

## Nursing Facility Reimbursement

The Medical Assistance (MA) program reimburses nursing facilities for some costs relating to the care of MA patients. The Minnesota Department of Human Services (DHS) administers the MA reimbursement system for nursing facilities and establishes the reimbursement rates for each facility.

*For what costs does MA reimburse nursing facilities?*

MA reimburses nursing facilities for operating costs, external fixed costs, and property costs.

**Operating costs** include costs for nursing, social services activities, dietary, housekeeping, laundry, building maintenance, and administration; salaries and wages of persons performing these services; fringe benefits and payroll taxes; and other related costs such as costs for supplies, food, utilities, and consultants.

**External fixed costs** includes surcharges and fees; scholarships; planned closure rate adjustments; single-bed room incentives; property taxes and property insurance; and Public Employee Retirement Act costs.

**Property costs** include interest expense and return on equity.

*What methods have been used to determine payment rates?*

Prior to October 1, 2006, nursing facilities were reimbursed under a cost-based system sometimes referred to as “rule 50,” where reimbursement to facilities was based on their reported costs, subject to various limits. From October 1, 2006, through September 30, 2008, all nursing facilities participating in MA were reimbursed under the Alternative Payment System (APS), a contract-based system where facilities were exempt from certain statutory requirements of the cost-based system and reimbursed at the level of their payment rate in effect just prior to entering into an APS contract with the commissioner. Since October 1, 2008, facilities have been reimbursed under a blend of APS and a “rebased” reimbursement rate (see below for more on rebasing).

*Are nursing facility rates adjusted for inflation?*

Nursing facility rates are supposed to be adjusted annually for inflation. However, effective July 1, 1999, through September 30, 2011, the automatic inflation adjustment was applied only to the property-related rate. Inflation adjustments for operating costs must be authorized by the legislature; the legislature most recently authorized adjustments in 2008, 2013, and 2015. In addition, the 2011 Legislature suspended the automatic inflation of property payment rates for rate years beginning October 1, 2011, and October 1, 2012. The 2013 Legislature suspended the automatic inflation of the operating and property portions of the payment rate for rate years beginning October 1, 2013, through October 1, 2016.

*Do nursing facility rates vary by facility?*

Reimbursement rates are facility- and resident-specific. Rates vary with the facility’s historical costs, with the amount of care needed by a resident (as measured by a case-mix classification), and reflect any statutory facility-specific rate adjustments authorized by the legislature.

***What are case-mix classifications?***

Nursing facilities are reimbursed by MA on a resident-per-day basis. The nursing home reimbursement levels are adjusted under the Resource Utilization Groups (RUG) case-mix system to reflect the varying care needs of residents.

All applicants to nursing facilities are assessed upon admission and at least every 90 days thereafter and assigned to a case-mix classification based on the level of their dependence in activities of daily living, the severity of their cognitive and/or behavior management needs, and the complexity of their nursing needs. Each case-mix classification is assigned a case-mix weight, with the lowest level of care receiving the lowest weight and the highest level of care receiving the highest weight. Reimbursement for care-related costs for each classification is proportional to the case-mix weight; per-diem reimbursement for nursing care is therefore lowest for the case-mix classification needing the lowest level of care and highest for the case-mix classification needing the highest level of care. Rates are the same for all nondirect care-related components across all RUGs within a facility's rate set.

***What is rebasing?***

The 2007 Legislature required DHS to rebase nursing facility rates, meaning that operating payment rates for nursing facilities would be calculated using the statistical and cost report filed by each nursing facility for the report period ending one year prior to the rate year. Similar to the APS, these reimbursement rates would vary with resident case-mix and incorporate reimbursement for care-related, other operating, external fixed, and property costs. Rebasing would allow nursing facilities to have new or currently unreimbursed expenditures recognized in the facility payment rate, subject to certain statutory limits.

Rebasing for operating cost payment rates began October 1, 2008, and was designed to be phased in over eight years. During the phase-in period, nursing facilities were to (1) receive a blended rate—based partially on the APS reimbursement system and partially on the new value-based (rebased) reimbursement system; and (2) be held harmless—a facility could not receive an operating cost payment rate that was less than what the facility would have received without rebasing. Property rates will be rebased beginning October 1, 2014.

The 2011 Legislature prohibited all further steps phasing in rebased operating payment rates—leaving nursing facilities with blended operating payment rates. This was projected to save the state in excess of \$100 million per year in fiscal years 2014 and 2015. The savings result from cancelling scheduled rate increases.

***What other payments do nursing facilities receive?***

Nursing facilities may receive several other payments including:

- incentive payments to create single-bed rooms as a result of bed closures and for the planned closure of beds in an area of the state where excess bed capacity exists or where a rebalancing of long-term care services is desired;
- performance-based incentive payments;
- quality add-on payments beginning in fiscal year 2015; and
- partial rebasing and enhancement of certain payments for facilities designated as critical access nursing facilities beginning in fiscal year 2015.

**For more information:** Contact legislative analyst Danyell A. Punelli at 651-296-5058. Also see the House Research publication *Nursing Facility Reimbursement and Regulation*, October 2013.

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