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Nursing Home Reimbursement (Health Services -- Medical Assistance)

[LFB 2019-21 Budget Summary: Page 179, #24]

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

Provide $8,676,200 ($3,525,900 GPR and $5,150,300 FED) in 2019-20 and $17,757,800 ($7,216,600 GPR and $10,541,200 FED) in 2020-21 to increase the MA reimbursement rates paid to nursing homes and ICFs-IID.

In session law, require DHS to increase the MA rates paid for direct care to nursing facilities and ICFs-IID with a 1 percent annual rate increase related to an increase in acuity of patients in these facilities and an additional 1.5 percent annual rate increase to support staff in those facilities who perform direct care, for a total increase of 2.5 percent in 2019-20 and an additional increase of 2.5 percent in 2020-21.

Funding for the 1% annual rate increase, to offset the cost of rising resident acuity, is budgeted as part of the Medicaid cost-to-continue.

DISCUSSION POINTS

1. There are two broad categories of nursing homes in Wisconsin. The first are skilled nursing facilities (SNFs), which 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 services that can be made available to them only through residential care. SNFs primarily serve older adults and people with physical disabilities.

2. The second type of facilities are intermediate care facilities for individuals with intellectual disabilities (ICFs-IID), which are defined in federal law as institutions, or a distinct part of an institution, that primarily provide health or rehabilitative services and active treatment services to individuals with intellectual disabilities.

3. Table 1 shows the number of MA-certified nursing homes and beds by ownership type, as of October, 2018.

TABLE 1

MA-Certified Nursing and ICF-IID Facilities (October, 2018)

Facility Type	Number of Facilities	Number of Beds
Skilled Nursing		
For-Profit	209	17,910
Non-Profit	106	8,375
Government	50	4,960
Total	365	31,245
ICF-IID		
For-Profit	1	8
Government	6	527
Total	7	535

4. Funding for nursing home services generally fall into three categories: private pay, Medicare, and MA. Approximately 65% of SNF patient days are covered by Medicaid, 20% are private-pay, while Medicare covers the remaining 15% of patient days. Private pay and Medicare usually pay higher reimbursement rates and help to offset the costs of providing services to MA residents. Unlike SNFs, which serve individuals on Medicare and have a significant number of private-pay residents, over 99% of ICF-IID patient days are funded by Medicaid.

5. DHS considers five "cost centers" when developing facility-specific SNF 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 SNF's resident acuity and labor region adjustments. These factors, among others, may affect a SNF's costs of providing direct care services.

6. SNFs are provided funding under this payment system from amounts budgeted within

the total MA benefits budget to support MA reimbursement payments to nursing homes. Over 98% of Wisconsin Medicaid nursing home patient days fall into the SNF category.

7. There are a variety of factors currently impacting the SNF industry in Wisconsin. These factors include expanding community based long-term care options, resident acuity, the health of the larger economy, and Medicaid reimbursement rates.

8. First, across all insurance types, there has been a trend towards care recipients favoring services in home and community based settings, as well as smaller more homelike assisted living facilities. As a result, the number of SNF patient days and SNFs have decreased.

9. The number of MA fee-for-service patient days has continually decreased. As Table 2 shows, it is anticipated that the current trend will continue. SNF days are estimated to decrease by approximately 5% annually.

TABLE 2

Projected MA Fee-For-Service SNF Patient Days*

Fiscal Year	Days
2017-18	3,983,150**
2018-19	3,784,498
2019-20	3,605,596
2020-21	3,416,495

*Does not include hospice (nursing home room and board), Veterans Home, or ICF-IID (state and non-state) days.
**Actual, not projected days.

10. Table 3 shows the number of SNFs that have closed in each year between 2007-08 and 2017-18.

TABLE 3

Annual Number of SNF Closures

Fiscal Year	Number of SNF Closures
2007-08	3
2008-09	5
2009-10	3
2010-11	1
2011-12	2
2012-13	2
2013-14	4
2014-15	2
2015-16	6
2016-17	8
2017-18	7
Total	43

11. As shown in Table 3, a total of 43 Wisconsin SNFs have closed since 2007-08, with almost half of all facility closures during this 10-year period occurring over the past three fiscal years.

12. There are currently no MA-certified SNFs in Vilas or Menominee counties and only one MA-certified nursing home in each of Adams, Bayfield, Buffalo, Burnett, Florence, Forest, Lafayette, Langlade, Marquette, Pepin, and Waushara counties. SNF closures are especially problematic for higher needs residents and in more rural parts of the state as residents may need to be relocated far away from their communities.

13. SNF closures in smaller communities may be contributing to residents selecting inappropriate care settings in an effort to stay close family and friends, within their communities. For example residents in need of the 24-hour per day nursing services provided in a SNF may choose to live in an assisted living facility where nursing services are only available for a couple of hours each day if they can remain close to family, friends, and spouses who reside in the community.

14. Second, people receiving services in the community for as long as possible may be contributing to the increase in SNF resident acuity, as may the increase in the number of people who are living longer. According to the Council of State Governments, people age 85 and older represented about 15% of all Americans age 65 and over in 2016, by 2050 they will represent more than 20%.

15. The Congressional Budget Office reports that on average approximately one third of people over age 65 report having at least one functional limitation, compared to two thirds of people over age 85. Functional limitations are defined as physical problems that limit a person's ability to perform routine daily activities, such as eating, bathing, dressing, paying bills, and preparing meals.

16. Separate from the funding discussed in this paper, the MA cost-to-continue includes a 1% increase in the nursing home rate, for both SNFs and ICFs-IID, in 2019-20, to reflect an increase in resident acuity, and an additional 1% increase in 2020-21.

