

---

# Recommendations for Improving Nebraska's Nursing Facility Reimbursement Structure

---

**Stakeholder Presentation**  
**May 28, 2009**



---

# Contact Information

## Kevin Londeen, CPA

E-mail: [londeen@mslc.com](mailto:londeen@mslc.com)

Myers and Stauffer LC

11440 Tomahawk Creek Pkwy.

Leawood, KS 66211

Phone: (800) 374-6858

## Kathryn Wade, CGFM, SPHR

E-mail: [kathy@mslc.com](mailto:kathy@mslc.com)

Myers and Stauffer LC

4123 SW Gage Center Dr., Suite 200

Topeka, KS 66604

Phone: (800) 255-2309

## Carol Job, RN

E-mail: [cjob@mslc.com](mailto:cjob@mslc.com)

Myers and Stauffer LC

4123 SW Gage Center Dr., Suite 200

Topeka, KS 66604

Phone: (800) 255-2309

## Kierstin Bittel, CPA

E-mail: [kbittel@mslc.com](mailto:kbittel@mslc.com)

Myers and Stauffer LC

4123 SW Gage Center Dr., Suite 200

Topeka, KS 66604

Phone: (800) 255-2309

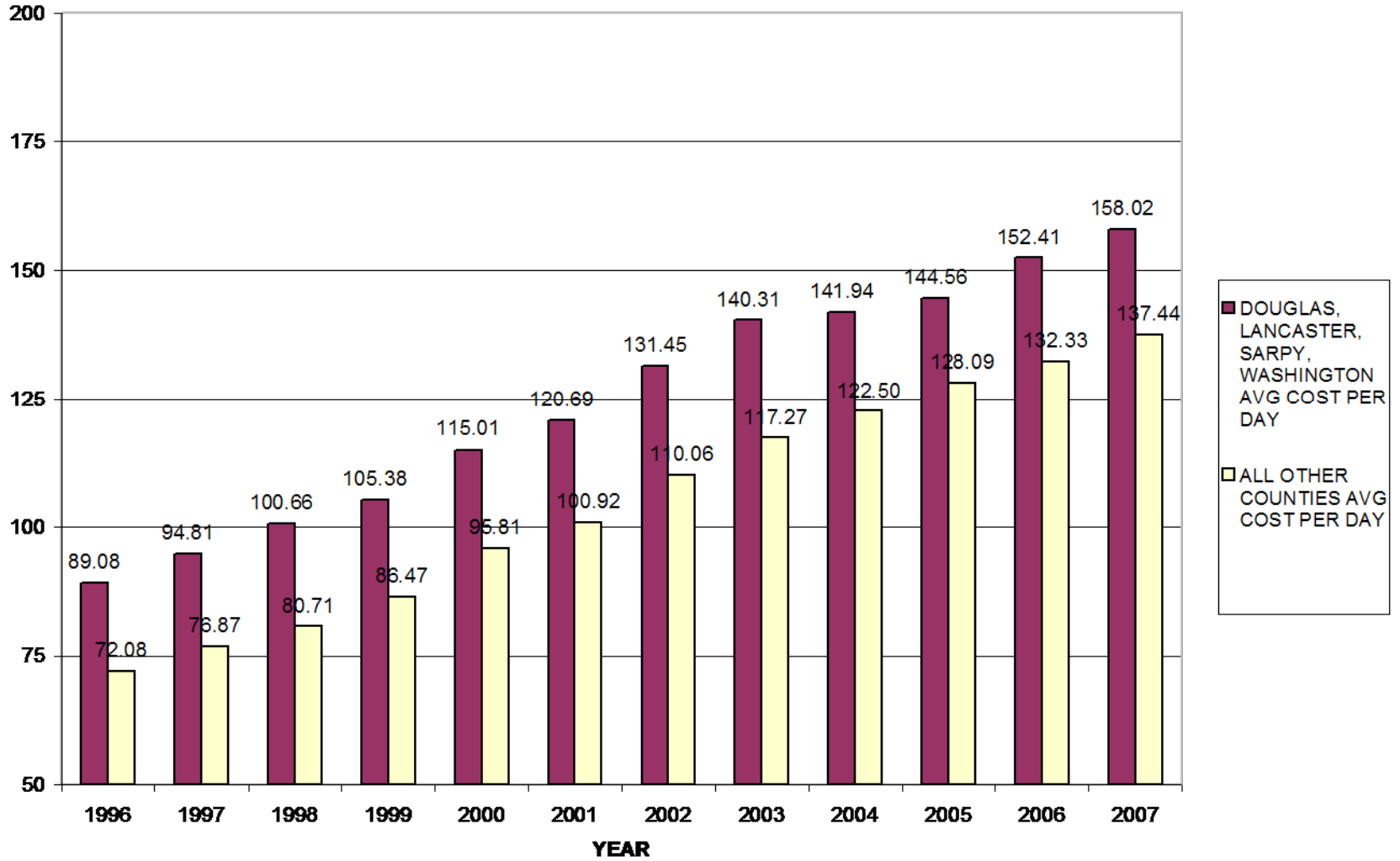


---

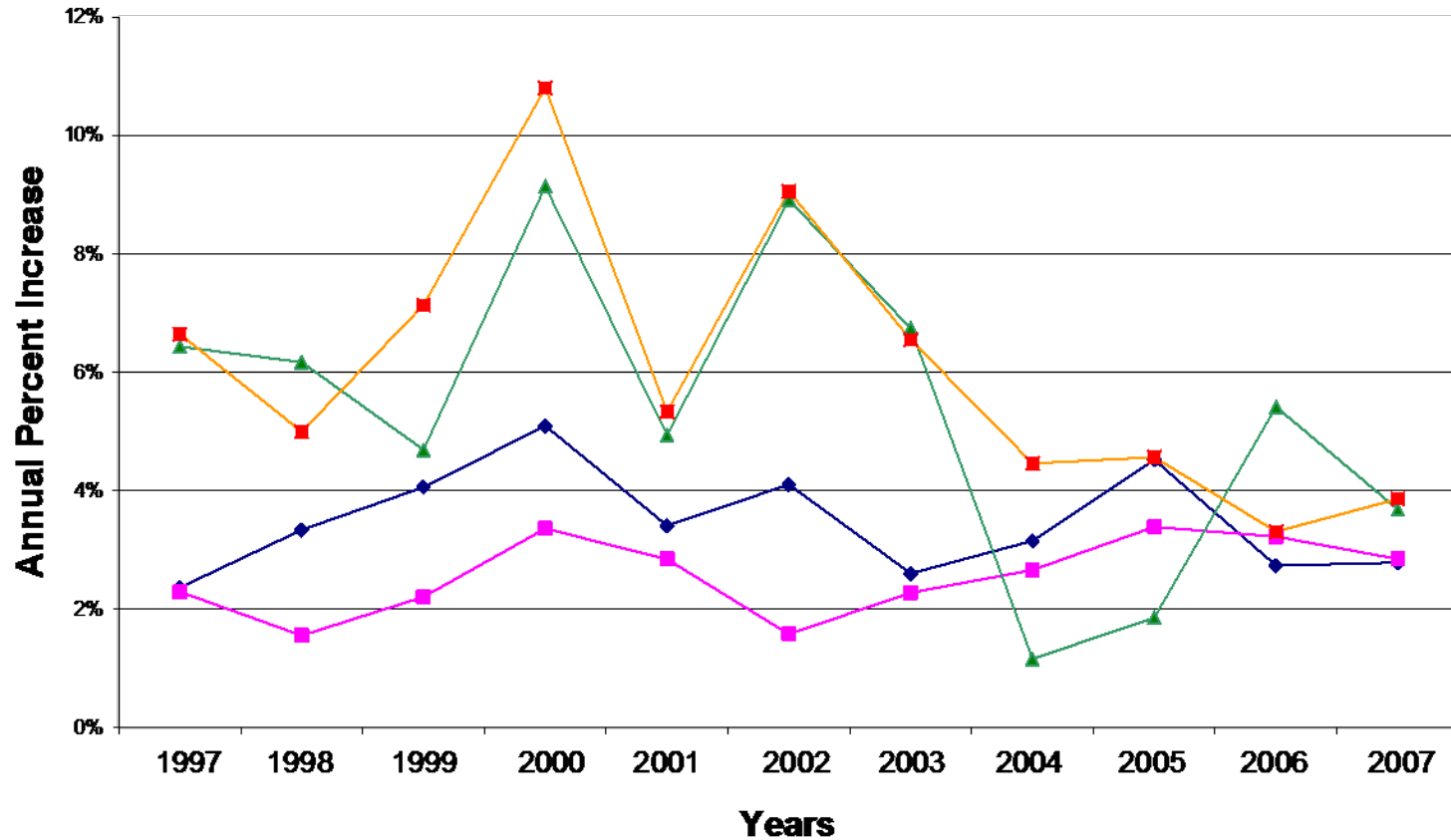
# The Study Included:

- A review of Nebraska's current nursing facility reimbursement system.
  - Facilitation of stakeholder involvement to identify and maximize areas of consensus.
  - A review of other state Medicaid nursing facility reimbursement systems and current national trends.
  - Recommendations for improvements to the Nebraska nursing facility reimbursement system.
  - Recommended steps for transitioning to a selected alternative reimbursement system.
-

