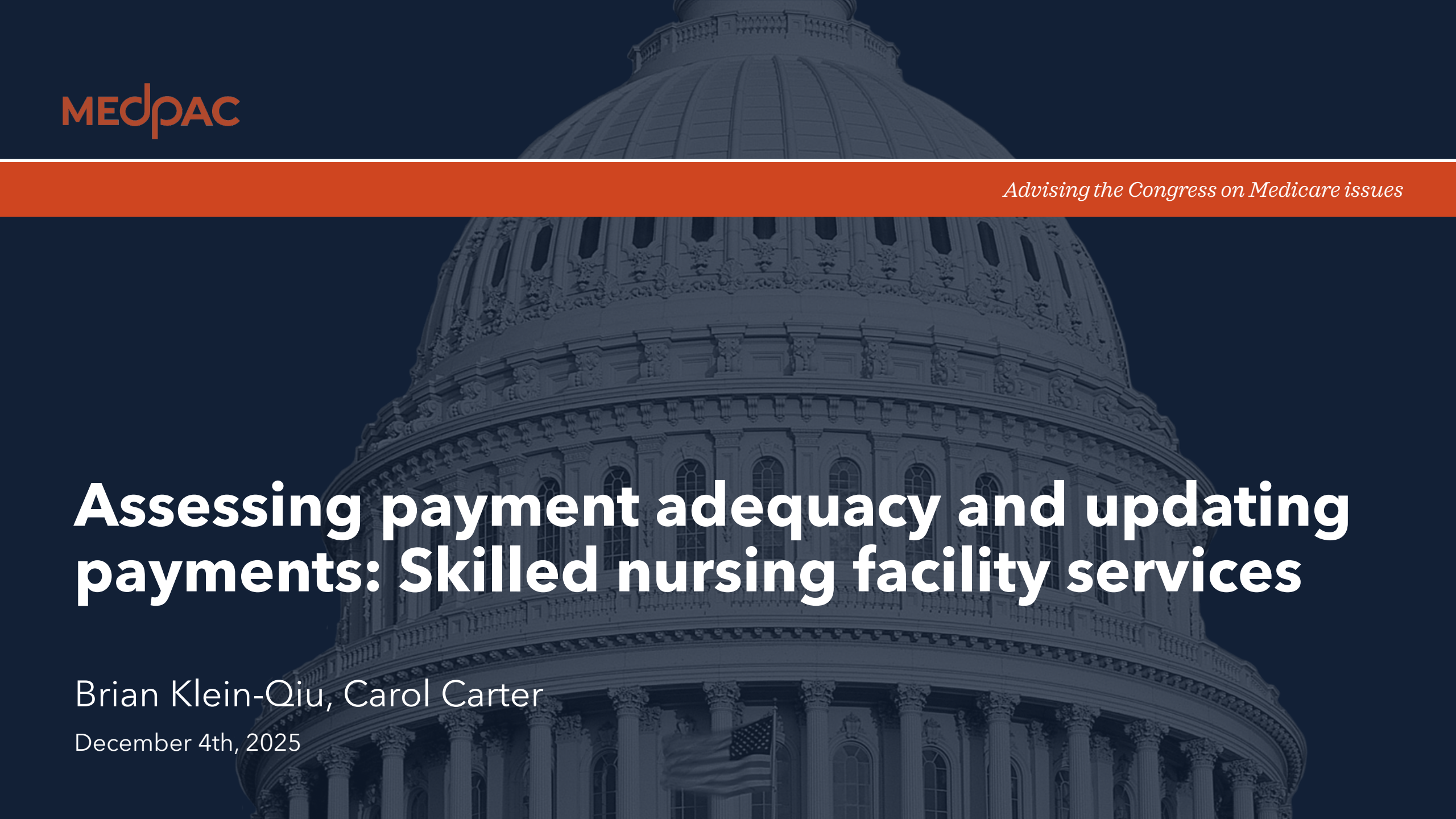
MEDPAC

Advising the Congress on Medicare issues



Assessing payment adequacy and updating payments: Skilled nursing facility services

Brian Klein-Qiu, Carol Carter

December 4th, 2025

Presentation roadmap

1. Overview of SNF use and spending under FFS Medicare
2. Payment adequacy indicators for SNFs
3. Chair's draft recommendation
4. Nursing home star ratings

Overview of SNF use and spending under FFS Medicare, 2024

SNFs	14,400

Medicare share of facility days	8% (median)

Services	1.5 million stays (in SNFs)

Payments for services	$26 billion (in SNFs + swing beds)

Note: FFS (fee-for-service), SNF (skilled nursing facility).
Source: MedPAC analysis of Medicare Provider Analysis and Review data.

