Assessing payment adequacy and updating payments: Skilled nursing facility services

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MedPAC's payment adequacy framework: Skilled nursing facilities

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and costs
• Capacity and supply of providers • 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 base payment rates

Payment adequacy framework and the coronavirus public health emergency (PHE)

- COVID-19 has had tragic and disproportionate effects on Medicare beneficiaries and the health care workforce
- PHE has also had material effects on payment adequacy indicators, making them more difficult to interpret
- Temporary or highly variable coronavirus effects are best addressed through targeted, short-term funding policies rather than permanent changes to all providers' payment rates in 2023 and future years

Temporary funding and policy changes for SNFs in 2020

Provider relief funds

- General distribution: 2% total revenues
- Targeted funds for nursing homes: $10 billion, not all disbursed in 2020

Temporary changes in policies

- Suspended the 2% sequester
- Waived the prior 3-day hospital stay requirement
- Extended coverage for certain beneficiaries
- Many states temporarily raised their Medicaid nursing home payment rates

Data are preliminary and subject to change.

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New case-mix system was implemented on October 1, 2019

- Considers multiple dimensions of patient complexity and deemphasizes rehabilitation therapy
- Intended to be budget neutral but instead raised payments by 5.3%
- In this year's final rule, CMS sought provider input on an approach that would lower payments by 5% and whether to phase in the reduction. Its final decision will be included in the FY 2023 final rule.

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Overview of the skilled nursing facility industry in 2020

Providers

About 15,000

Most also provide long-term care

Medicare spending

$28.1 billion

Medicare users

1.2 million

3% of FFS beneficiaries

Medicare share of:

Facility days:10%

Facility revenue: 17%

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Data are preliminary and subject to change.

Access to care: Supply stable but PHE decreased use

Supply	Stable at 15,000 88% of beneficiaries live in counties with 3+ SNFs
Service use per beneficiary	Declined from 2019 ▪ Admissions −7.9% ▪ Length of stay + 6.9% ▪ Days −1.5%
Occupancy rate	Large decrease from 2019 (85%) to 74% in September 2021
Marginal profit	25%

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Quality of care: Difficult to assess in 2020

Changes in quality measures	Caveats
• Rates of successful discharge to the community decreased • Rates of hospitalization increased	• 2020 indicators reflect temporary changes unique to the PHE • Quality measures rely on risk adjustment models that do not include COVID-19 diagnosis information

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Access to capital

Activity	Total margins in 2020	Capital expected to be adequate in 2022
• Fewer mergers and acquisitions in 2020 than in 2019 • Activity appears to be rebounding in 2021 • HUD financing in 2020 decreased 10% from 2019, but similar number of projects	• Total margins increased—from 0.6% in 2019 to 3% in 2020	• Demographics and SNFs' lower cost compared with other institutional PAC settings favor this setting • Stability of government funding

Data are preliminary and subject to change.

Changes in SNF per day costs and payments between 2019 and 2020

Changes in costs

- Average costs per day increased 2.1%
- Staffing down 9.6% between February and December 2020
- Lower therapy costs as a result of the new case-mix system

Changes in payments

- Suspension of the sequester
- New case-mix system inadvertently raised payments
- Some shift in payments from other payers to Medicare that accompanied the coverage waivers

Data are preliminary and subject to change.

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Medicare margins in 2020 for freestanding SNFs

Aggregate margin

- 16.5% without Provider Relief Funds
- 20th consecutive year margin was above 10%
- 19.2% with allocation of Provider Relief Funds

Variation

- 25th percentile: 4.1%
- 75th percentile: 28.5%
- Nonprofit: 0.6%
- For profit: 20.0%

Reasons for variation

- Economies of scale
- Differences in cost per day
- Differences in cost growth

Data are preliminary and subject to change.

Medicare margins in 2020 for 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: 4% higher
- Medicare margin: 22.8%

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 27% 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.

Summary: COVID-19 affected SNF adequacy indicators, but they remained generally positive

Beneficiaries' access to care

- Stable supply
- Volume declines do not reflect adequacy of payments.
- High marginal profit (25%)

Quality of care

- Unique circumstances of PHE confound our measurement and assessment of quality

Access to capital

- Adequate access to capital
- Total margins increased to 3%

Medicare payments and SNFs' costs

- Medicare margins are high (without relief funds=16.5%; with relief funds =19.2%)
- Relatively efficient margins= 22.8%

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