

# Assessing payment adequacy and updating payments for skilled nursing facilities

Carol Carter

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# Overview of the skilled nursing facility industry, 2018

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## Providers

About 15,000

Most also provide long-term care

## Medicare spending

\$28.5 billion

## Medicare users

1.5 million

4% of FFS beneficiaries

## Medicare share of:

Facility days: 10%

Facility revenue: 18%

# CMS revised the SNF PPS in fiscal year 2020

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Bases payments on  
patient  
characteristics

Comorbidities,  
functional status,  
cognitive impairment,  
ability to swallow,  
depression, special  
treatments

Redistributes  
payments

From high-therapy  
patients to medically  
complex patients

Aligns with  
PAC PPS

Redesign will bring  
SNF PPS closer to  
a PAC PPS

# SNF payment adequacy framework

## Beneficiaries' access to care

- Capacity and supply of SNFs
- Volume of services
- Marginal profit

## Quality of care

- Discharge to community
- Readmissions during SNF stay and after discharge

## SNFs' access to capital

- All-payer profitability
- Transaction activity

## Medicare payments and SNFs' costs

- Payments and costs
- Medicare margins among all and efficient SNFs
- Projected Medicare margins

Update recommendation for SNF base rates

# Access was adequate in 2018

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## Supply was stable

About 15,000 SNFs  
88% of beneficiaries live  
in a county with 3+ SNFs

## Service use declined

Admissions -3.3%  
Length of stay -0.4%  
Days -3.9 %

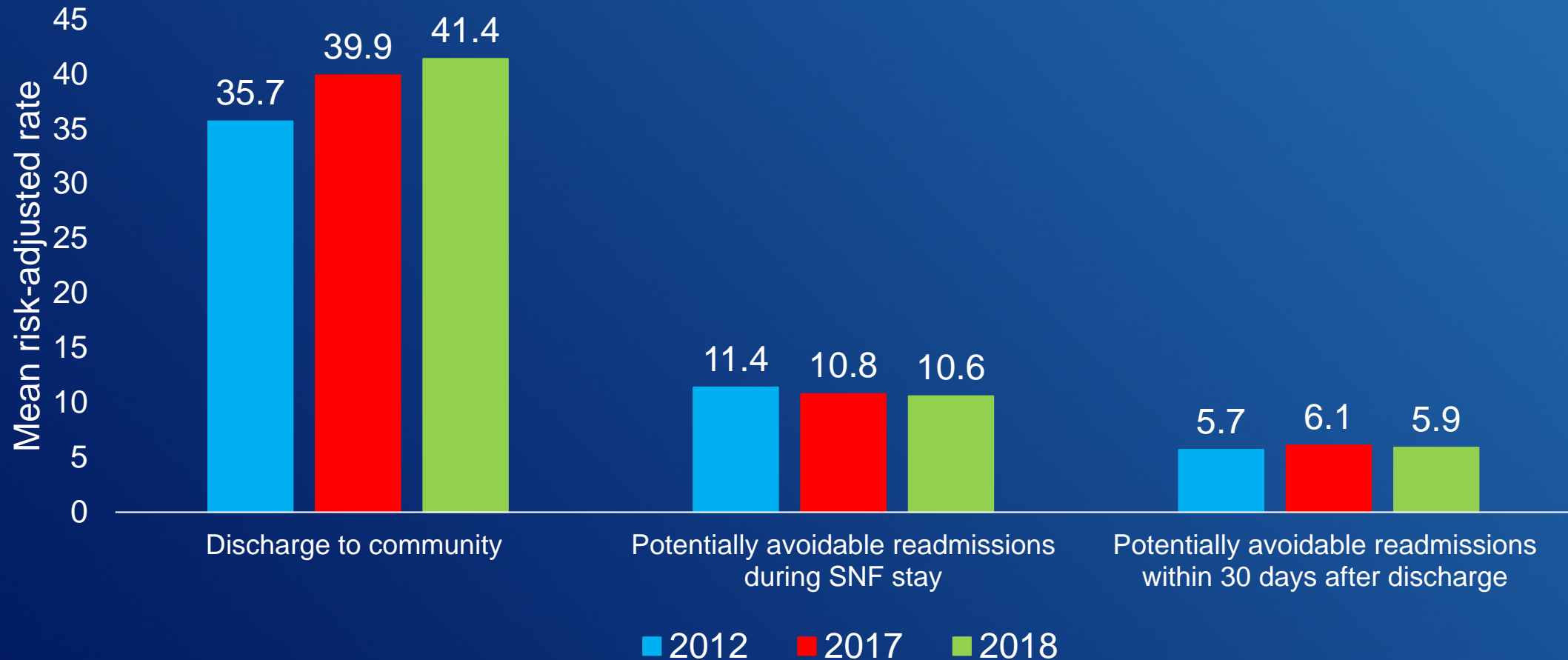
## Occupancy rates

Slight decline from 2017  
but remained high (84%)

## Marginal profit

About 18%

# Quality of care: Rates of discharge to community and readmissions improved between 2017 and 2018



*Data are preliminary and subject to change.*

# Access to capital was adequate in 2019

## Buyer demand remains strong

- Demographics and lower costs compared with other institutional PAC settings favor continued demand
- Transactions reflect several trends

## Some lender wariness

- Low total margins (-0.3%)
- Declining FFS SNF use
- Growing share of revenues from lower-paying payers (including MA and Medicaid)

## Access to capital expected to remain adequate in 2020

- Trends are expected to continue
- Medicare FFS continues to be a payer of choice

*Data are preliminary and subject to change.*

# Freestanding SNF Medicare margins in 2018

## Aggregate margin

- 10.3%
- 19<sup>th</sup> straight year above 10%

## Variation

- 25<sup>th</sup> percentile: -0.7%
- 75<sup>th</sup> percentile: 19.7%
- For profit: 13.0%
- Nonprofit: 0.5%