FFS Medicare payment adequacy framework: SNFs

Beneficiaries' access to care

- Supply and capacity
- Volume of Medicare services

Quality of care

- Discharge to community
- Potentially preventable readmissions
- Staffing ratios and turnover

Access to capital

- Financial reports
- All-payer margin

Medicare payments and costs

- FFS Medicare margin
- Projected FFS Medicare margin

Update recommendation for SNF base rates

Note: FFS (fee-for-service), SNF (skilled nursing facility).

Access: Stable for FFS Medicare beneficiaries

Number of SNFs decreased slightly

- Number of SNFs declined about 1% in both 2024 and 2025
- In 2024, 88% of Medicare beneficiaries lived in a county with 3+ SNFs or swing-beds

Occupancy rates increased

- SNF occupancy rates slowly recovered from pandemic low of 69%
- In 2024, the median rate was 83%, similar to pre-pandemic rates

Utilization was mixed

- Between 2023 and 2024, SNF admissions decreased 4% while days increased 1%
- SNF utilization is back in line with pre-pandemic trends

Note: FFS (fee-for-service), SNF (skilled nursing facility), SNF (skilled nursing facility).
Source: MedPAC analysis of data from CMS's Quality, Certification and Oversight Reports, Common Medicare Environment, SNF cost reports, and the Bureau of Labor Statistics.

Quality: Measures were stable

Claims-based measures	Median facility rate, 2022–2023	Median facility rate, 2023–2024
Discharge to community	50.9	51.5
Potentially preventable readmissions	10.4	10.7

Staffing measures	Median facility value, 2023	Median facility value, 2024
RN HPRD	0.6	0.5
12-month nursing staff turnover rate (%)	48.5 (before CMS methodology change)	46.3 (after CMS methodology change)

- Claims-based measures:
  - Median facility risk-adjusted rates of discharge to the community and potentially preventable readmissions were about the same in 2022-2023 and 2023-2024
- Staffing measures:
  - Median facility risk-adjusted RN hours per resident day and nursing staff turnover rate were similar in 2023 and 2024

Note: RN (registered nurse), HPRD (hours per resident day).
Source: MedPAC analysis of claims-based quality measures and quarterly staffing measures from CMS's provider data catalog.

Quality: Gaps in quality data persist

- Patient experience data are not uniformly collected for SNFs
  - In 2021, MedPAC recommended that CMS finalize development and begin to report measures of patient experience
- Patient function is a key post-acute care outcome
  - MedPAC has questioned accuracy because the information is provider-reported and used for payments
  - CMS will begin to validate samples of the function information in FY 2027

Note: SNF (skilled nursing facility), FY (fiscal year).

