Advising the Congress on Medicare issues

Assessing payment adequacy and updating payments: Skilled nursing facility services

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MEDPAC

MedPAC's payment adequacy framework: Skilled nursing facilities

Access to care

- Supply and capacity
- Volume of services
- Marginal profit

Quality of care

- Successful discharge to the community
- Hospitalization

Access to capital

- All-payer profitability
- Transaction activity

Medicare payments & providers' costs

- Payments and costs
- Relatively efficient providers' margins
- Margins and projected margins

Update recommendation for payment system base rates

SNF payment adequacy in pandemic context

- Through October 2022, more than 159,000 resident and 2,700 staff deaths
  - Mortality rates fell after vaccine availability in early 2021
- SNF volume and employment have begun to return in 2022 but remain below pre-pandemic levels nationally
- PHE-related Medicare payment policies remain in effect and are scheduled to end when the coronavirus PHE expires (e.g., three-day stay waiver)

Note: skilled nursing facility (SNF), public health emergency (PHE)

Overview of the skilled nursing facility sector in 2021

Medicare spending	Providers	Medicare share of:	Medicare users
$28.5 billion	About 15,000 (most also provide long-term care)	Facility days:10% Facility revenue: 16%	1.2 million FFS beneficiaries (3.4% of FFS beneficiaries)

Data are preliminary and subject to change

Access to care: Supply and use declined in 2021

Supply	• Declined less than 1% in 2021 • 88% of beneficiaries live in counties with 3+ SNFs
Occupancy	• Has not rebounded to pre-pandemic levels • Staffing shortages may constrain access

Use per beneficiary	• Compared to 2020
	  • Admissions −2.4%
	  • Days −3.7%

Medicare marginal profit	• 26%

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Quality of care: Pandemic and PHE policy complicate interpretation of quality measures

- Two risk-adjusted quality measures for all PAC settings
  - Successful discharge to the community
  - All-cause hospitalizations
- Mean rates of these measures improved in 2021 compared to 2020
- Year-over-year changes since 2019 difficult to interpret because the rates are affected by the pandemic, PHE-related policies, SNF payment policy changes

Note: public health emergency (PHE), post-acute care (PAC), skilled nursing facility (SNF)

Access to capital: Sector transaction activity is down, but investor interest remains

- Fewer SNF deals in 2021 compared to 2020
  - Average price per bed near record high
- HUD financed fewer projects in 2022 compared to 2021
- All-payer total margins were 3.4% in 2021 (3.1% in 2020)
- Continued investor interest in sector
  - Aging population and relatively lower cost compared to other institutional PAC settings favor this sector
  - Stability of government funding

Changes in SNF per day costs and payments between 2020 and 2021

Changes in costs	Changes in payments

• Average cost per day increased 4%
• Routine costs increased
  • Likely due to higher wages, more contract labor
• Ancillary costs decreased
  • Lower therapy costs due to the new case mix system
	• Average payment per day increased 3%
	• Suspension of sequester
	• New case-mix system inadvertently raised payments
	• Some shifts in payments from Medicaid to Medicare due to coverage waivers

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Medicare margins in 2021 for freestanding SNFs

Aggregate Medicare margin	Variation in Medicare margins	Reasons for variation

• 17.2%
• 22nd consecutive year of margins above 10%
	• 25^{th} percentile: 3.8%
	• 75^{th} percentile: 27.9%
	• Nonprofit: 2.8%
	• For profit: 20.6%
		• Economies of scale
		• Differences in
		  • Costs per day
		  • Cost growth

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Medicare margins in 2021 for relatively efficient SNFs indicate payment rates are too high

- 9% of SNFs included in analysis were relatively efficient
- Compared to other SNFs, relatively efficient SNFs had:
  - Successful discharge to community: 14% higher
  - Hospitalizations: 14% lower
  - Standardized cost per day: 7% lower
  - Payments per day: 10% higher
- Median Medicare margin: 22%

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

- Average FFS payments per day are about 25% 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

SNF adequacy indicators are generally positive

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and SNFs' costs
• Slight decline but stable supply • Volume declines do not reflect adequacy of payments • High Medicare marginal profit (26%)	• The pandemic and PHE-related policies affect quality measures and interpretation of trends	• Adequate access to capital • Total margin = 3.4%	• Medicare margins are high (17.2%) • Relatively efficient margin = 22%

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Considerations: How should payments change in 2024?

Estimated market basket	2.8%
Minus estimated productivity	-0.4%
Minus correction for overpayments under PDPM	-2.3%
Plus estimated market basket forecast error correction (from 2022)	+3.2%
Estimated net update	**3.3%**

Note: All values are current estimates (from second quarter of 2022). CMS will revise estimates before the fiscal year 2024 rule is published.

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