

Financial Management Services in Participant Direction: What do they Cost?

Financial Management Service Agencies (FMSAs) Can Provide a Broad Range of Services

Financial Management Services (FMS) are a participant-directed support; they assist program participants to use participant-directed services.

FMS refers to entities that serve as a Fiscal/Employer Agent (F/EA), Agency with Choice or Fiscal Conduit in participant direction programs (see handout titled “Financial Management Services in Participant Direction: What are the Different Models?” for descriptions of the FMS models).

FMS can include a broad range of services and therefore a broad range of costs. FMS can range in cost from about \$40 per participant per month to upwards of \$175 per participant per month.

Many Factors Influence the Cost of Financial Management Services

Many factors, including the services provided by a FMSA, impact the cost of FMS. Some factors that commonly influence the cost of FMS include:

- FMSA model: F/EA, Agency with Choice or Fiscal Conduit
 - The FMSA’s responsibilities in the Fiscal Conduit model are generally fewer than with F/EA or Agency with Choice, so fees charged by FMSAs for this model are usually lower.
- Volume and type of Customer Service provided by FMSA to program stakeholders
- Variability of rates permitted for each service
- Size of population served
- Complexity of payment rules enforced by FMSA
- Working capital requirements; does the FMSA advance funds to pay participants’ workers and vendors?
- Process to exchange data with the FMSA, including participant, worker, vendor and spending plan information
- Requirements for FMSA physical presence in the planned service area(s)

How are Programs Structuring the FMS Payment Methodology and what are they Paying for FMS?

The National Resource Center for Participant-Directed Services (NRCPDS) and The Lewin Group obtained FMS cost data via phone and e-mail from a variety of participant direction programs, including Medicaid State Plan, Medicaid Home and Community Based Services Waiver, Cash and Counseling and Nursing Home Diversion Modernization programs.

Just as the range of services provided and responsibilities of a FMSAs varies greatly across programs, so too does the range of costs and cost structures. The cases provided below provide hypothetical examples created using survey data. While these examples are based on actual programs and FMS, no programs are described in whole in the cases.

The cases below are provided to exhibit:

- Various cost structures for reimbursing FMS as implemented by participant direction programs
- How FMS cost might differ across the FMSA models
- How FMS cost might differ across geographic regions
- How FMS cost might differ across program population sizes
- How economies of scale might impact the cost of FMS
- How FMS cost might differ depending on the role of the FMSA as compared to other entities involved in the participant direction program (e.g. Administrative Entity, Counseling Entity, Case Management Entity)

Case 1 – Choice of Many F/EAs

| Geographic Region | FMSA Model | Fee | Start-Up Fee | Procurement Process | Participants Served by FMSA |
|-------------------|-------------|-------------------------|--------------|----------------------|-----------------------------|
| <i>Midwest</i> | Vendor F/EA | \$125 PMPM ¹ | None | Request for Proposal | 100 -150 |

General

In this program, participants can choose from 10 separate Vendor F/EAs. Vendor F/EAs market to participants, advertising their services and costs. Participants pay for FMS from their individual budgets. The Vendor F/EA operates in accordance with all IRS, State and Local rules and regulations as they apply to Vendor F/EA's and household employers. The F/EA procures workers' compensation policies on participants' behalf using participant individual budget funds, manages the workers' compensation policies and responds to any audit requests.

Data Exchange and Payment Rules

Participants can use individual budget funds to pay for workers for whom the participant is the common law employer and also to purchases goods and services from vendors, agencies and other independent contractors. Participants determine the rate of pay for workers for each service within a range provided by the state. The F/EA must pay workers and vendors in accordance with 27 payment rules, in addition to ensuring payments are made in accordance with participants' individual budgets. The F/EA must collect and manage worker credentialing data from the participants and state and ensure that workers are only paid for services for which they have met credentialing requirements.

