarks**

Total Capital Investment	\$2 million to \$6 million
Operating Margin	5% to 20%
Break-even Cash Flow	12 to 36 months
Investment Payback	36 to 60 months

## *Sensitivity Analysis*

- Measures impact of unexpected changes in key assumptions
- Provides best and worst case scenarios
- Following assumptions are highly sensitive and have a material impact on financial results:
  - Census growth
  - Medicaid rate
  - Hospital utilization
  - Nursing home utilization

## *Using the PACE Pro Forma*



- Key factor in executive management go/no-go decision
- Key part of business plan
- Can be used as budget tool and for performance measurement

## *Final Thought*

*“There are many ways of going forward but only one way of standing still.”*

Franklin D. Roosevelt



# *Discussion and Questions*

# *Thank You*

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