## Reasons for variation

- Case mix and therapy practices
- Economies of scale
- Cost per day
- Cost growth



# Relatively efficient SNFs in 2018

- 959 SNFs (8%) met cost and quality criteria
- Relatively efficient SNFs compared to other SNFs:

<u>Quality</u>	<u>Cost</u>	<u>Revenues</u>
<ul style="list-style-type: none"><li>• Higher community discharge rates</li><li>• Lower readmission rates</li></ul>	<ul style="list-style-type: none"><li>• Higher average daily census</li><li>• Higher occupancy</li><li>• Lower cost per day</li></ul>	<ul style="list-style-type: none"><li>• Higher revenues per day</li><li>• Higher intensive therapy days</li></ul>

- Efficient SNFs had high Medicare margin (16.9%), indicating that the level of Medicare payments is too high

# Medicare FFS rates for SNF care are considerably higher than MA rates

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FFS per day payments are 20% or more higher than MA payment rates

Characteristics of MA and FFS SNF users do not explain payment differences

Publicly traded PAC companies with SNF holdings report seeking managed care business

*Data are preliminary and subject to change.*

# Projected 2020 Medicare margin

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## Cost projection

- Increased costs each year from 2018 to 2020 by 5-year average cost growth
- For 2020, reduced costs by CMS's estimates of lower provider costs associated with the revised PPS

## Revenue projection

- 2019: 2.4% update (BBA 2018) and payments reduced for value-based purchasing policy
- 2020: Market basket update minus productivity

# Summary: SNF payment adequacy indicators are positive

Beneficiaries' access to care	Quality of care	SNFs' access to capital	Medicare payments and SNFs' costs
<ul style="list-style-type: none"><li>• Stable supply</li><li>• Volume declines parallel reductions in hospital stays</li><li>• High marginal profit (18%)</li></ul>	<ul style="list-style-type: none"><li>• Improvements in discharge to community and readmission rates</li></ul>	<ul style="list-style-type: none"><li>• Adequate access to capital</li><li>• Low total margins (-0.3%) reflect lower payments from other payers</li></ul>	<ul style="list-style-type: none"><li>• Medicare margins declined but remain high (10.3%)</li><li>• Efficient provider margins very high (16.9%)</li></ul>
Positive	Positive	Positive	Positive

# How should Medicare payments change for 2021?

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- Summary indicators are positive
- Wide variation in margins reflects differences in patient selection, service provision, cost growth, and cost control
- The recently implemented new PPS will change providers' cost structures, case mix, and service provision