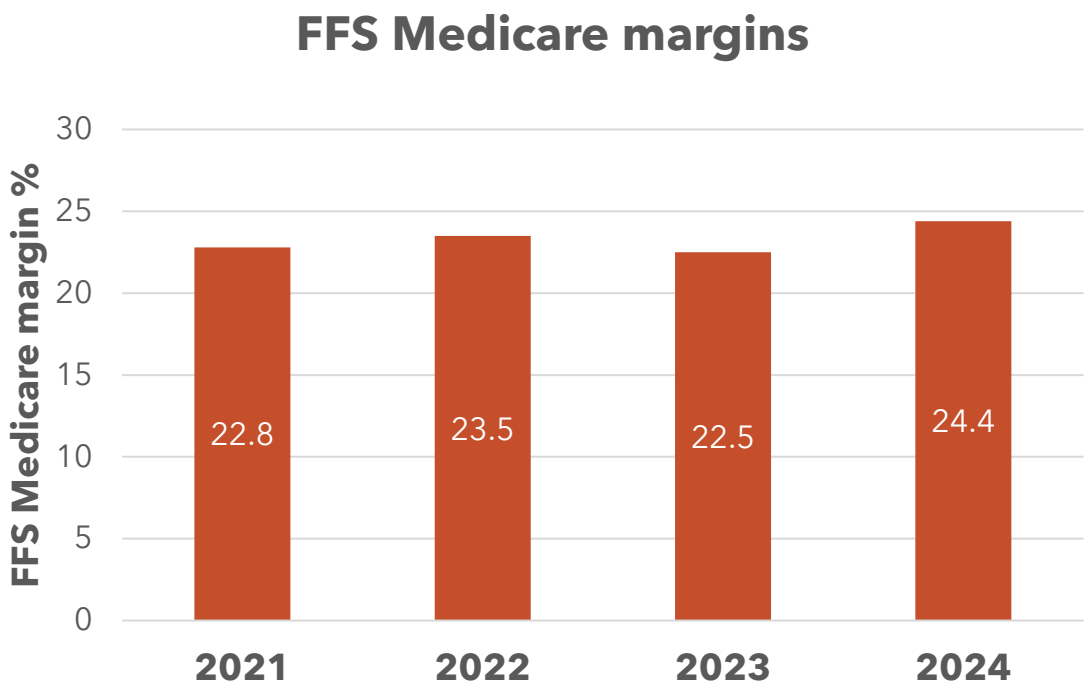
Access to capital: Indicators are positive

- Investors continue to report strong interest in acquiring SNFs

- All-payer margin for freestanding SNFs increased in 2024
  - 2023: 0.4%
  - 2024: 2.1%
- Fewer SNFs had negative total all-payer margins in 2024
- Overall financial performance of this sector is heavily influenced by states' Medicaid nursing home rates

Note: HUD (Department of Housing and Urban Development), FY (fiscal year), SNF (skilled nursing facility).
Source: MedPAC analysis of data from Irving Levin Associates, HUD, and Medicare freestanding SNF cost reports.

