



*Advising the Congress on Medicare issues*

# Assessing payment adequacy: Skilled nursing facilities

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# Skilled nursing facilities

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- Users: 1.6 million beneficiaries
- Medicare spending: \$25.5 billion in 2008
- Providers: 15,053
- Medicare payment: per day, using 53 case mix groups

# Payment adequacy framework

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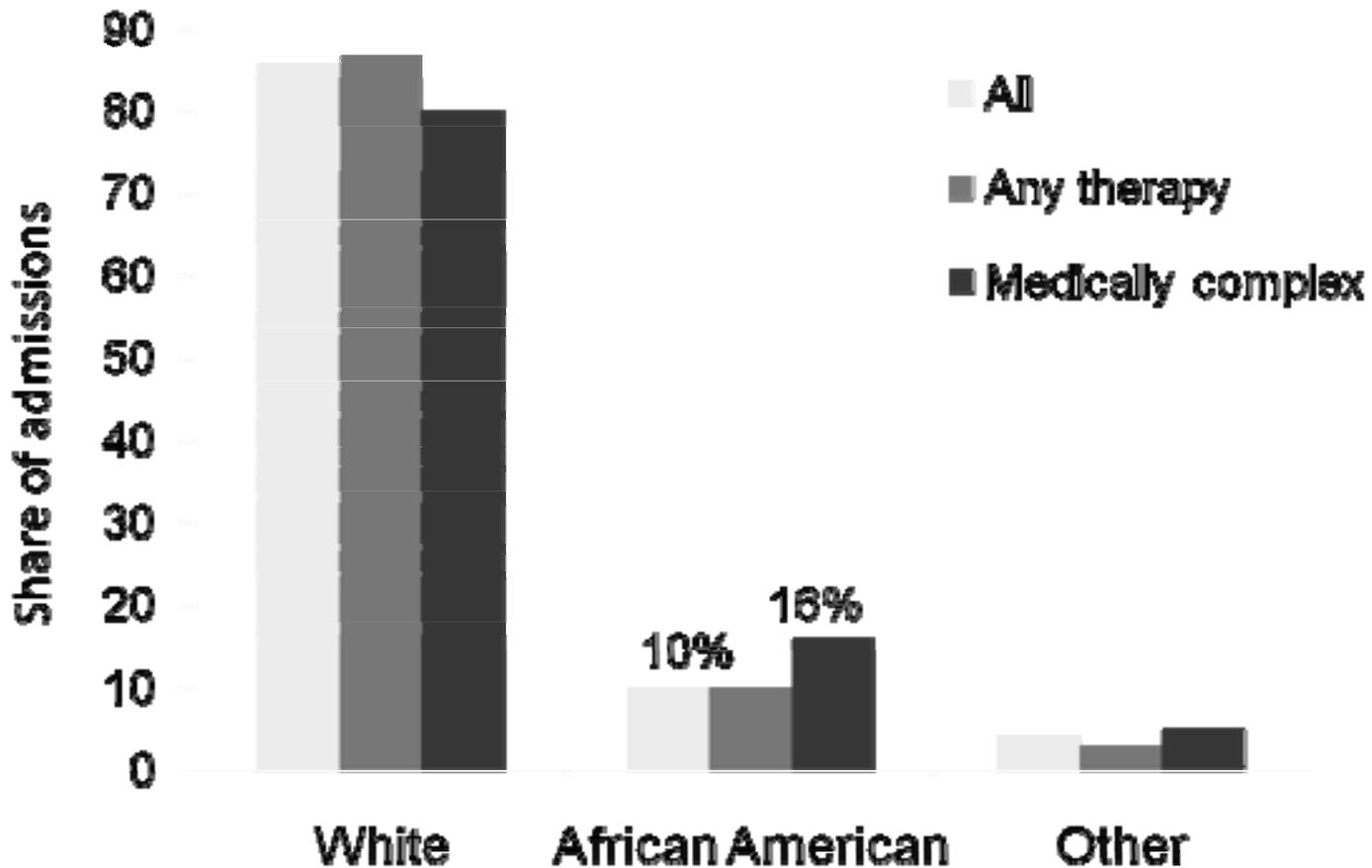
- Access
  - Supply
  - Volume
- Quality of care
- Access to capital
- Payments and costs

# Payment adequacy indicators are generally positive

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<b>Indicator</b>	<b>Assessment</b>
Access	Good for most beneficiaries
Supply of providers	Stable
Volume per FFS enrollee	Increased
Quality	Slowly improved
Access to capital	Restrained lending reflects other factors, not Medicare payments
Payments and costs	Medicare margins more than adequate

# Minorities make up a larger share of medically complex care in 2007



Source: MedPAC analysis of DataPro data.  
Data are preliminary and subject to change.

# Trends in service use that require revisions to PPS

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Trend	Recommended change to PPS
Concentration of medically complex cases in fewer SNFs	<ul style="list-style-type: none"><li>•Add separate NTA component to PPS</li><li>•Base therapy payments on care needs, not therapy use</li></ul>
More and higher intensity rehabilitation days	<ul style="list-style-type: none"><li>•Base therapy payments on care needs, not therapy use</li></ul>

# Estimated impact of recommended revisions to SNF PPS

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Though budget neutral overall, proposed changes would raise payments for SNFs with following characteristics:

- High shares of medically complex cases
- High nontherapy ancillary costs
- Low margins
- Hospital based
- Nonprofit

# Freestanding SNF Medicare margins

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SNF group	2008 margin
All	16.5%
Top margin quartile	26.2
Bottom margin quartile	7.4
For profit	19.0
Nonprofit	7.0
Urban	16.1
Rural	18.3

Projected 2010 aggregate Medicare margin = 10.3%

# High-margin SNFs compared to low-margin SNFs

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- Lower costs per day
- More profitable mix of patients
  - Higher share of intensive therapy days
  - Lower share of medically complex days
- SNF characteristics
  - Higher average daily census
  - More likely to be for profit

# Relatively efficient SNFs compared to other SNFs

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- Standardized cost per day: 15 percent lower
- Quality measures: 20 to 40 percent higher
- SNF characteristics
  - More likely to non-profit
  - More likely to be rural
  - Fewer beds

# Package of SNF recommendations

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- Update recommendation considers the ***level*** of payments
- Previous recommendations considers the ***distribution*** of payments
  - Revise the PPS
    - target payments for nontherapy ancillary services and
    - pay for therapy on the basis of patient characteristics
  - Adopt a pay-for-performance program
    - Raise and lower payments based on outcome measures (ex. rates of rehospitalization and community discharge)