17. The third factor impacting the nursing home industry is the health of the overall economy, especially as it pertains to unemployment. According to the Bureau of Labor Statistics, Wisconsin's unemployment rates has been at or below 4% since June, 2016. As a result many facilities have difficulty recruiting and retaining staff.

18. In 2018,Wisconsin's two nursing home associations, LeadingAge Wisconsin and Wisconsin Health Care Association, along with the Wisconsin Assisted Living Association, and the Disability Service Provider Network released data from their most recent provider survey showing that one in five caregiver positions remain vacant (up from one in seven in 2016) and 20% of the state's long-term care providers report that they have denied admissions in the past year due to insufficient staffing (up from 18% in 2016). These findings include assisted living facilities for whom Medicaid funds less than 20% of patient days.

19. The final factor significantly impacting the nursing home industry as a whole is reimbursement rates. Decreasing occupancy rates and increasing resident acuity means that nursing homes have become more sensitive to adjustments to their daily reimbursement rates. Additionally, 55% of providers participating in the aforementioned provider survey said reimbursement rates do not allow for wage increases for their staff.

20. In the 2017-19 biennial budget, nursing home reimbursement rates were increased by 2% in each year of the biennium for SNFs, 1% in each year of the biennium for ICFs-IID, and an additional $5 million all funds was provided in each year of the biennium targeted towards the behavioral and cognitive impairment (BEHCI) incentive.

21. However, DHS indicates that if wage growth for direct care workers continues at 2.5% per year, which was the average annual growth in certified nursing assistant (CNA) wages from 2013-2017, an annual 1.5% increase in the nursing home rate would be required to reimburse facilities for costs associated with wage growth in the 2019-21 biennium.

22. The Governor's budget contains a non-statutory requirement that the 1.5% reimbursement rate increase in each year of the 2019-21 biennium be put towards supporting staff who perform direct care in these facilities. The Department indicates that under this requirement funding for nursing homes could be applied to both the direct care and support services cost centers and that stakeholder input would be solicited throughout the rate development process to determine the final allocation.

23. DHS indicates that direct care wage and fringe costs represent about 60% of all SNF expenses. Generally, the direct care cost center is divided into two main categories. The first is "direct care - nursing," which includes: wages, fringe benefits, and purchased service expenses for registered nurses, nurse practitioners, licensed practical nurses, qualified intellectual disabilities personnel, certified nursing assistants, feeding assistants, nurse aide training and nurse aide training supplies.

24. The other category in the direct care cost center is "direct care - other supplies and services," which includes expenses for: ward clerks, non-billable physician time, non-billable lab, radiology, pharmacy, physical therapy, occupational therapy, speech therapy, dental, psychiatric and respiratory services, active treatment, volunteer coordinators, social service personnel, recreation personnel, religious services and other special care personnel, as well as their supplies, including purchased laundry-diapers and underpads, catheter and irrigation supplies, and other medical supplies. This category also includes certain over-the-counter drugs ordered by a physician. Non-billable services generally include those types of services which are provided to the facility as a whole instead of to an individual resident or which are not billable separately to MA, per administrative code.

25. The support services cost center, as it pertains to direct care, includes expenses for: dietary, maintenance, housekeeping, laundry, security, and transportation. The expenses may include those salaries, employee fringe benefits, supplies, purchased services and other expenses which are directly related to providing the services. Also included are allowable expenses for non-medical transportation, telephone, office supplies, training fees, and license fees.

26. For the reasons discussed in this paper, the Committee may wish to approve the Governor's recommendation to provide a 1.5% increase to nursing home rates in 2019-20 and an additional 1.5% in 2020-21. If the Committee wishes to adopt the Governor's proposed reimbursement rate increases, funding in the bill should be reduced by $39,000 (-$15,900 GPR and -$23,100 FED) in 2019-20 and increased by $154,700 ($29,200 GPR and $125,500 FED) in 2020-21, to reflect more current utilization rates and a more recent federal matching percentage (FMAP) [Alternative 1].

27. Alternatively, the Committee may determine that, in light of the numerous factors currently impacting the nursing home industry and the fact that almost as many SNFs have closed in the last three fiscal years as in the seven before that, the Governor's funding increase is insufficient to address the financial challenges facing the nursing home industry.

28. As such, the Committee could provide a 3% increase to nursing home rates in 2019-20 and an additional 3% in 2020-21. This would result in a total cost of approximately $17,274,400 ($7,020,000 GPR and $10,254,400 FED) in 2019-20 and $36,091,700 ($14,599,500 GPR and $21,492,200 FED) in 2020-21. Under this option, funding in the bill would be increased by $8,598,200 ($3,494,100 GPR and $5,104,100 FED) in 2019-20 and by $18,333,900 ($7,382,900 GPR and $10,951,000 FED) in 2020-21 [Alternative 2].

ALTERNATIVES

1. Approve the Governor's recommendation as reestimated to reflect more current utilization trends and an updated federal matching percentage for 2020-21.

ALT 1	Change to Base	Change to Bill
GPR	$10,755,800	$13,300
FED	15,793,900	102,400
Total	$26,549,700	$115,700

2. Modify the Governor's recommendation and provide a 3% increase to nursing home rates in 2019-20 and an additional 3% in 2020-21. Under this option, funding in the bill would be increased by $8,598,200 ($3,494,100 GPR and $5,104,100 FED) in 2019-20 and by $18,333,900 ($7,382,900 GPR and $10,951,000 FED) in 2020-21.

ALT 2	Change to Base	Change to Bill
GPR	$21,619,500	$10,877,000
FED	31,746,600	16,055,100
Total	$53,366,100	$26,932,100

3. Take no action.

ALT 3	Change to Base	Change to Bill
GPR	$0	- $10,742,500
FED	0	- 15,691,500
Total	$0	- $26,434,000

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