FFS Medicare margins for freestanding SNFs remained high in 2024

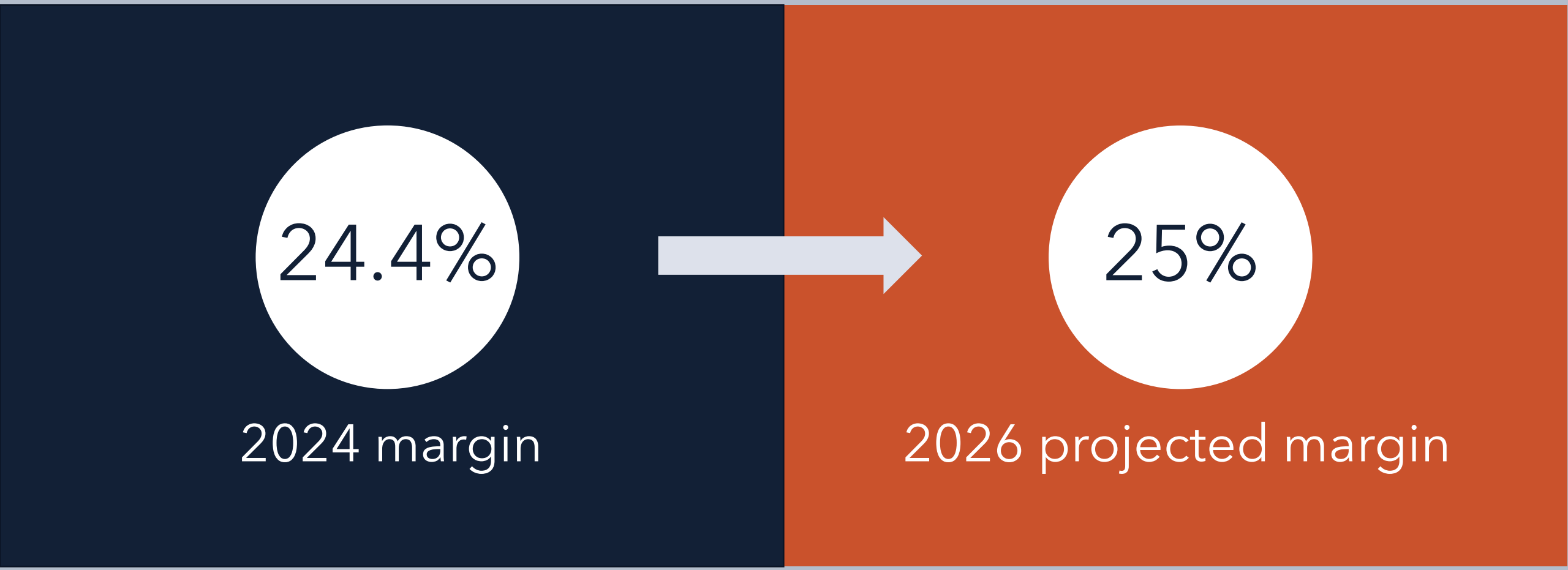


Source: MedPAC analysis of cost report data for 2021–2024.

Group	FFS Medicare margin
All	24.4%
25th percentile	13.0
75th percentile	33.9
For profit	27.2
Nonprofit	10.8
Urban	24.8
Rural	21.1
Low volume	11.1
High volume	28.5

Note: FFS (fee-for-service), SNF (skilled nursing facility).
Source: MedPAC analysis of Medicare freestanding SNF cost reports.

FFS Medicare margin projected to increase in 2026



Note: FFS (fee-for-service).
Source: MedPAC analysis of Medicare freestanding skilled nursing facility cost reports, CMS final rule, and CMS market basket data.

Summary: SNF payment adequacy indicators

Beneficiaries' access to care

- Slight decrease in supply
- Decreased volume does not reflect adequacy of payments
- Occupancy rates increased to pre-PHE levels and indicate available capacity

Stable

Quality of care

- Quality measures remained stable
  - Discharge to community
  - Readmissions
  - RN hours per resident day
  - Nurse staffing turnover rate

Stable

Access to capital

- Continued investor interest in the sector
- 2024 all-payer margin improved to 2.1%

Positive

FFS Medicare payments and costs

- 2024 FFS Medicare margin: 24.4%
- 2026 projected FFS Medicare margin: 25%

Positive

Note: SNF (skilled nursing facility), PHE (public health emergency), FFS (fee-for-service), RN (registered nurse).

Chair's draft recommendation

Chair's draft recommendation

For fiscal year 2027, the Congress should reduce the 2026 Medicare base payment rates for skilled nursing facilities by 4 percent.

Implications

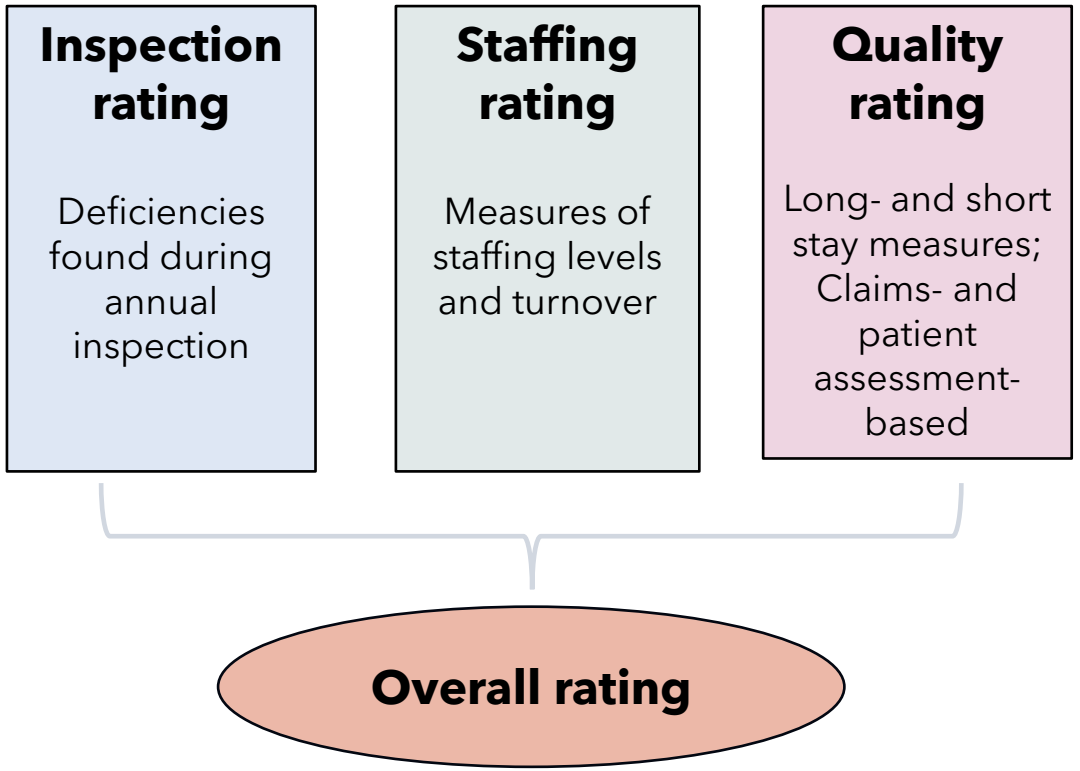
- Spending: Decrease spending relative to current law
- Beneficiary and provider: No adverse effect on access to care; continued provider willingness and ability to treat fee-for-service beneficiaries

