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May 25, 2017 Joint Committee on Finance Paper #322

Nursing Home and ICF-IID Reimbursement (Health Services -- Medicaid Services)

[LFB 2017-19 Budget Summary: Page 207, #4]

CURRENT LAW

The Department of Health Services (DHS) reimburses nursing homes and intermediate care facilities for individuals with intellectual disabilities (ICFs-IID) for services they provide to individuals who are eligible for medical assistance (MA) according to a prospective payment system that DHS updates annually. Each facility's reimbursement rate is based on five "cost centers" that reflect several factors, such as resident acuity (a measure of residents' functional abilities), and the wage rates paid within each facility's designated geographic region (labor region adjustments).

MA certified facilities are provided funding under this payment system from amounts budgeted within the total MA benefits budget.

GOVERNOR

Increase funding for MA benefits by $18,354,900 ($7,579,700 GPR and $10,775,200 FED) in 2017-18 and $33,118,900 ($13,611,700 GPR and $19,507,200 FED) in 2018-19 to increase MA reimbursement to nursing homes.

This funding would be used to: (a) increase reimbursement rates paid to nursing homes by 2% in 2017-18, and by an additional 2% in 2018-19; (b) increase funding for behavioral and cognitive impairment (BEHCI) access and improvement incentives by $5,000,000 all funds annually, which are intended to provide additional financial support for nursing homes that care for residents with dementia, psychiatric diagnoses, and other challenging behaviors; and (c) increase reimbursement rates paid to intermediate care facilities for individuals with intellectual

disabilities (ICFs-IID) by 1% in 2017-18, and an additional 1% in 2018-19.

DISCUSSION POINTS

Nursing Home Rate

1. Nursing homes are institutions that provide rehabilitation services for injured, disabled, or sick individuals, as well as skilled nursing and health-related care and services to individuals who, because of their mental or physical condition, require care and services that can be made available to them only through institutional facilities.

2. Funding for nursing home services generally fall into three categories: private pay, Medicare; and MA. Private pay and Medicare usually pay higher reimbursement rates and help to offset the costs of providing services to MA residents. Specifically, DHS notes that in 2015, 94.5% of nursing homes reported total average daily costs that were greater than the MA fee-for-service reimbursement rate.

3. Despite the lower reimbursement rate, the federal Centers for Medicare and Medicaid Services (CMS) requires that MA recipients receive the same level of care as private pay and Medicare recipients. Therefore some nursing homes may limit the number of MA recipients they admit in order to fill more of their beds with higher paying residents. While the state cannot mandate nursing homes to accept MA residents, CMS does require DHS to ensure adequate access to covered services for MA recipients and to be mindful of this fact when setting MA reimbursement rates.

4. The payment system developed by DHS to reimburse nursing homes must include quality and safety standards for providing patient care. In addition, the payment system must reflect the following: (a) a prudent buyer approach to payment for services; (b) standards that are based on allowable costs incurred by facilities and information included in facility cost reports; (c) a flat-rate payment for certain allowable direct care costs; (d) consideration of the care needs of residents; (e) standards for capital payments that are based upon the replacement value of the facility; and (f) assurances of an acceptable quality of care for all MA recipients that reside in each of these facilities.

5. DHS considers five "cost centers" when developing facility-specific nursing home rates, including: (a) direct care; (b) support services; (c) property tax and municipal services; (d) property; and (e) provider incentives. Each facility's rate reflects several factors, such as the nursing home's resident acuity and labor region adjustments. These factors, among others, may affect a nursing facility's costs of providing direct care services.

6. Nursing homes are provided funding under this payment system from amounts budgeted within the total MA benefits budget to support MA reimbursement payments to nursing homes. As shown in Table 1, facilities classified as nursing homes make up the largest component of institutional long-term care spending. MA fee-for-service payment to nursing homes, ICFs-IID, veterans homes, and state centers totaled approximately $781.2 million all funds in state fiscal year

2015-16, which represented approximately 9.6% of total MA expenditures in that year.

