Advising the Congress on Medicare issues

Assessing payment adequacy: Skilled nursing facility services

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MEDPAC

Skilled nursing facilities: providers, users, and Medicare spending

- Providers: 15,161
- Beneficiary users: 1.7 million
- Medicare spending: $32 billion
- Medicare share: 12% of days
  23% of revenues

Payment adequacy framework

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

Access indicators

Indicator	Assessment
Supply of providers	About the same as last year
Bed days available	No change 2009-2010
Occupancy rates	Stable
Volume per FFS beneficiary	Small declines reflecting lower inpatient hospital use

Access indicators (continued)

Indicator	Assessment
Quality	Unchanged 2008 to 2009
Capital	Adequate this year Lending and borrowing expected to be slow in 2012

2010 freestanding aggregate SNF Medicare margins

SNF type	Medicare margin
All	18.5 %
Urban	18.5
Rural	18.4
25th percentile	9.4
75th percentile	26.6
For-profit	20.7
Nonprofit	9.5

Source: MedPAC analysis of freestanding SNF Medicare cost report data. Data are preliminary and subject to change.

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Relatively efficient providers have lower cost and higher quality

Compared to other SNFs, relatively efficient providers had:

- Costs per day: 10 percent lower
- Community discharge rates: 38 percent higher
- Rehospitalization rates: 17 percent lower

Source: MedPAC analysis of freestanding SNF Medicare cost report and DataPro data. Data are preliminary and subject to change.

Projected Medicare margin for freestanding SNFs in 2012

- Assumptions:
  - Revenues projections include market basket updates net of productivity adjustment in 2012, overpayments in 2011, and reductions in 2012
  - Cost growth: mix of recent growth rate and market basket
  - No behavioral response to 2012 policies
- Projected 2012 margin: 14.6 percent

Estimates are preliminary and subject to change.

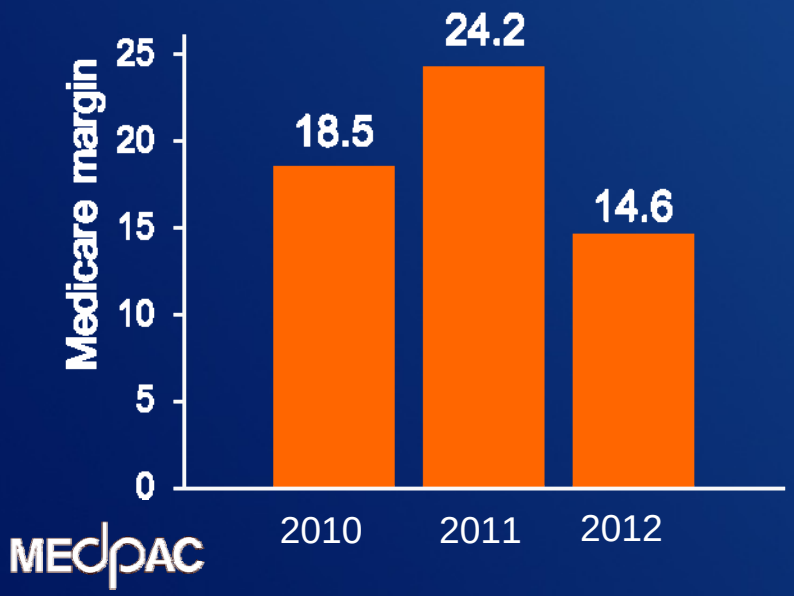
Why rebase Medicare payments?

- Medicare margins above 10% since 2000
- Variation in Medicare margins is not explained by differences in patient mix
- Cost differences are not explained by wage levels, case-mix, or beneficiary demographics
- Some providers have low costs and high quality
- Some MA payments are considerably lower than FFS payments

Key concerns with rebasing Medicare payments

1: SNF rates were already lowered in 2012

Medicare margins are projected to remain high even after reductions



#2: High Medicare margins are needed to finance low Medicaid payments

- *Results in poor targeting of funds*
- *May encourage states to freeze or lower Medicaid rates*
- *Payroll taxes are used to subsidize Medicaid*

Key concerns with rebasing (continued)

#3: Variable financial performance could mean some SNFs will fare poorly with rebased payments

- *Recommended PPS design would correct known shortcomings of payment system and improve equity of payments across patients*

- *Design would raise payments for hospital-based, nonprofit, and SNFs that treat high shares of medically complex patients*