Nursing home star ratings

- CMS has publicly reported nursing home (NH) star ratings since 2009
- Goal: Provide easy-to-understand information for beneficiaries to help them select where to get their care
- In June 2025, MedPAC noted that staffing information does not—but could—play a larger role in determining a NH's overall rating, given the strong evidence basis linking staffing to quality
- We explored different approaches to increase the importance of staffing in the overall star ratings

Current design of the overall star rating

Three domains are separately rated



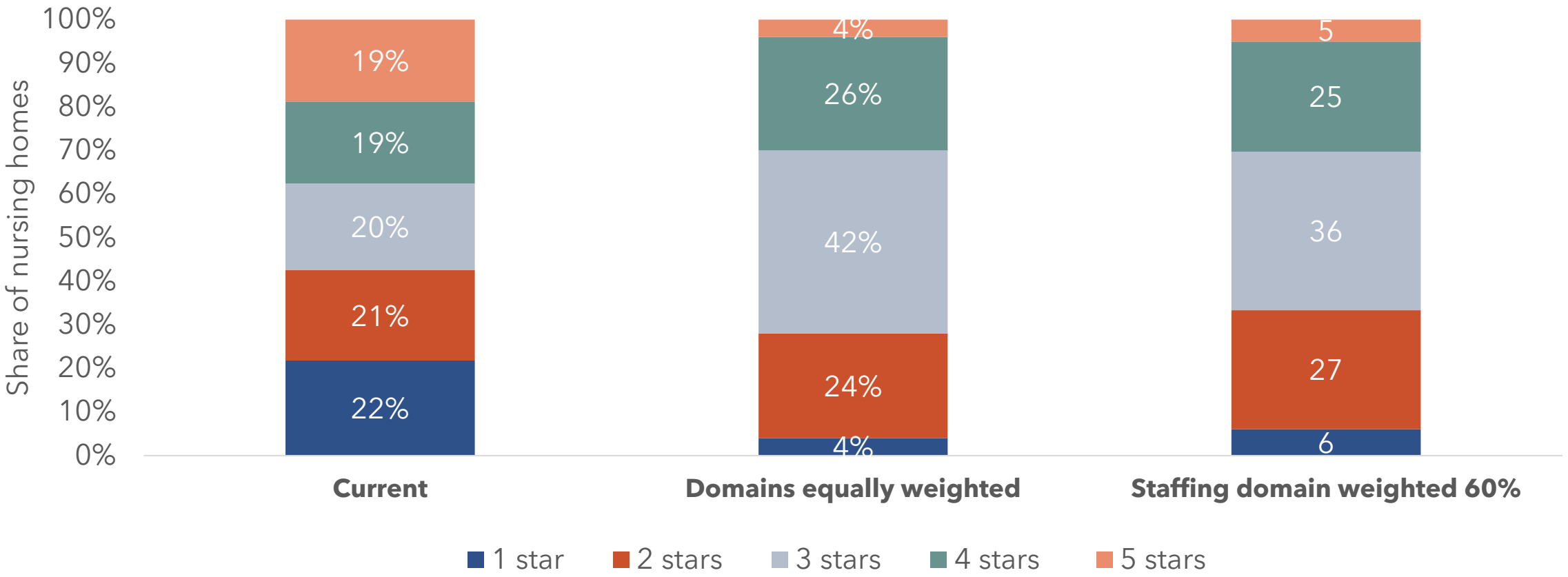
- To create an overall rating:
  - Begin with inspection rating
  - Add 1 star if staffing rating is 5 stars; subtract 1 star if staffing rating is 1 star
  - Add 1 star if quality rating is 5 stars; subtract 1 star if staffing rating is 1 star
- 2-, 3-, and 4-star staffing and quality ratings do not affect the overall rating

