Assessing payment adequacy and updating payments for skilled nursing facilities

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December 6, 2018

MEDPAC

Overview of the skilled nursing facility industry in 2017

- Providers: About 15,000
- Beneficiary users: 1.6 million
- Medicare spending: $28.4 billion
- Medicare FFS share: 11% of days
  19% of revenues

Data are preliminary and subject to change.

Payment adequacy framework

- Access
  - Supply of providers
  - Volume of services
  - Marginal profit
- Quality
- Access to capital
- Payments and costs

Access is adequate (2017 data)

- Provider supply was steady (about 15,000)
- 89% of beneficiaries lived in a county with 3+ SNFs
- Occupancy rates remained high (85%, small decline from 2016)
- Small decline in service use per FFS beneficiary
  - Admissions decreased 2%
  - Length of stay decreased 2.3%
  - Days decreased 4.1%
- Marginal profit = 19.1%

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Service mix reflects biases of the prospective payment system design

Share of days assigned to intensive therapy case-mix groups		
2002	2012	2017
27%	76%	83%

- Changes in beneficiary characteristics do not explain this growth
- Payments driven by amount of therapy furnished
  - As more therapy is furnished, providers' costs increase but payments increase even more, creating an incentive to furnish therapy.

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CMS plans to implement a revised SNF PPS in fiscal year 2020

- Payments will be based on patient characteristics—comorbidities, functional status, cognitive impairment, special services
- Will redistribute payments from high-therapy patients to medically complex patients
- Design consistent with MedPAC's recommended design in 2008
- Redesign will bring SNF PPS closer to PAC PPS design

SNF quality measures: Mixed performance

Risk-adjusted rate	2016	2017
Discharged to community	39.5%	40.0%
Potentially avoidable readmissions		
During the SNF stay	10.9	10.9
Within 30 days after the SNF stay	5.8	6.1
Change in function		
Improvement in 1+ mobility ADLs*	43.6	43.9
No decline in mobility	87.2	87.0

**Activity of daily living*
Data are preliminary and subject to change.

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Access to capital is adequate

- Access to capital is adequate and expected to remain so
- Buyer demand remains strong
- Some lending wariness reflects:
  - Low total margins (0.6%)
  - Declining SNF use
  - Growing share of payments from lower-paying payers
- Medicare continues to be a payer of choice

Freestanding SNF Medicare margins in 2017

- Medicare margin: 11.2 %
- 18th year of margins above 10%
- Variation in Medicare margins
  - 25th percentile: 0.8%
  - 75th percentile: 20.2%
  - Nonprofit: 1.7%
  - For-profit: 13.7%

Differences in
- Case-mix
- Economies of scale
- Cost per day
- Cost growth

Data are preliminary and subject to change.

Relatively efficient SNFs in 2017

- 987 SNFs (9%) met cost and quality criteria
- Efficient SNFs compared to other SNFs:
  - Community discharge rates: 27% higher
  - Readmission rates: 17% lower
  - Higher daily census (100 versus 79)
  - Standardized cost per day: 8% lower
  - Medicare payment per day: 11% higher
- High Medicare margin (18%) indicates the level of Medicare payments is too high

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Medicare FFS rates are considerably higher than MA/managed care rates

- FFS per diem payment rates are higher (>20%) than MA payment rates
- Characteristics of MA and FFS SNF users do not explain these payment differences
- Publicly traded companies report seeking managed care business, indicating that lower MA payments are attractive

Projected 2019 Medicare margin

- Costs increased each year from 2017 to 2019 by 5-year average cost growth for this setting
- Revenues increased by mandated updates
  - 2018: MACRA update 1.0%
  - 2019: BBA of 2018 update 2.4 percent and reduced payments by the portion of payments retained as savings from the value-based purchasing policy

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How should Medicare payments change for 2020?

- Indicators—access to care, quality, and access to capital—are stable
- Level of Medicare's payments remains too high
- Wide variation in margins reflects differences in patient selection, service provision, and cost control
- The PPS has favored the provision of therapy and needs to be revised. CMS's proposed revisions should prompt providers to better align therapy with patient care needs and increase providers' willingness to admit medically complex patients