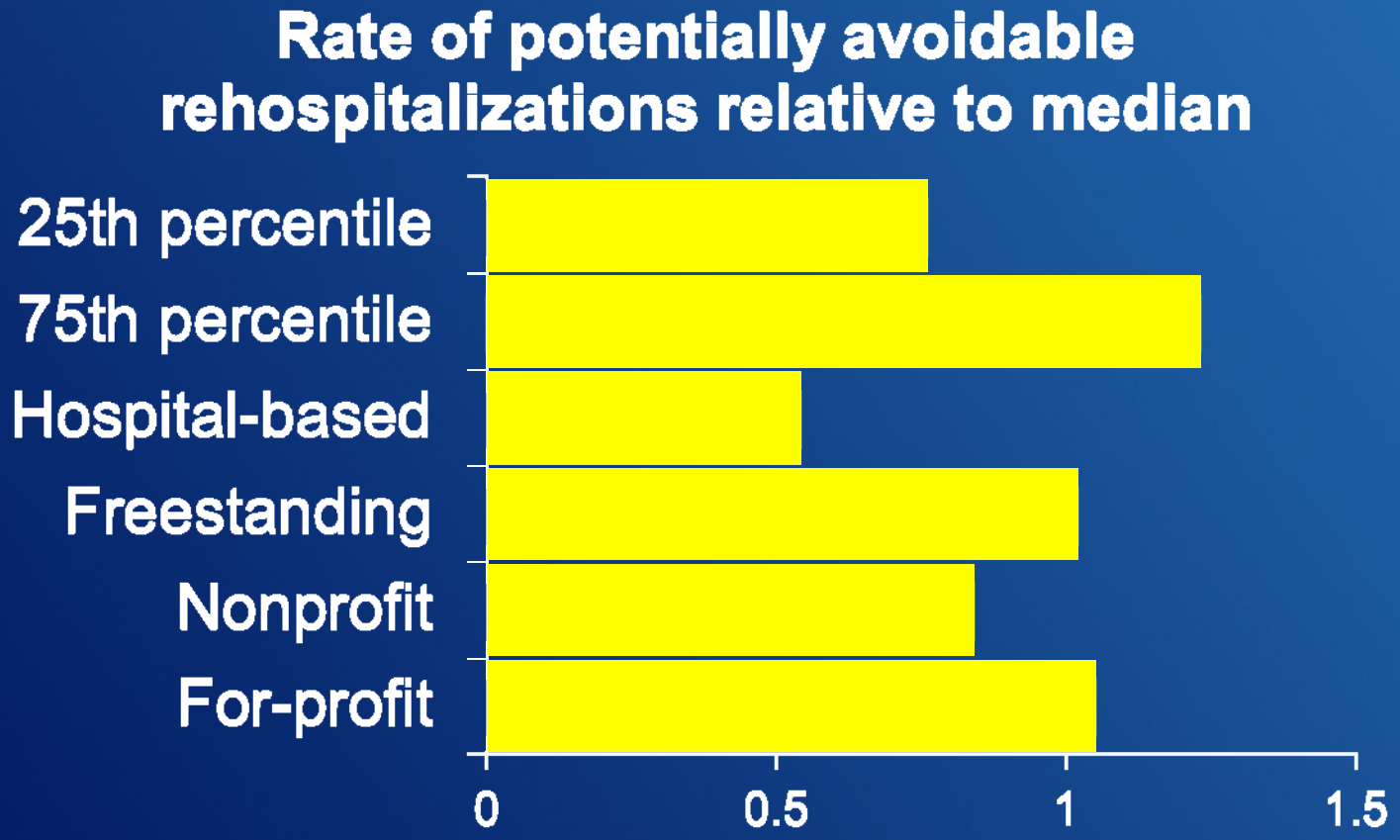
Rebasing payments will proceed cautiously to avoid unintended disruptions

- Revise PPS before proceed with rebasing
- Begin rebasing in 2014
- Rebase in steps
- Monitor industry performance as rebasing is implemented

Goals of a rehospitalization policy for SNFs

- Improve care for beneficiaries
- Align hospital and SNF policies to improve transition care
- Lower program spending

Widely varying risk-adjusted rates suggest opportunities to lower them



Source: MedPAC analysis of 2009 data from DataPro.
Data are preliminary and subject to change.

