



Advising the Congress on Medicare issues

Assessing payment adequacy: Skilled nursing facility services

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Roadmap

- Overview of the industry
- Analysis of payment adequacy
- Medicaid trends

Skilled nursing facilities: providers, users, and Medicare spending

- Providers: 14,935
- Beneficiary users: 1.7 million
- Medicare spending \$32 billion
- Medicare share: 12% of days
23% of revenues

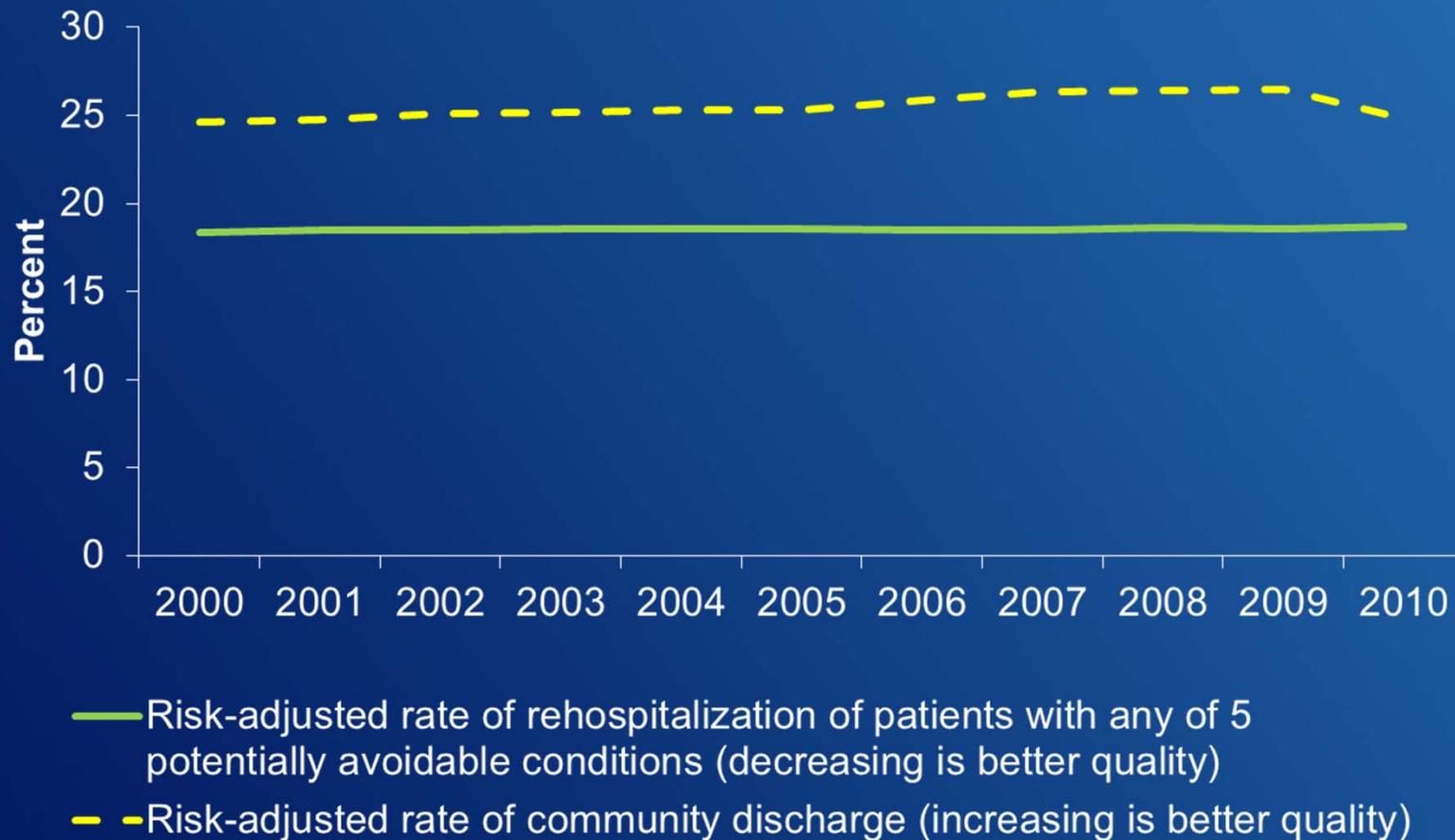
Payment adequacy framework

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

Access: adequate and stable

Indicator	Change
Supply	Slight increase 2010- 2011
Admissions	Unchanged 2010-2011
Days	Unchanged 2010-2011
Bed days available	Unchanged 2009-2010
Occupancy rates	Unchanged 2009-2010

SNF quality shows little improvement over 10 years



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

SNF rehospitalization policy

- Commission recommended a rehospitalization policy to align hospital and SNF incentives
- Measure should include rehospitalizations during and after a SNF stay
- Combined, during and after SNF stay, 28% of beneficiaries with any of 5 potentially avoidable conditions are rehospitalized

Access to capital

- More lending in 2012 than 2011.
- HUD-financed projects increased 68 percent over 2011 and expected to maintain same level of activity for 2013.
- Non-HUD lending expected to keep pace with 2012 levels. Some uncertainties reflecting federal and state policies.
- Medicare shares are used to gauge the financial health of facilities.

Estimated freestanding SNF Medicare margins

- Estimated 2011: 22 to 24 percent
- In prior years, margins varied more than 3-fold
- Relatively efficient providers had lower costs per day and higher quality measures, and had high margins

Data are preliminary and subject to change.

Last year's SNF recommendation (for FY 2013) had two parts

- Year 1: the prospective payment system for SNFs should be revised. No update.
- Year 2: payments should be lowered by an initial 4 percent. Subsequent reductions over an appropriate transition until payments are in better alignment with provider costs.

Why revise the SNF PPS?

- Uneven financial performance partly reflects shortcomings of PPS
- Correct known shortcomings of PPS
 - Base therapy payments on care needs not service provision
 - Establish a separate component for nontherapy ancillary services
 - Add an outlier policy
- MedPAC recommendation in 2008

A budget-neutral revised PPS would shift payments across providers

<u>SNF group</u>	<u>Percent change in payments</u>
Intensive therapy days—high share	-10%
Clinically complex/ special care— high share	17 to 18
Freestanding	-1
Hospital-based	27
For-profit	-2
Nonprofit	8

*Source: Impacts relative to current policy
estimated by the Urban Institute 2012*

Why rebase Medicare payments?

- Medicare margins above 10 percent since 2000
- Variation in Medicare margins is related to amount of therapy furnished not differences in patient mix
- Cost differences are unrelated to wage levels, case-mix, or beneficiary demographics

Why rebase Medicare payments? (continued)

- Relatively efficient providers show it is possible to have low costs and high quality
- Evidence that some MA payments are considerably lower than FFS payments
- Industry responded to the level of payments
 - Cost growth exceeded market basket every year since 2001
 - Revenues grew even when steps taken to lower payments.

Medicaid trends in nursing home use and spending

Number of facilities (2012)	14,986
Users (2009)	1.6 million
Spending (estimate 2012)	\$50.3 billion
Estimated non-Medicare margin (2011)	-1.2 to -3.2 percent
Estimated total margin (2011)	3.8 to 5.5 percent

Data are preliminary and subject to change.

Subsidizing Medicaid through Medicare payments is poor policy

- Poor targeting of funds
 - Payments go to facilities with high Medicare days, not necessarily those with high Medicaid days
 - Subsidizes payments even in states with relatively high Medicaid payments.
- Could encourage states to lower their payments
- Payroll taxes that finance the Trust Fund are diverted to subsidize Medicaid and private payments