



Nursing Facility Rate Payment Overview

Valerie Cooke – Division Director – Nursing Facility Rates & Policy

Continuing Care for Older Adults Administration

Nursing Facility Background

Both the Department of Human Services (DHS) and the Department of Health (MDH) have responsibilities for nursing facilities.

- DHS purchases services through the Medical Assistance program and is also responsible for developing and interpreting policy concerning nursing home services, quality of care and payment rates.
- MDH is responsible for licensing and inspecting nursing facilities as well as investigation allegations of neglect and maltreatment at nursing facilities.

What Services are Covered in Nursing Facilities

- Services are bundled into a comprehensive package of room, board and nursing services.
- The package does not include costs for:
 - Medication
 - Hospitalization and physician services
 - Physical, occupational and speech therapy

How is a person admitted to a nursing facility?

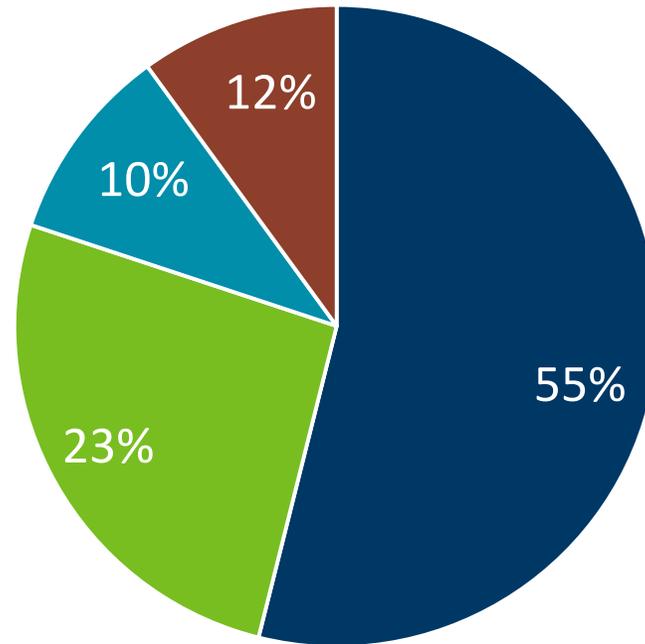
Anyone seeking admission to a Medicaid certified nursing facility must be assessed to determine if they need nursing facility level of care.

Most admissions to nursing facilities occur following a hospitalization.

In FY 2018: there were 61,624 admissions to MN nursing facilities, of those 63% stayed less than 30 days.