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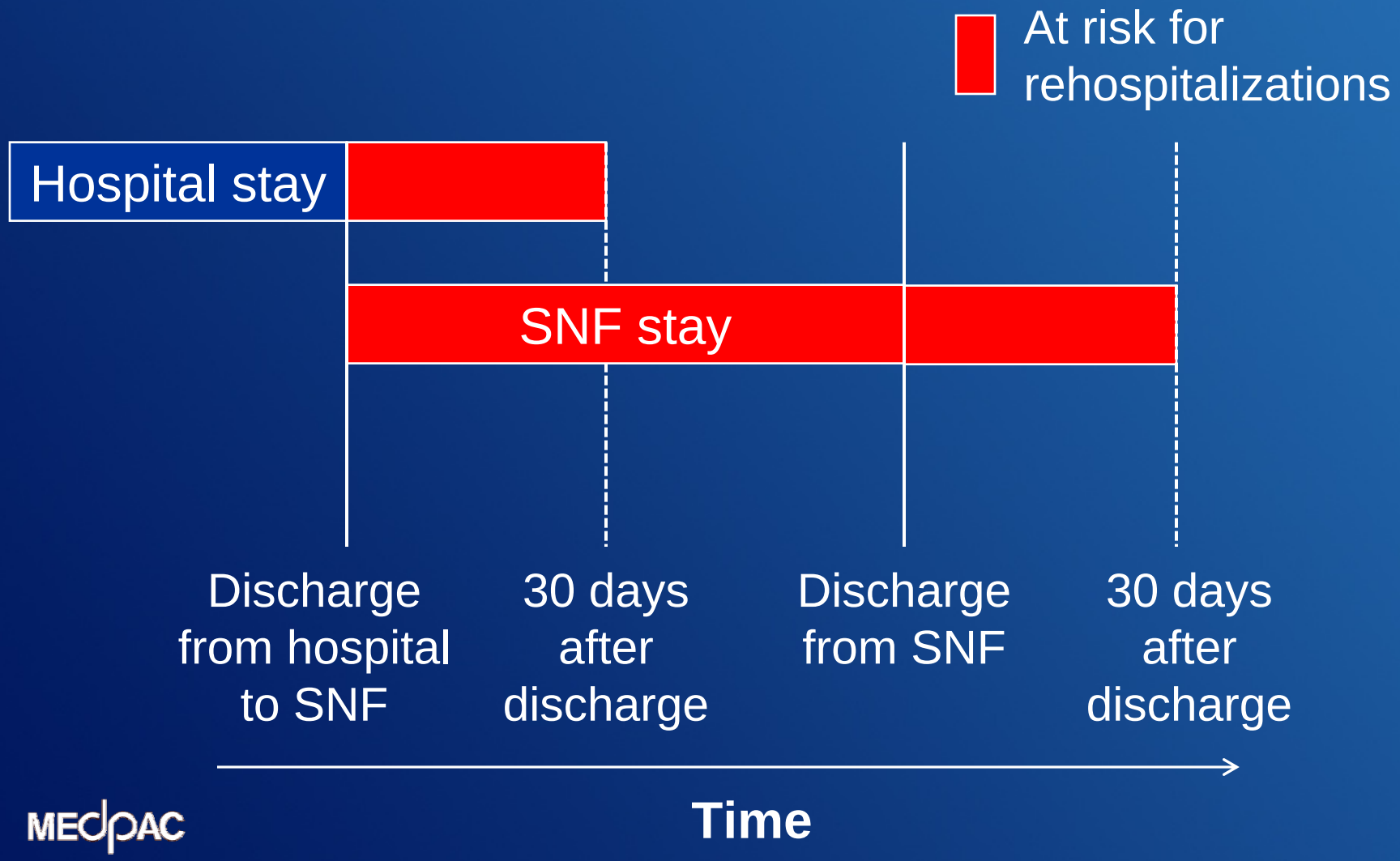
Design of a rehospitalization policy

Measure definition	• Potentially avoidable conditions • All cause
Time period	• Initial: SNF stay • Future: SNF stay + window after discharge
Penalty	• Based on rates, not individual stays • Rates over multiple years

Which providers are at risk for rehospitalizations?



Medicaid trends

Indicator	Change
Service use (days)	Days increased between 2009 and 2010
Spending	Decreased slightly 2009-2010; increased 16% since 2002
Average daily payments	Vary two-fold by state
Non-Medicare margins and total margins	Improved since 2008 In 2010, non-Medicare margins were slightly negative; total margins were positive