TABLE 1

Total MA Fee-for-Service Payments to Nursing Homes and ICFs-IIDs
(All Funds -- $ in Millions)

Facility Type	2014-15	2015-16	2016-17 Estimate
Nursing Homes	$643.6	$608.8	$572.6
ICF-IIDs	11.0	8.7	7.5
State DD Centers	112.5	120.1	117.3
Veterans Homes	43.9	43.6	45.4
Total	$811.0	$781.2	$742.8

7. Total MA payments to nursing homes have generally decreased in recent years as more individuals receive home and community based services. This decrease is part of a larger trend for all nursing home residents, regardless of insurance status, as both state and federal policies have shifted to encourage community based care as a method to reduce costs and improve the quality of life for individuals who are elderly or disabled. Table 2 shows the number of MA certified nursing facilities and beds as of July, 2016.

TABLE 2

MA-Certified Nursing Facilities, July, 2016

Skilled Nursing Facility Type	Number of Facilities	Number of Beds
For-Profit	212	18,237
Non-Profit	111	9,199
Government	49	5,418
Total	372	32,854

8. DHS estimates that, without the rate increase recommended by the Governor, the total state and federally funded MA payments to nursing homes will be approximately $130.03 per day of care they provide to MA-funded residents in 2017-18 and 2018-19. This average reimbursement rate excludes amounts nursing homes collect from funds available to nursing home residents that are used to support the cost of care ("patient liability"). DHS estimates that the average patient liability for 2016-17 will be $35.12 per day or approximately 21% of the nursing home's reimbursement.

9. The bill would increase the MA reimbursement rate for nursing homes by 2% in 2017-18 and an additional 2% in 2018-19. Increasing the MA reimbursement rate by 2% in each year of the biennium would require additional funding as shown in Table 3. Due to the federal medical assistance percentage (FMAP) on eligible MA services, approximately 59% of the rate increase

would be funded with federal funds.

10. A reestimate of the total costs associated with this proposal are outlined in Table 3. The reestimate is largely attributable to updated patient days for nursing home care, as a result of additional months of data reviewed since the administration completed their estimate, as well as preliminary changes to the FMAP.

11. Additionally, Table 3 shows the costs associated with a 3% or 5% MA reimbursement rate increase for nursing homes in 2017-18 and 2018-19. Similarly to the 2% increase in the bill, the 3% or 5% reimbursement rate increase would be in each year of the biennium.

TABLE 3

Cost of MA Reimbursement Increase for Nursing Homes, 2017-19

Percentage Increase In Each Year of the Biennium	FY18 GPR	FY18 FED	FY18 Total	FY19 GPR	FY19 FED	FY19 Total	Biennium GPR	Biennium FED	Biennium Total
2% (Governor)	$5,140,000	$7,308,500	$12,448,500	$10,748,700	$15,442,200	$26,190,900	$15,888,700	$22,750,700	$38,639,400
Amount in Bill	5,391,800	7,665,200	13,057,000	11,310,600	16,212,500	27,523,100	16,702,400	23,877,700	40,580,100
Change to Bill	-251,800	-356,700	-608,500	-561,900	-770,300	-1,332,200	-813,700	-1,127,000	-1,940,700
3%	7,710,800	10,961,900	18,672,700	16,203,700	23,277,200	39,480,900	23,914,500	34,239,100	58,153,600
Amount in Bill	5,391,800	7,665,200	13,057,000	11,310,600	16,212,500	27,523,100	16,702,400	23,877,700	40,580,100
Change to Bill	2,319,000	3,296,700	5,615,700	4,893,100	7,064,700	11,957,800	7,212,100	10,361,400	17,573,500
5%	12,851,300	18,269,900	31,121,200	27,272,300	39,177,400	66,449,700	40,123,600	57,447,300	97,570,900
Amount in Bill	5,391,800	7,665,200	13,057,000	11,310,600	16,212,500	27,523,100	16,702,400	23,877,700	40,580,100
Change to Bill	7,459,500	10,604,700	18,064,200	15,961,700	22,964,900	38,926,600	23,421,200	33,569,600	56,990,800

12. The Committee could approve the 2% increase in the MA nursing home reimbursement rate as described in the bill, or select one of the alternative funding increases in Table 3, due to the increased acuity of patients being served by nursing homes. Increased nursing home patient acuity is in part due to increased utilization of community based services for lower acuity individuals who do not require the level of care and services available only through institutional facilities.