Nursing Facility Funding Sources

Over \$2.5 billion is spent annually on nursing home care in Minnesota



■ Medicaid ■ Personal income ■ Medicare ■ Other

Nursing Home Industry Trends

Medicaid Average Payment Rates are Increasing

January
1, 2018

\$246.52
per day

\$7400 per
month

\$89,000
per year

January
1, 2019

\$262.11
per day

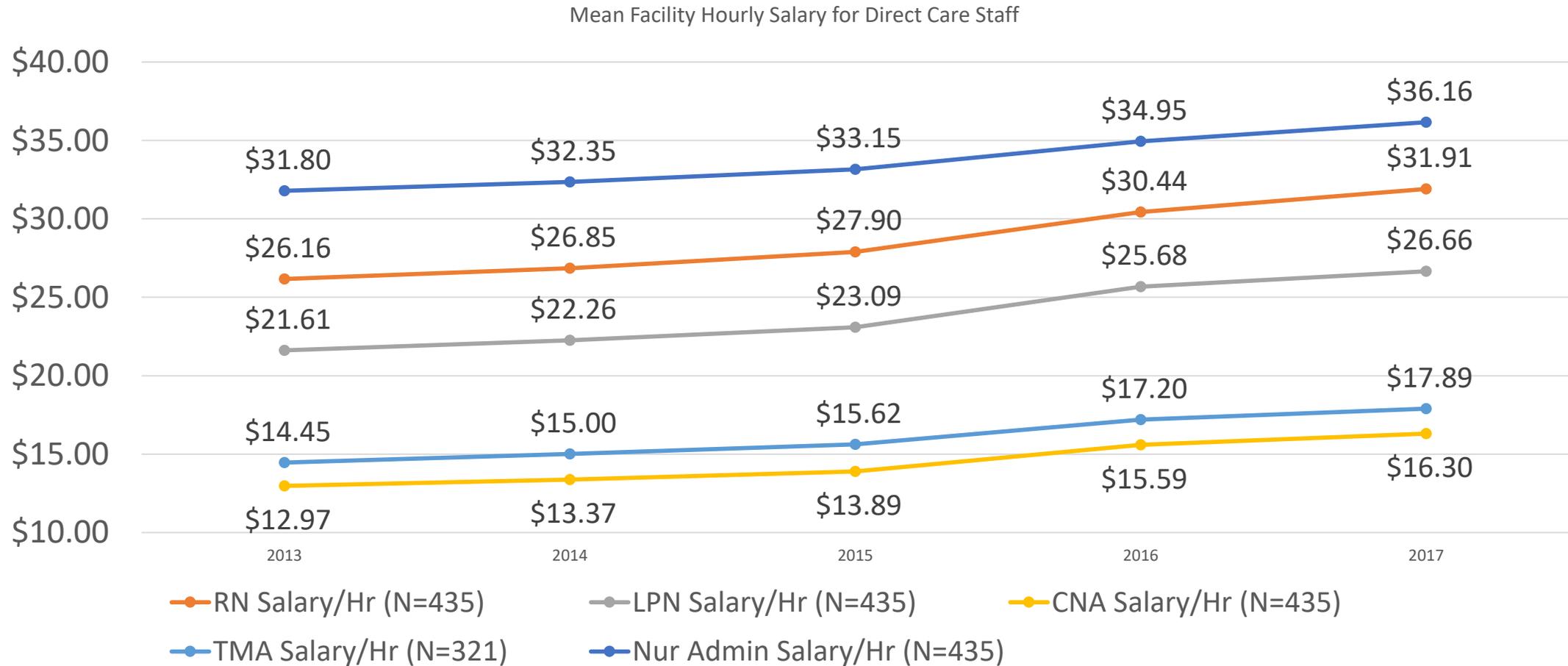
\$8000 per
month

\$96,000
per year

Forecast Projects Significant Growth in Nursing Facility Costs

- Payments to nursing facilities is projected to grow by 76 percent from \$759 million in Fiscal Year 2014 to \$1.3 billion in 2023
- The number of residents served will decrease by 12 percent (15,650 people in 2014, dropping to 13,726 in 2023)

Average Wage Rates Increasing for Care-Related Staff



Historical Reimbursement Systems

Historic Nursing Facility Payment Approaches (1995 to 2006)

- Legislation in 1995 established the Alternative Payment System (APS).
- Payment rates not based on actual costs, adjusted for inflation only in certain years.
- Provided facilities more flexibility in how they spent their resources.
- Rate adjustments were subject to Legislature's decisions.

Source: NF Reimbursement and Regulation, Research Department, Minnesota House of Representatives. D. Punelli and S. Williams, November 2016

2007 to 2015: Nursing Facility Rebasing

- 2007 Legislature enacted “rebasing” of nursing facility rates, re-establishing the connection between a facility’s rates and its costs.
- Rebasing was to be phased in over 8 years; never fully implemented.
- The 2009 Legislature suspended implementation and the 2011 Legislature repealed nursing facility rebasing.

Source: NF Reimbursement and Regulation, Research Department, Minnesota House of Representatives. D. Punelli and S. Williams, November 2016

Reimbursement Rates Today

Value-Based Reimbursement (VBR)

- Established by the Legislature in 2015
- Over \$400 million investment in the first 4 years
- Rates paid based on actual costs reported by facilities.
- Uses a quality score to set care-related spending limits.

Value-Based Reimbursement - Primary Goals

Address workforce issues

- Low wages
- Poor benefit packages
- Recruitment
- Retention

Increase Medicaid reimbursement targeted to direct care and care-related services.

Quality Incentive

- State will pay more for higher quality

Rate Components

Direct Care

- Primarily costs associated with nursing care and medical supplies

Other Care

- Covers activities, social services, religious personnel and raw food costs.

Other Operating

- Administrative costs, dietary, housekeeping, laundry and maintenance and plant operations costs.

