Advising the Congress on Medicare issues

Assessing payment adequacy and updating payments: Skilled nursing facility services

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SNF payment adequacy framework

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and costs
• Capacity and supply of SNFs • Volume of services • Marginal profit	• Successful discharge to community • Hospitalization	• All-payer profitability • Transaction activity	• Payments and costs • Medicare margins • Performance of relatively efficient providers • Projected Medicare margins

Update recommendation for SNF base rates

Payment adequacy framework and the coronavirus public health emergency

- The coronavirus has had tragic effects on beneficiaries and the health care workforce and material effects on providers
- We start with 2019 data; consider information gained in 2020; and evaluate current law for 2020, 2021, and 2022
- Temporary or highly variable coronavirus effects are best addressed through targeted temporary funding policies rather than permanent changes to all providers’ payment rates in 2022 and future years

Overview of the skilled nursing facility industry in 2019

Providers

About 15,000

Most also provide long-term care

Medicare spending

$27.8 billion

Medicare users

1.5 million

4% of FFS beneficiaries

Medicare share of:

Facility days: 9%

Facility revenue: 16%

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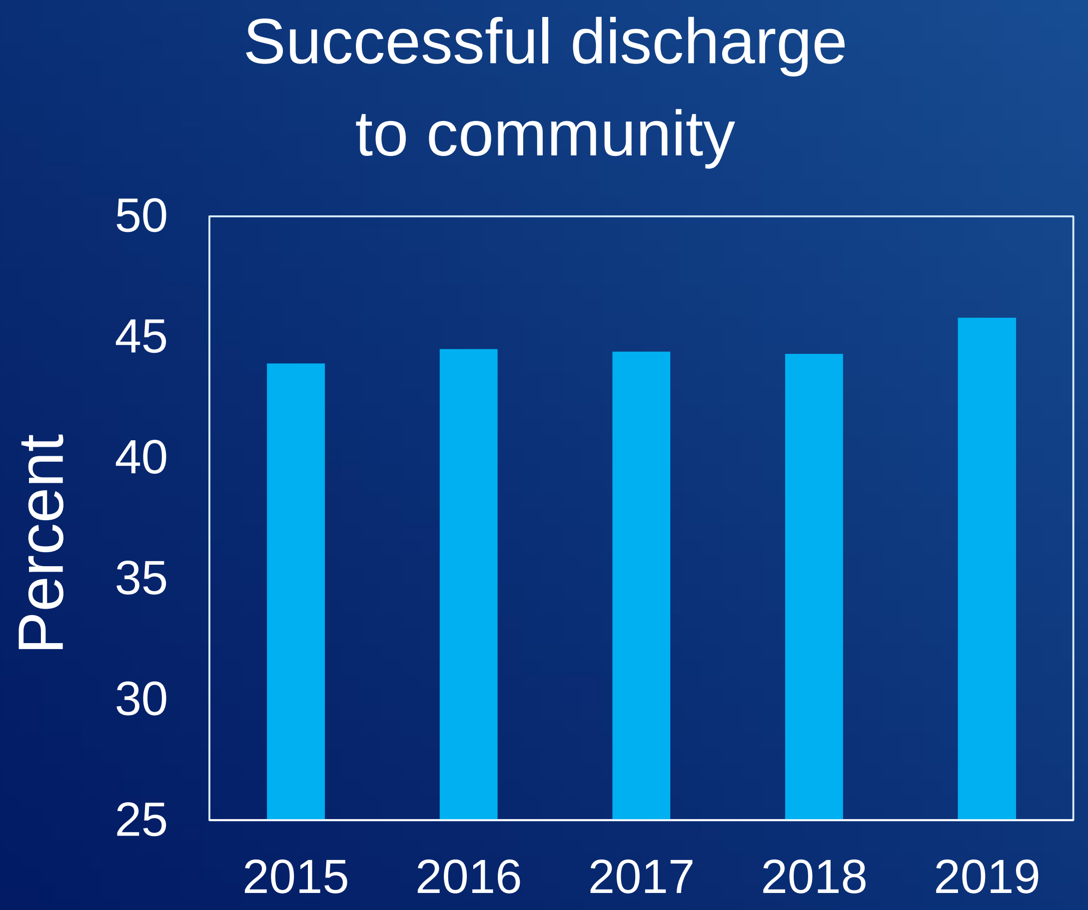
Data are preliminary and subject to change.