13. Further, approving a rate increase would enable Medicaid to reimburse nursing homes for a greater portion of the costs associated with providing care and services to MA recipients, reducing the cost shift to Medicare and private pay residents.

14. Finally, the Committee could approve a rate increase to allow nursing homes to pay their staff higher wages and to recruit additional staff to provide nursing home care and services. Nursing home associations, such as Leading Age Wisconsin and the Wisconsin Health Care Association, both note that their members have reported high staff vacancy rates, in some cases leading to denied admissions in order to maintain appropriate staff to resident ratios. If this trend continues or intensifies, the state may be reprimanded for failing to comply with CMS regulations regarding adequate access to covered services for MA recipients.

15. Alternatively, the Committee may choose not to provide additional funding to increase the MA reimbursement rate to nursing homes. The Committee may feel that a rate increase is not warranted until there is demonstrated difficulty for MA recipients to access nursing home services, which has not been the case to date with an average of 21% of nursing home beds being vacant in 2014-15. However, as noted, beds in some instances are left vacant due to a low reimbursement rate and the inability to hire staff.

16. Additionally, the Committee could encourage self-regulation of the nursing home market. Specifically, as shown in Table 4, nursing home closings have remained fairly consistent despite limited rate increases. Providing a rate increase may prevent or delay closures or consolidations of some nursing homes that would otherwise have gone out of business due to outdated business models and low resident satisfaction.

TABLE 4

Annual Number of Nursing Home Closures

Fiscal Year	# of Nursing Home Closures
2007	3
2008	3
2009	5
2010	3
2011	1
2012	2
2013	2
2014	4
2015	2
2016	6
Total	31

BEHCI Incentive

17. As mentioned, provider incentives are one of the five cost centers DHS considers when establishing facility-specific nursing home rates. These provider incentives include: an exceptional MA/Medicare utilization incentive; a private room incentive based on the ratio of private rooms to total licensed beds; an incentive for acquiring bariatric moveable equipment to serve obese residents; an MA access incentive; adjustments for innovative capital construction projects; and the Behavioral/Cognitive Impairment (BEHCI) access and improvement incentives.

18. The BEHCI incentives provide additional reimbursement for costs associated with the care of residents with dementia, psychiatric diagnoses, and other challenging behaviors. Each facility is assessed to calculate BEHCI access and improvement scores, which are then multiplied by supplemental base values to determine the BEHCI incentive. In 2016-17, the supplemental base rates equaled $0.468 per day for the access incentive and $0.454 per day for the improvement incentive and were determined based on the facility's behavioral score and improvements to this

score.

19. DHS reports that the funding for the BEHCI incentives is split evenly between access and improvement incentives, with some residents receiving an access incentive but not an improvement incentive and vice versa, and other residents receiving a combination of the two.

20. In the fourth quarter of 2015, the most recent date for which data is available, there were 2,879 nursing home residents who received one of the two BEHCI incentives. However, only 8.4% of the 2,879 had a per patient day add-on of $2.50 or more. Of that same group, the largest per patient day add-on was $15.94.

21. DHS reports that there is limited data on the impact of behavioral and cognitive difficulties on the cost of nursing home care. As such, the University of Wisconsin Center for Health Systems Research and Analysis (CHSRA) compared the service costs for Family Care recipients with behavioral challenges and long-term care functional screen scores equivalent to the BEHCI incentive criteria, to service costs for the average Family Care recipient. This analysis indicated that Family Care recipients who would meet the BEHCI criteria have service costs equivalent to a $6.26 million all funds total BEHCI incentive or approximately $5 million above the current funding level.

22. The Governor recommends providing this $5 million funding increase in both 2017-18 and 2018-19. However, due to the FMAP, approximately 59% of the increase would be funded with federal funds annually.