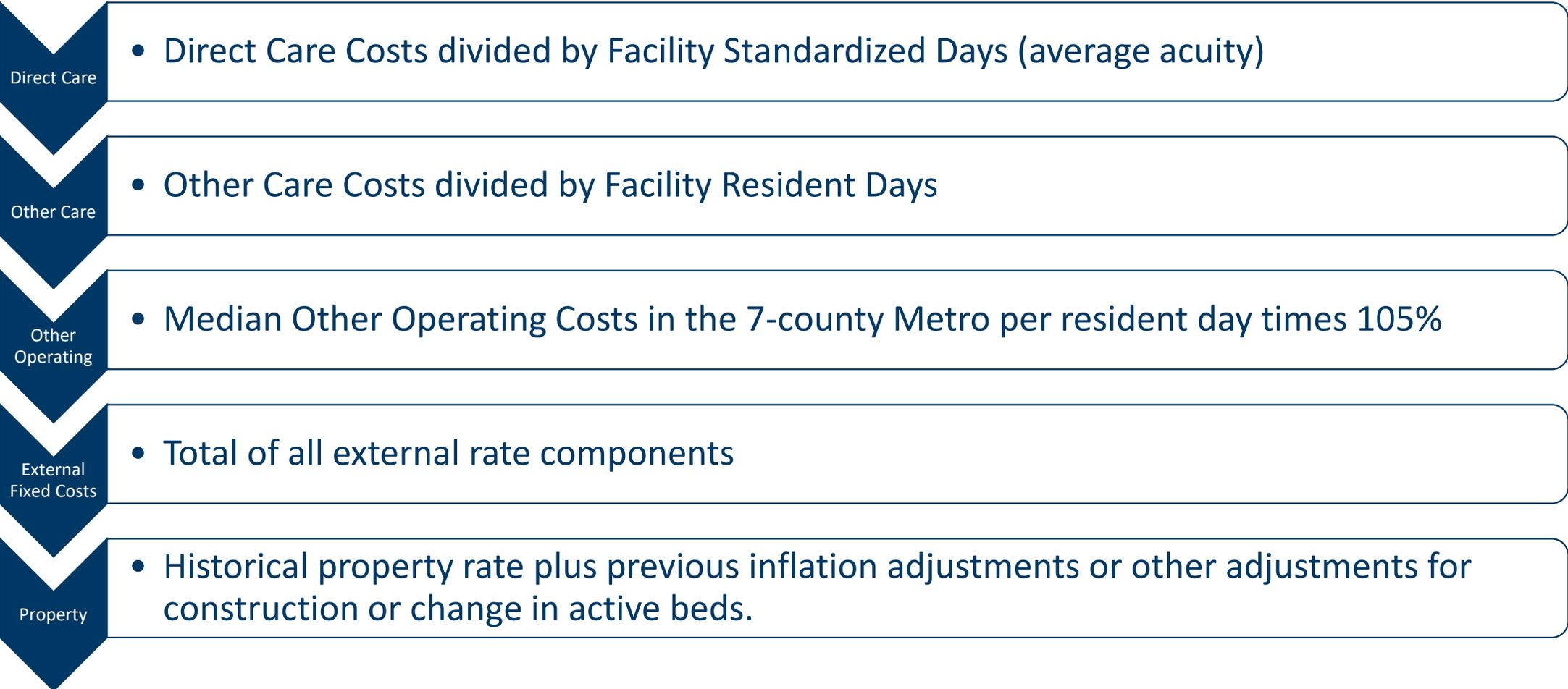
External Fixed Costs

- Miscellaneous rate adjustments such as pass-through costs, surcharge and licensure fees.

Property

- Costs associated with the use of the property.

Rate Calculation



Frostbite Falls Nursing Home Operating Rate Calculation

Care-Related Per Diem

- Direct Care per diem
\$103.24 (52%)
- Other Care-Related per diem
\$18.42 (9%)

Other operating cost per day \$69.27

- Other operating price for all
facilities \$75.44 (38%)

Total Operating Rate

- $\$103.24 + \$18.42 + \$75.44 =$
- **\$197.10**

Rates are Case Mix Adjusted

- Resident rates vary depending on the level of care required for each resident.
- Each resident is assigned a resource utilization group (RUG) class
- Case mix weights vary from 0.45 (low needs) to 3.0 (high needs)
- Frostbite Falls' operating rate varies between a low of \$140.32 to a high of \$403.58 per day, depending on the resident.