Alternative approaches to calculate the overall star rating

- Why revise the method?
  - Consider all quality and staffing ratings in an overall rating
  - Commissioners were interested in increasing the weight of the staffing domain given the strong evidence linking staffing to patient outcomes
  - Decrease the weight of inspection domain because the surveys can fail to uncover serious quality problems
- Illustrative designs
  - Weight the 3 domains equally
  - Weight the staffing domain 60%, quality and inspection domains 20% each
  - The estimated impact of the alternative approaches does not consider possible behavioral changes by providers

Source: Dellefield et al. 2015, Gandhi et al. 2021, Jutkowitz et al. 2023, Konetzka et al. 2021a, Loomer et al. 2022, Shen et al. 2023, Zheng et al. 2022.

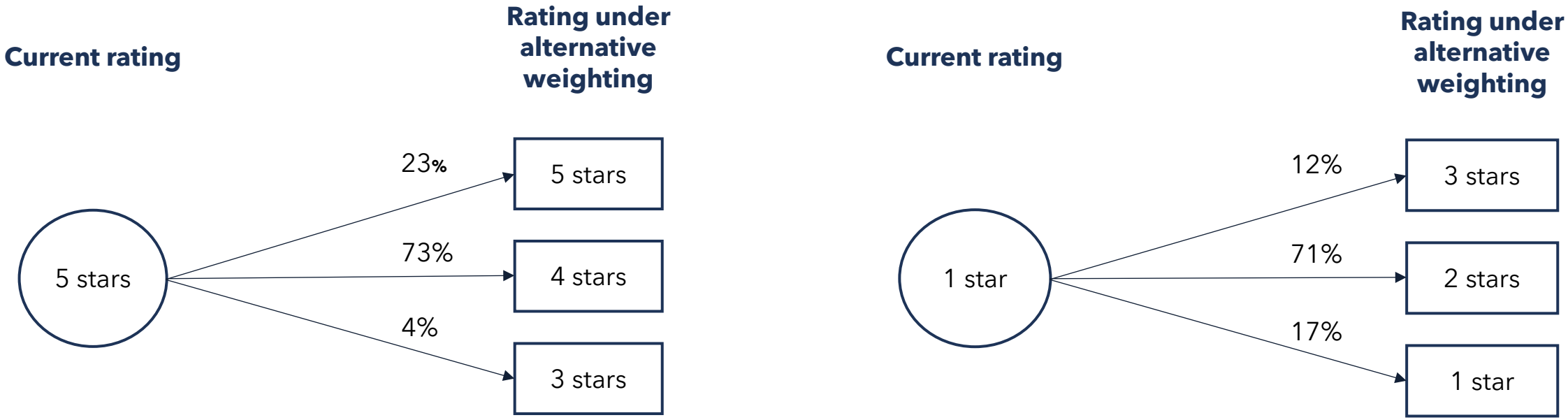
Distribution of overall star ratings under the current design and alternative weighting approaches



Note: In the approach that weights the staffing domain 60%, the quality and inspection domains would each be weighted 20 percent. The estimated results of the alternative ratings do not assume any behavioral changes by nursing homes.