23. As the trend towards deinstitutionalization continues and more people are served in the community whenever possible, the average acuity level for those who cannot be served in the community may continue to increase. Therefore, the Committee could approve the Governor's recommendation to increase funding for the BEHCI incentives by $5 million all funds in 2017-18 and an additional $5 million all funds in 2018-19 to encourage more nursing homes to serve individuals with behavioral and cognitive impairments and to encourage facilities already serving this population to serve more individuals with these impairments.

24. Alternatively, the Committee could maintain funding for the BEHCI incentive at current levels since other components of the nursing home rate formula may already to some degree be accounting for the higher cost of providing services to this population. Therefore, the Committee may feel that increasing funding based on a comparison between Family Care recipients who receive services in the community is an unreliable estimate of costs.

ICF-IID Rate

25. Federal law defines an ICF-IID as an institution, or a distinct part of an institution, that primarily provides health or rehabilitative services and active treatment services to individuals with intellectual disabilities.

26. Over time, state and federal policies have shifted to encourage counties to provide care to persons with developmental disabilities through community-based services rather than

institutional care as this is believed to be more cost effective and improve the quality of life of the individuals served.

27. In response to this changing policy, the number of facilities certified as ICFs-IID has decreased rapidly. At the end of calendar year 2005, there were 26 facilities, with 990 total licensed beds, serving individuals with developmental disabilities in Wisconsin, excluding the three state centers operated by the DHS Division of Care and Treatment Services. However, as of July, 2016, there were four facilities with 99 licensed beds, again excluding the state centers operated by DHS.

28. For purposes of this paper, the three state centers operated by DHS will not be discussed since MA reimbursement to the state centers is currently based on the actual eligible costs of operating each facility and therefore would not be impacted by the Governor's proposed rate increase.

29. Unlike nursing homes, which serve individuals on Medicare and have a significant number of private pay residents, over 99% of ICFs-IID patient days are funded by MA. DHS estimates that the total MA payments to ICFs-IID will be approximately $230.83 per day of care they provide to MA-funded residents in 2017-18 and 2018-19.

30. Due to the small number of ICFs-IID, the cost of a 1% reimbursement rate increase in 2017-18 and another 1% reimbursement rate increase in 2018-19 for ICFs-IID is fairly small. This is especially true since approximately 59% of the increase would be funded with federal funds due to the FMAP.

31. Table 5 shows the reestimate of the administration's funding estimate. This reestimate reflects updated patient days for ICFs-IID, as a result of additional months of data available since the administration completed their estimate, as well as preliminary changes to the FMAP.

32. Additionally, Table 5 shows the costs associated with a 3% or 5% MA reimbursement rate increase for ICFs-IID in 2017-18 and 2018-19. Similarly to the 1% increase in the bill, the 3% or 5% reimbursement rate increase would be in each year of the biennium.

TABLE 5

Cost of MA Reimbursement Increase for ICFs-IID, 2017-19

Percentage Increase In Each Year of the Biennium	FY18 GPR	FY18 FED	FY18 Total	FY19 GPR	FY19 FED	FY19 Total	Biennium GPR	Biennium FED	Biennium Total
1% (Governor)	$29,400	$41,900	$71,300	$56,200	$80,700	$136,900	$85,600	$122,600	$208,200
Amount in Bill	123,200	174,700	297,900	246,400	349,400	595,800	369,600	524,100	893,700
Change to Bill	-93,800	-132,800	-226,600	-190,200	-268,700	-458,900	-284,000	-401,500	-685,500
3%	88,400	125,600	214,000	170,200	244,500	414,700	258,600	370,100	628,700
Amount in Bill	123,200	174,700	297,900	246,400	349,400	595,800	369,600	524,100	893,700
Change to Bill	-34,800	-49,100	-83,900	-76,200	-104,900	-181,100	-111,000	-154,000	-265,000
5%	147,300	209,300	356,600	286,500	411,500	698,000	433,800	620,800	1,054,600
Amount in Bill	123,200	174,700	297,900	246,400	349,400	595,800	369,600	524,100	893,700
Change to Bill	24,100	34,600	58,700	40,100	62,100	102,200	64,200	96,700	160,900

33. The Committee could approve the Governor's proposal to provide a 1% reimbursement rate increase for ICFs-IID in 2017-18 and another 1% reimbursement rate increase in 2018-19, or select one of the alternative increases in Table 5, since ICFs-IID are providing services to individuals with very complex needs.