Frostbite Falls' Total Payment Rate

Operating Rate
(At Case Mix
Weight of 1.0)
• \$197.10

Property Rate
• \$18.25

External Fixed
Rate
• \$30.24

Total Payment
Rate
• \$245.59

Value Based Reimbursement - Quality Incentive

- A care-related limit is based on the facility's quality score and their allowed care-related costs.
- The limit calculation begins with the 7-county metro median care-related costs.
- The limit moves above or below the metro median depending on the quality score.
- Under the current formula, a facility only needs a quality score of 18.9 out of 100 points to have a limit set at the metro median.

Current VBR Quality Score: Three Components



Evaluation of Value-Based Reimbursement

Value-Based Reimbursement - Independent Evaluation

- Legislative report published in February 2019
- Independent evaluation by:
 - Purdue University
 - University of MN
- Evaluators examined trends in major indicators and outcomes
- Average Medicaid revenue per facility rose sharply but partially offset by declines in resident days.
- Cost increases were significant for facilities of all ownership types, urban and rural location, and other subgroups.
- The evaluation found no evidence that VBR's quality incentives led to higher facility quality.

Evaluator Recommendations

Recommend including an inflation index limiter when calculating the other operating price.

Redefine the quality-based care-related spending limits to better reward high quality facilities and incent other facilities to improve their quality.

Governor's 2019 Value-Based Reimbursement Proposal

Governor's Budget Proposal on Value Based Reimbursement and property payment reform