Individual budget data is provided by a care management entity to the F/EA on paper. The F/EA enters individual budget information into the F/EA's payroll and accounting system. Changes to individual budgets are provided on paper by the care management entity to the F/EA as often as once per week. The F/EA updates its system accordingly and makes payments on participant's behalf in accordance with updated budgets.

Customer Service

The F/EA trains the Case Management entity to support participants to complete employer enrollment packages, hire workers and develop employer skills. The Case Management entity supports participants to this end and the F/EA does not have any in-person interaction with participants. The F/EA provides telephone and e-mail assistance primarily to Case Managers because participants use the Case Manager as their point of contact, but also responds to inquiries from participants, representatives and workers. Common queries of the F/EA regard whether a payment will be made, when it was made and if an invoice/timesheet was received.

Reporting

The F/EA provides five standard management reports to the State and Case Management entity monthly. The F/EA sends reports outlining budgeted amounts and spent amounts to participants quarterly.

¹ "PMPM" stands for "Per Member Per Month" and refers to the fee charged per participant per month by the FMSA.



Reimbursement to the FMS for Payments Made on Participant's Behalf

The F/EA pays workers and vendors on behalf of participants and submits an invoice for reimbursement to the state within 2 business days of making payments on behalf of participants. The state reimburses the F/EA for all approved expenditures within 14 business days. Approximately 95% of invoices are reimbursed without additional follow-up required by the F/EA within 14 days. 4.85% are reimbursed within 30 business days and approximately 0.15% goes unreimbursed by the state because the F/EA was determined to have made a payment in error. Bi-weekly payroll is usually between \$200,000 and \$300,000. The F/EA must have working capital to cover service payments made on behalf of participants until reimbursement is received. The required working capital amount tends to be around \$275,000 at all times.

Case 2 – Partnering for Economies of Scale

| Geographic Region | FMSA Model | Fee | Start-Up Fee | Procurement Process | Participants Served by FMSA |
|--------------------------|-------------------|---|---------------------|---|--|
| <i>South</i> | Vendor F/EA | \$55 PMPM plus \$1.00 for each hour of service that the F/EA pays to a worker who is the common law employee of the participant | None | Contracted with a vendor that was already providing service for another program in the state. | 200 for this program, but the FMSA also serves another program in the state. The FMSA serves 3500 total participants in the state. |

General

A single state-wide Vendor F/EA provides FMS for participants in this program. Participants do not pay for FMS from their individual budgets. The Vendor F/EA operates in accordance with all IRS, State and Local rules and regulations as they apply to Vendor F/EAs and household employers. The program partnered with another program in the state and implemented almost identical rules and processes for both programs. The economies of scale are reflected in the PMPM cost. The standard PMPM of \$55 applies to participants who receive services only from vendors, agencies or independent contractors. For participants who receive services from vendors, agencies or independent contractors AND from employees of the participant, the \$55 standard PMPM applies and the F/EA charges an additional \$1 for every hour of service paid to an employee of the participant. This structure was developed because the F/EA must do more work for participants who have their own employees (e.g. establish the participant as an employer with tax agencies, submit and process all agent authorization paperwork with tax agencies, and withhold, deposit, and file Federal, State and Local taxes for payments made by participant employers to their employees). Seventy five percent of participants hire their own employees and those participants pay about 10 hours per week to employees. Therefore, the F/EA charges \$55 PMPM for 25% of participants and \$65 PMPM for about 75% of participants.

Data Exchange and Payment Rules

Participants can use individual budget funds to pay for workers for whom the participant is the common law employer and also to purchases goods and services from vendors, agencies and other independent contractors. A single rate of pay is defined by the state for each service; all workers who provide that service are paid the same rate. The F/EA only receives data for workers who have met all program requirements and are approved to be paid for service. The F/EA must enforce 5 separate payment rules, in addition to making payments in accordance with the participant's monthly budget.