34. Further, the Committee could approve a rate increase in order to avoid premature downsizing or closing of ICFs-IID resulting in fewer ICFs-IID beds than are currently needed to serve this population for whom the least restrictive care setting is an ICF-IID.

35. On the other hand, the Committee may not want to prioritize providing an MA reimbursement rate increase to ICFs-IID since both federal and state policy favor downsizing this type of facility.

ALTERNATIVES

For each type of rate increase the Committee should select one option. Selecting 1A, 2A, and 3A will have the effect of approving the Governor's recommendation. Selecting 1D, 2B, and 3D will have the effect of deleting the provision.

1. Nursing Home Rate

A. Approve the Governor's recommendation to increase MA reimbursement rates paid to nursing homes by 2% in 2017-18, and by an additional 2% in 2018-19.

ALT 1A	Change to Base	Change to Bill
GPR	$15,888,700	- $813,700
FED	22,750,700	- 1,127,000
Total	$38,639,400	- $1,940,700

B. Increase MA reimbursement rates paid to nursing homes by 3% in 2017-18, and by an additional 3% in 2018-19.

ALT 1B	Change to Base	Change to Bill
GPR	$23,914,500	$7,212,100
FED	34,239,100	10,361,400
Total	$58,153,600	$17,573,500

C. Increase MA reimbursement rates paid to nursing homes by 5% in 2017-18, and by an additional 5% in 2018-19.

ALT 1C	Change to Base	Change to Bill
GPR	$40,123,600	$23,421,200
FED	57,447,300	33,569,600
Total	$97,570,900	$56,990,800

D. Do not approve an increase in the MA reimbursement rate paid to nursing homes in 2017-19.

ALT 1D	Change to Base	Change to Bill
GPR	$0	- $16,702,400
FED	0	- 23,877,700
Total	$0	- $40,580,100

2. BEHCI Incentive

A. Approve the Governor's recommendation to increase funding for behavioral and cognitive impairment (BEHCI) access and improvement incentives by $5,000,000 ($2,064,700 GPR and $2,935,300 FED) in 2017-18 and $5,000,000 ($2,054,700 GPR and $2,945,300 FED) in 2018-19.

B. Do not approve an increase in funding for behavioral and cognitive impairment (BEHCI) access and improvement incentives in 2017-19.

ALT 2B	Change to Base	Change to Bill
GPR	$0	- $4,119,400
FED	0	- 5,880,600
Total	$0	- $10,000,000

3. ICF-IID Rate

A. Approve the Governor's recommendation to increase reimbursement rates paid to intermediate care facilities for individuals with intellectual disabilities (ICFs-IID) by 1% in 2017-18, and an additional 1% in 2018-19.

ALT 3A	Change to Base	Change to Bill
GPR	$85,600	- $284,000
FED	122,600	- 401,500
Total	$208,200	- $685,500

B. Increase reimbursement rates paid to ICFs-IID by 3% in 2017-18, and an additional 3% in 2018-19.

ALT 3B	Change to Base	Change to Bill
GPR	$258,600	- $111,000
FED	370,100	- 154,000
Total	$628,700	- $265,000

C. Increase reimbursement rates paid to ICFs-IID by 5% in 2017-18, and an additional 5% in 2018-19.

ALT 3C	Change to Base	Change to Bill
GPR	$433,800	$64,200
FED	620,800	96,700
Total	$1,054,600	$160,900

D. Do not approve an increase in the MA reimbursement rate for ICFs-IID in 2017-19.

ALT 3D	Change to Base	Change to Bill
GPR	$0	- $369,600
FED	0	- 524,100
Total	$0	- $893,700

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