FY 2020-21:
\$11.8M
savings
FY 2022-23:
\$56.4M
savings

Quality
measures
from the
Minnesota
Nursing Home
Report Card

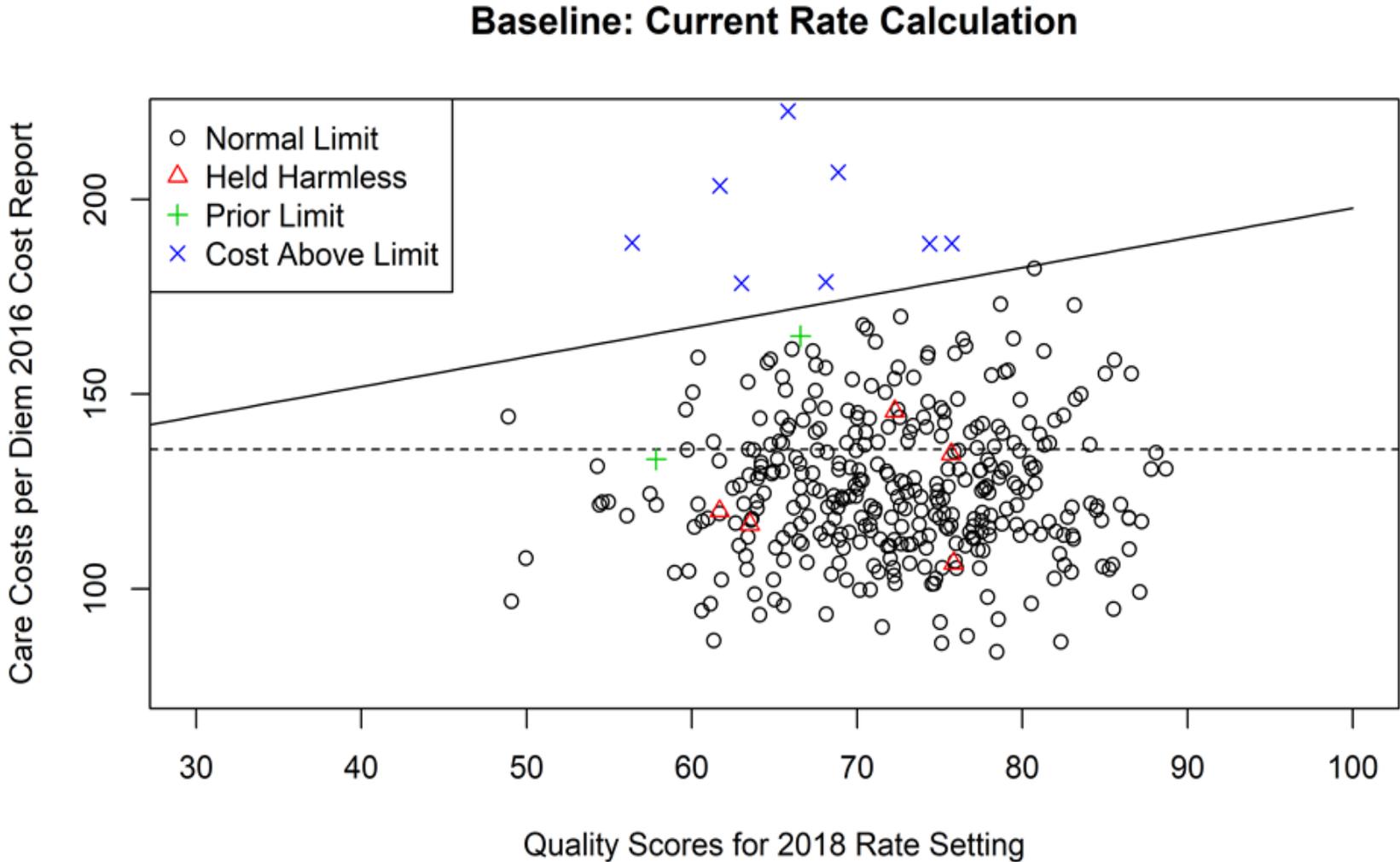
3 FTEs

- Revises Value Based Reimbursement (VBR) rate limit formulas to create an incentive for better quality and limit rate growth for poorer performing facilities, establish a cap on the annual rate growth of the other operating rate, eliminate a hold-harmless clause, and continue suspension of the Critical Access Nursing Facility provision
- Requires nursing facilities to conduct an additional assessment following the end of therapy treatment to reclassify that resident into the appropriate Resource Utilization Group (RUG) for the remainder of the required quarterly assessment
- Reforms the property payment rate setting system for nursing facilities enrolled as Medical Assistance providers in Minnesota.

Proposed Updates to the Quality Incentive

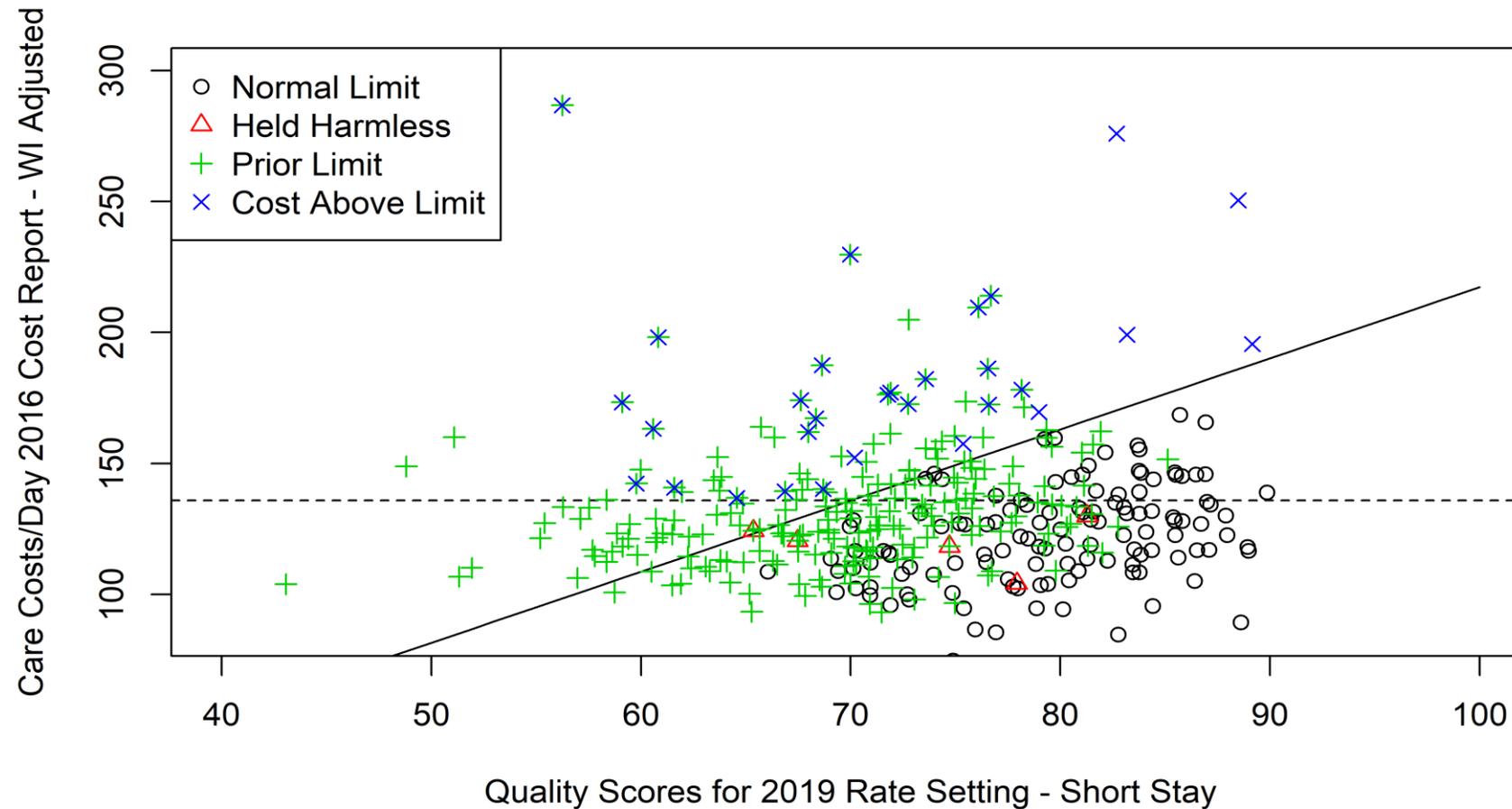
- Changes the method in determining a facility's quality performance.
- Establishes a more robust methodology of determining the total quality score by adding a short-stay quality component (consumer experience survey and hospitalization rate) and expanding the number of quality indicators used in the calculation for long-stay (family satisfaction survey).