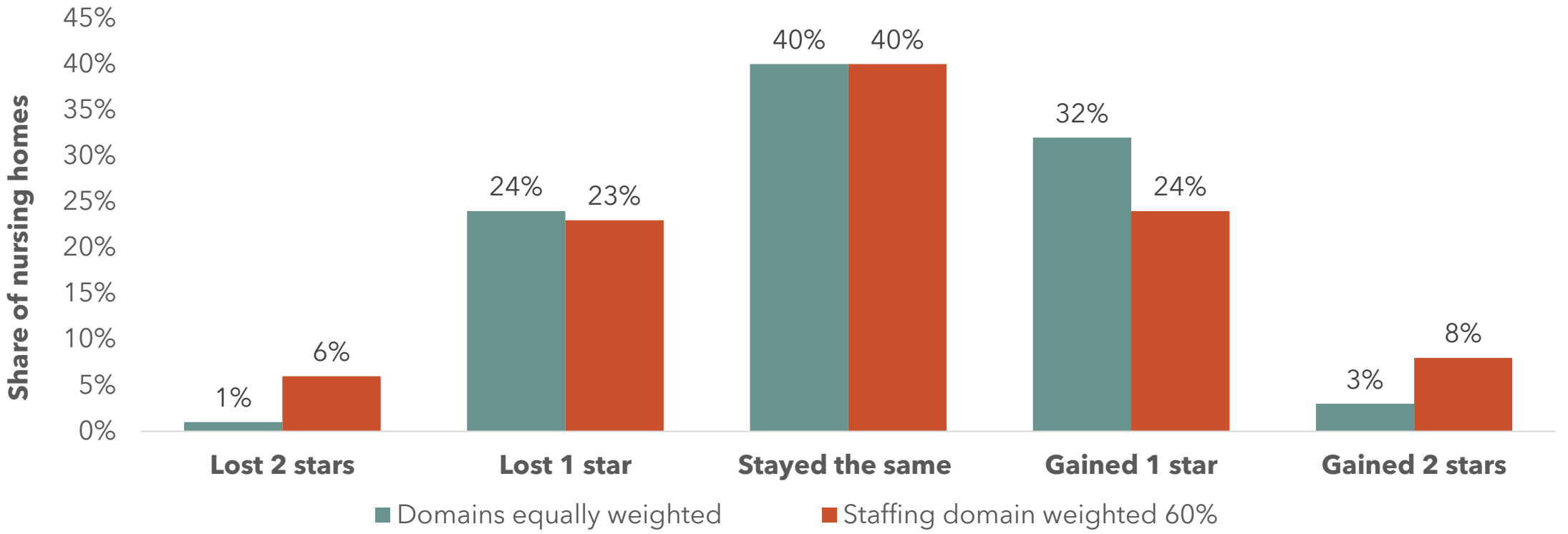
Source: MedPAC analysis of July 2025 star rating data

Illustration of how the overall ratings of 1- and 5-star nursing homes would change if the domains were equally weighted



Note: The alternative ratings do not assume any behavioral changes by nursing homes .
Source: MedPAC analysis of July 2025 star rating data.

The majority of nursing homes would gain or lose a star in their overall rating under the illustrative alternative approaches



Note: Under the equal weighting, each domain would be equally weighted. In the approach that weights staffing domain 60%, the quality and inspection domains would each be weighted 20 percent. The alternative ratings do not assume any behavioral changes by nursing homes.

Source: MedPAC analysis of July 2025 star rating data

What would a revised approach to calculating star ratings mean for beneficiaries?

- Overall ratings could provide a more complete picture of the quality of a nursing home (NH)
- Increasing the weights of the staffing and quality domains in the overall rating may offer beneficiaries a better sense of the care delivered
- Counting the 2-, 3- and 4-star quality ratings in the overall score could focus NHs on improving their quality; would increase the importance of monitoring the quality of the patient assessment information
- To improve their overall star ratings, NHs could respond by increasing their staffing and improving their quality

Chair's draft recommendation

For fiscal year 2027, the Congress should reduce the 2026 Medicare base payment rates for skilled nursing facilities by 4 percent.

Implications

- Spending: Decrease spending relative to current law
- Beneficiary and provider: No adverse effect on access to care; continued provider willingness and ability to treat fee-for-service beneficiaries