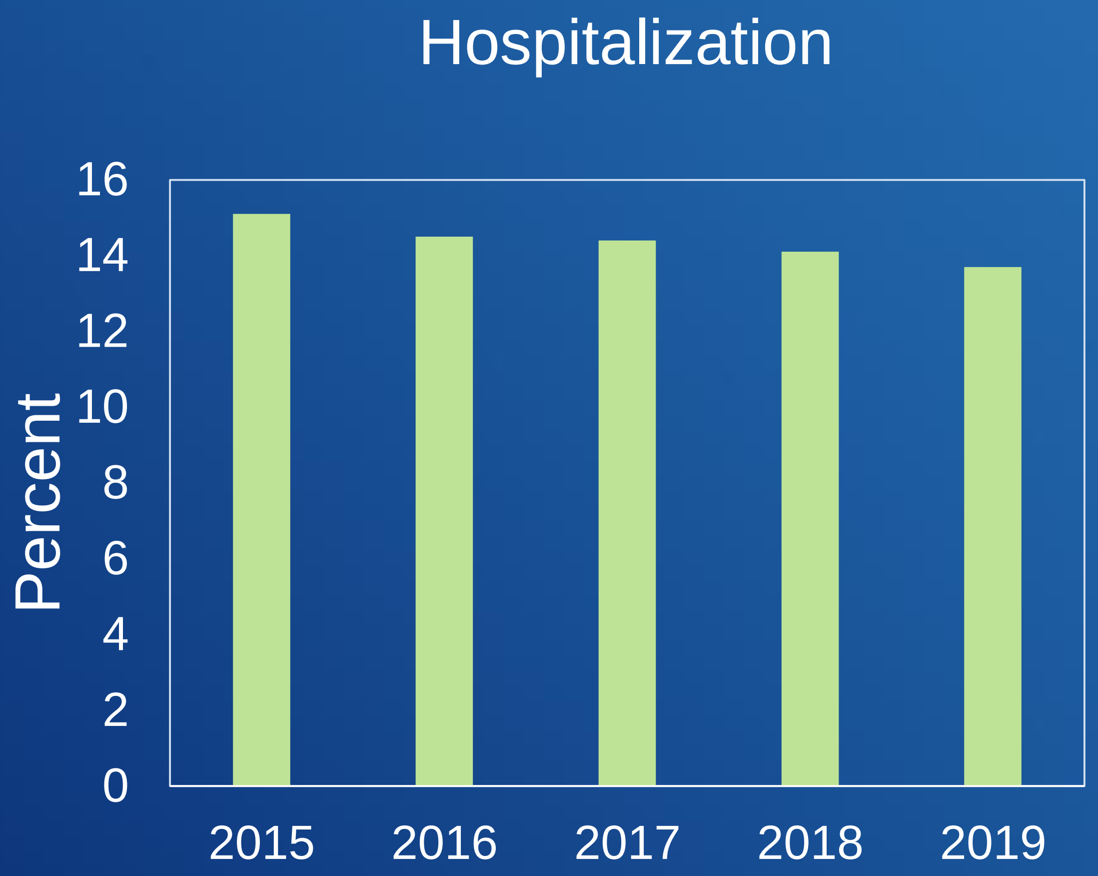
Access was adequate in 2019

Supply	Stable at 15,000	
Service use per beneficiary	Declined from 2018 ▪ Admissions −4.8% ▪ Length of stay −0.8% ▪ Days −5.4%	Consistent with growing presence of alternative payment models and lower hospital use
Occupancy rate	Decreased from 2018 but remained high (85%)	
Marginal profit	About 20%	

Data are preliminary and subject to change.

Small improvements in risk-adjusted quality measures, 2015-2019





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Access to capital

Activity in 2020	Total margins in 2019	Capital expected to be adequate in 2021
• Activity slowed during PHE but rebounding ➢ Companies focus on select markets ➢ REITs scaling back ➢ Private equity expanding ➢ Substantial increase in HUD financing	• Low total margins (0.6%) reflect low payments from other payers • Medicare is a preferred payer	• Trends expected to continue • Demographics and SNFs' lower cost compared with other institutional PAC settings favor this setting • Stability of government funding

Freestanding SNF Medicare margins in 2019

Aggregate margin	Variation	Reasons for variation
▪ 11.3% ▪ 20th consecutive year margin was above 10%	▪ 25th percentile: -0.9% ▪ 75th percentile: 21.3% ▪ Nonprofit: 0.9% ▪ For profit: 14.3%	▪ Economies of scale ▪ Cost per day ▪ Cost growth ▪ Rehabilitation therapy practices

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Medicare margins of relatively efficient SNFs indicate payment rates are too high

- 9% of SNFs included in analysis were efficient
- Compared to other SNFs, relatively efficient SNFs had:
    - Successful discharge to community: 15% higher
    - Hospitalizations: 21% lower
    - Standardized cost per day: 7% lower
    - Payments per day: 6% higher
- Medicare margin: 19.2%

Data are preliminary and subject to change.

Medicare FFS payments per day for SNF care are considerably higher than MA rates

- Average FFS payments per day are 20+% higher than the average MA payments per day
- Characteristics of MA and FFS SNF users do not explain payment differences
- Publicly traded companies with SNF holdings report seeking managed care business

Data are preliminary and subject to change.

SNFs and their patients were especially hard hit by the coronavirus

Challenging conditions	Federal relief	Volume	Medicare's payments and costs
▪ Infection rates and deaths continue to increase ▪ Availability of supplies and testing has improved but not ideal	• Provider relief funds and other federal programs • Additional ~$10 billion to nursing homes • Helped offset COVID-19 impacts	▪ Volume remains about 10 percentage points below pre-COVID levels ▪ Will be slow to return	• Temporary waiver of required hospital stay tempered drops in volume • Costs per stay increased • Payments per stay increased

Summary: SNF payment adequacy indicators are positive

Beneficiaries' access to care	Quality of care	SNFs' access to capital	Medicare payments and SNFs' costs
• Stable supply • Volume declines do not reflect adequacy of payments • High marginal profit (~20%)	• Small improvements in the rates of successful discharge to community and hospitalization	• Adequate access to capital • Low total margins (0.6%) reflect lower payments from other payers	• Medicare margins are high (11.3%) • Efficient provider margin is very high (19.2%)
Positive	Positive	Positive	Positive

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Considerations for the Chair’s draft recommendation

- Summary indicators are positive
- Even with increased costs, Medicare’s payments are more than adequate
- If nursing homes need additional financial support in 2021, the update to Medicare’s payments in 2022 is a poor approach
  - Increased payments would not begin until October 2021
  - Funds would not be targeted to facilities that need assistance
- Any additional financial support should be separate from the update and targeted to facilities especially affected by COVID-19