Individual budget data is provided by a counseling entity to the F/EA electronically. Each participant is authorized a monthly dollar amount and that data is provided to the F/EA electronically 15 days prior to the beginning of each month. The F/EA electronically loads individual budget information into the F/EA's payroll and accounting system. Any changes to monthly budgets are provided on paper by the care management entity to the F/EA as during the month. The F/EA updates its system accordingly and makes payments on participant's behalf in accordance with updated budgets.

Customer Service

The F/EA provides phone support to participants to complete employer enrollment packages. The F/EA distributes an employer training manual to all participants. The manual provides guidance for hiring workers and developing employer skills. The F/EA provides telephone and e-mail assistance primarily to counselors, participants, representatives and workers. Common queries of the F/EA regard whether a participant has completed the necessary paperwork to hire a worker and if all account numbers have been obtained to allow the payments to be made on participant's behalf, how to support the worker to complete employee paperwork, if a payment will be made, and if an invoice/timesheet was received.

Reporting

The F/EA provides four standard management reports to the State and counseling entity monthly, including a report of any unresolved Customer Service issues. Reports are not sent to participants.

Reimbursement to the FMS for Payments Made on Participant's Behalf

The F/EA pays workers and vendors on behalf of participants and submits an invoice for reimbursement to the state at least 2 business days *before* making payments on behalf of participants. The state reimburses the F/EA for all approved expenditures within 1 business day after receipt of the invoice. Any payments that are not reimbursed by the state are not made on behalf of participants. The F/EA researches why a payment was denied and follows up with the participant to make any necessary corrections to invoices or timesheets so that they can be paid in the next payment cycle. The F/EA is not required to advance funds for payments made on behalf of participants.

Case 3 – Variable Start-Up Costs per Participant, Small Program

| Geographic Region | FMSA Model | Fee | Start-Up Fee | Procurement Process | Participants Served by FMSA |
|---------------------|-------------|------------|--|---|-----------------------------|
| <i>Mid-Atlantic</i> | Vendor F/EA | \$100 PMPM | Yes, per participant. Dependent on complexity of start-up process for individual participant. Up to \$200 per participant in first year. | <ul style="list-style-type: none">• Invitation to bid• Selected lowest cost vendor that met minimum qualifications | 250 |

General

A single state-wide Vendor F/EA provides FMS for participants in this program. Participants do not pay for FMS from their individual budgets. The Vendor F/EA operates in accordance with all IRS, State and Local rules and regulations as they apply to Vendor F/EAs and household employers.

The standard PMPM of \$100 applies to participants who receive services from vendors, agencies, independent contractors or common law employees of the participant. A start-up fee of \$50 to \$200 is charged per participant per year for participants who join the program in the first year of program operation. The start-up fee is dependent on the complexity of the start-up and data transfer process for the employer.

Data Exchange and Payment Rules

Participants can use individual budget funds to pay for workers for whom the participant is the common law employer and also to purchases goods and services from vendors, agencies and other independent contractors. A single rate of pay is defined by the state for each service; all vendors or workers who provide that service are paid the same rate. The F/EA only receives data for workers who have met all program requirements and are approved to be paid for service. The F/EA must enforce 15 separate payment rules, in addition to making payments in accordance with the participant's budget.

Individual budget data is provided to the F/EA electronically from a central database. The F/EA loads electronic individual budget and participant data into the F/EA's payroll and accounting system. Changes to individual budgets are provided via the electronic data load as often as daily.

Customer Service

The F/EA provides regional group workshops to participants to complete employer enrollment packages and receive employer skills training. In

addition to in-person workshops, the F/EA provides telephone and e-mail assistance primarily to counselors, participants, representatives and workers.

Reporting

The F/EA provides four standard management reports to the State and counseling entity monthly. The F/EA sends reports outlining budgeted amounts and spent amounts to participants monthly.

