

Assessing payment adequacy and updating payments: Skilled nursing facility services

Carol Carter

December 8, 2016

Outline of presentation

- Overview of the SNF industry
- Adequacy of Medicare's payments
- Medicaid trends

Overview of the SNF industry in 2015

- Providers: 15,000
- Beneficiary users: 1.7 million
- Medicare spending: \$29.8 billion
- Medicare share: 11% of days
21% of revenues

Data are preliminary and subject to change.

Payment adequacy framework

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

Access: supply adequate and stable in 2014

<u>Indicator</u>	<u>Change from 2014</u>
■ Supply	■ Unchanged (about 15,000)
■ Share of beneficiaries living in a county with multiple SNFs	■ Unchanged (88% live in a county with 3+ SNFs)
■ Occupancy rate	■ Very small decline (87 to 86%) ■ One quarter of SNFs < 75%

Increase in SNF admissions but stays were shorter in 2015

<u>Indicator</u>	<u>Change from 2013</u>
■ Admissions	Increased 3.2%
■ Days	Declined -0.9%
■ Length of stay	-4.0%

Data are preliminary and subject to change.

Service mix reflects biases of the PPS design

<u>% of days</u>	<u>2009</u>	<u>2013</u>	<u>2015</u>
Intensive therapy	65	79	82
Moderate and low therapy	27	14	12
Non-rehabilitation	8	7	6

- Payments driven by amount of therapy furnished, not patient characteristics
- Therapy payments exceed therapy costs
- Payments for nontherapy ancillary services are poorly targeted

*Categories may not sum to 100% due to rounding.
Data are preliminary and subject to change.*

SNF quality measures: Mixed performance

<u>Risk-adjusted rate</u>	<u>2014</u>	<u>2015</u>
Discharged to community	37.6%	38.8%
Potentially avoidable readmissions		
During the SNF stay	10.8	10.4
Within 30 days after the SNF stay	5.6	5.0
Change in function		
Improvement in 1+ mobility ADLs	43.4	43.5
No decline in mobility	87.1	87.1

** Difference in rates for 2013 and 2014 are statistically significant.
Data are preliminary and subject to change.*

Access to capital is adequate

- Access to capital is adequate and expected to remain so, but getting tighter
- Some lending wariness reflects broad trends: declining use by bundled payments and ACOs; expanded MA enrollment (with its lower use and payments); DoJ investigations into therapy use
- Reluctance is not a reflection of the adequacy of Medicare's payments: Medicare continues to be a payer of choice

Freestanding SNF Medicare margins

- 2015 margin: 12.6 %
- 16th year of margins above 10%
- Variation in Medicare margins
 - 25th percentile: 2.4%
 - 75th percentile: 21.0%
 - Nonprofit: 4.4%
 - For-profit: 15.0%
- Marginal profit = 20%

Data are preliminary and subject to change.

High-margin SNFs pursue cost and revenue strategies

- Compared to low-margin SNFs, high-margin SNFs have:
 - 30% lower daily costs (after adjusting for wages and case-mix)
 - Lower routine and ancillary cost per day
 - Higher average daily census
 - Longer lengths of stay
 - 16% higher revenue per day
 - More intensive therapy days
 - Fewer medically complex days

Relatively efficient SNFs in 2015: relatively low cost and high quality

- 1,007 SNFs (9%) met cost and quality criteria
- Efficient SNFs compared to other SNFs:
 - Community discharge rates: 27% higher
 - Readmission rates: 15% lower
 - Higher census (101 versus 81)
 - Standardized cost per day: 8% lower
 - Medicare payment per day: 10% higher
- Medicare margin: 19.4%

Data are preliminary and subject to change.

Medicare FFS rates are considerably higher than MA/managed care rates

- FFS per diem payment rates are higher than MA/managed care payment rates
- Characteristics of MA and FFS SNF users do not explain these payment differences
- Publicly traded firms report seeking managed care business, suggesting the payments are attractive

How should Medicare payments change for 2018?

- Broad circumstances have not changed
- PPS continues to favor therapy over medically complex care
- The level of Medicare's payments remains too high
- Wide variation in margins reflects differences in patient selection, service provision, and cost control

Medicaid trends in nursing home use and spending

Number of facilities (2015)	Almost 15,000
Spending (estimate 2016)	\$46 billion
Non-Medicare margin (2015)	-2%
Total margin (2015)	1.6%

Data are preliminary and subject to change.