97.5% of Nursing Facilities' costs are Below the Limit



Proposed Quality Incentive Impact

Scenario: 60/80 20% Wage Index Adjusted Limit Metro Median



Governor's Proposal on Other Operating Rate

- **Other Operating Rate**

- The other operating rate pays for dietary staff, housekeeping, laundry, utilities and administrative costs.
- The seven-county metro area median other operating daily cost is determined and then multiplied by 105%. The resulting amount is the other operating rate paid to all nursing facilities in the state.
- This proposal would cap the annual growth rate of the other operating rate to the published Skilled Nursing Facility Market Basket Index which is currently 3.05%.
- The goal of this change is to slow the rate of growth within operating costs and promote operating efficiency. The effective date of this change is January 1, 2020.

Other Operating Price Trends

Cost Report Year	Rate Year	Price	Change from Prior Year	Percentage Change
9/30/2014	1/1/2016	\$66.08		
9/30/2015	1/1/2017	\$65.56	\$(0.52)	-0.8%
9/30/2016	1/1/2018	\$69.71	\$4.15	6.3%
9/30/2017	1/1/2019	\$75.44	\$5.73	8.2%
Proposed Cap	1/1/2020	\$77.74	\$2.30	3.05%

Governor's Proposal on Facility Property Payment Reform

- This change replaces the current property reimbursement system with a fair rental value based system for determining the daily property rates for nursing facilities.
- The intended results are to simplify and create transparency in property rate setting, reduce inequities of the current system, move to a value based payment system and create incentives to maintain and/or invest in replacement buildings.
- Current property rates will be preserved via a hold harmless provision that will phase out over six years.
- Includes an investment of \$1.5 million dollars to fund future moratorium exception projects.

Other Governor Proposals on Nursing Facility Payments

- **Removal of Therapy Incentive for Medical Assistance from the Minnesota Case Mix**
 - Require residents to have an additional assessment following the end of therapy treatment to determine if they need additional therapy for an entire 90 day period.
- **Continued Suspension of Critical Access Nursing Facility Program (CANF)**
 - In 2015 with the enactment of VBR, the CANF program was not of value and the program was suspended for two years.
 - Governor's budget continues suspension for four year.

Fiscal Impact of Governor's Budget Change Items

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Quality Incentive	(180)	(1,528)	(5,021)	(8,043)
Operating Price Cap	(2,469)	(8,881)	(15,622)	(22,405)
Suspend CANF	(615)	(1,500)	(1,499)	(1,499)
Add Therapy Assessment	(575)	(1,396)	(1,383)	(1,376)
Property Reform	1,634	3,058	1,086	(177)
TOTAL w/o AC and Admin	(2,205)	(10,247)	(22,439)	(33,500)

Questions?

Heidi Hamilton & Olivia Anderson

Heidi.Hamilton@state.mn.us or Olivia.Anderson@state.mn.us

651.230.7178

651.707.3109