Reimbursement to the FMS for Payments Made on Participant's Behalf

The state provides an advance of \$500,000 in the first month of service. The F/EA pays workers and vendors on behalf of participants and submits and invoice for reimbursement to the state after making payments on behalf of participants. The state reimburses the F/EA for all approved expenditures within 30 days of receiving the invoice from the F/EA. The \$500,000 advance is provided to prevent the F/EA from providing working capital to cover payments to be made on behalf of participants for a current payment cycle while the payments from the previous payment cycle are being reimbursed.

Case 4 – Small Government Fiscal/Employer Agent Program

| Geographic Region | FMSA Model | Fee | Start-Up Fee | Procurement Process | Participants Served by FMSA |
|--------------------------|-------------------|------------|---|--|------------------------------------|
| <i>South</i> | Government F/EA | \$70 PMPM | \$10,000 in grant funds provided for start-up | None. Local government entity provides FMS in-house. | 1-50 |

General

A local government entity serves as a Government F/EA and provides FMS for participants in this program. Participants do not pay for FMS from their individual budgets. The Government F/EA operates in accordance with all IRS, State and Local rules and regulations as they apply to Government F/EAs and household employers.

Participants have monthly budgets under \$1000 and most participants use their budgets to purchase a combination of employee, vendor, agency and independent contractor services.

Data Exchange and Payment Rules

Participants can use individual budget funds to pay for any of 3 services. The participant sets the worker's rate of pay within a range determined by the local government entity. The F/EA only receives data for workers who have met all program requirements and are approved to be paid for service. The F/EA must ensure payments are made in accordance with the participant's budget, but need not enforce any other payment rules.

Individual budget data is provided to the F/EA portion of the local government entity on paper. The F/EA enters budget data into the F/EA's payroll and accounting system. Changes to individual budgets are provided not more than once every three months.

Customer Service

The F/EA does not provide any training or Customer Service directly to participants. The Counseling entity manages all communication with workers, vendors, agencies and participants. The F/EA responds to Counseling entity questions and provides spending and payroll reports to the Counseling entity after each payment cycle.

Reporting

Reporting is informal. The F/EA provides ad hoc information to the Counseling entity and/or local government agency staff.

Reimbursement to the FMS for Payments Made on Participant's Behalf

The local government entity provides all funds to make payments on participant's behalf in advance of F/EA making payments on participant's behalf.

Case 5 – Agency with Choice

| Geographic Region | FMSA Model | Fee | Start-Up Fee | Procurement Process | Participants Served by FMSA |
|--------------------------|--------------------|--|--|---|------------------------------------|
| <i>Northeast</i> | Agency with Choice | After first year, cost of FMS is 10% of funds managed by FMSA. | Yes. \$35,000 provided to develop systems and infrastructure and provide services to up to 50 participants in the first year. No other costs or fees paid in first year. | <ul style="list-style-type: none">• Request for Proposal• Selected qualified vendor with most participant focused approach | 51 -100 |

General

An agency with direct service experience in the region serves as an Agency with Choice for participants in this program. Participants can refer workers to the agency for hire and can also purchase services through other agencies, vendors and independent contractors. The agency provides employer skills training one-on-one with participants and their families.

Data Exchange and Payment Rules

Participants can use individual budget funds to pay for any of 15 services. The agency pays a standard rate for each service for all workers referred to the agency by the participant. The participant negotiates rates with other agencies, vendors and independent contractors.

Individual budget data is provided to the Agency with Choice on a monthly basis on paper. The FMS enters budget data into the FMSA's payroll and accounting system. Changes to individual budgets are provided not more than monthly.

Customer Service

The FMS provides all Customer Service to participants regarding FMS.

Reporting

Six different management reports are provided to the administrative entity on a quarterly basis. Reports of participant budgets, spending and amounts remaining are provided to participants monthly.

Reimbursement to the FMS for Payments Made on Participant's Behalf

The Agency with Choice advances funds to make payments on participant's behalf and is reimbursed by the administrative entity within 15 business days.