### AVERAGE COST PER DAY



## Cost Increases and Inflation Indices



- ◆ Nursing Home Market Basket Without Capital
- CPI-Urban
- ▲ Average Facility Costs Per Day - Douglas, Lancaster, Sarpy, Washington
- Average Facility Costs Per Day - All Other Counties

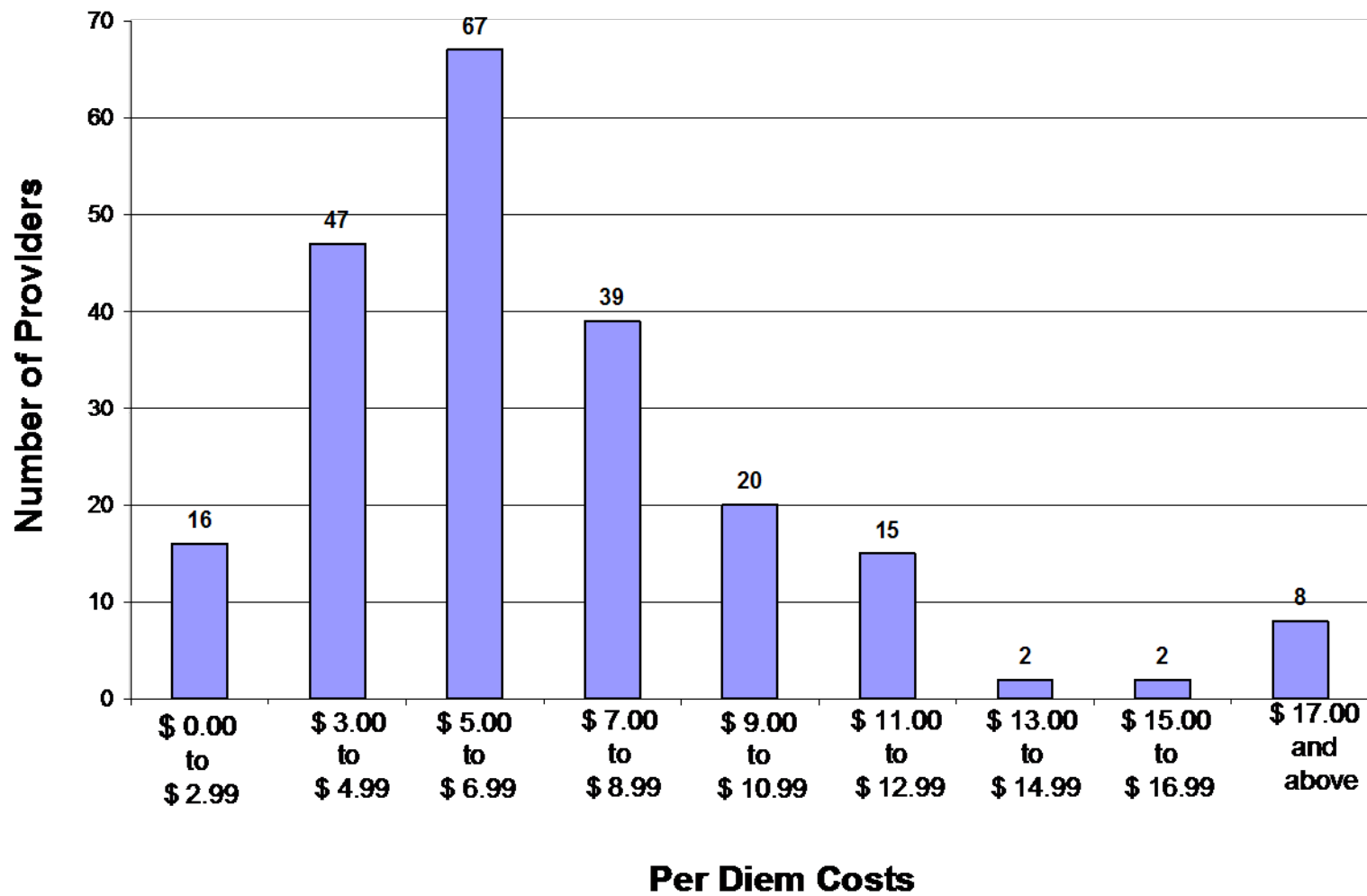


---

# Medicaid Costs Identified in Medicare Cost Reports

- In the aggregate, our analysis indicates that cost recognized by the Nebraska Medicaid program exceeds what would have been identified had Medicare cost report HCRIS data and cost finding principles been used.
  - This analysis did not show a bias in the Medicaid cost finding and/or cost report review methodology or otherwise suggest changes are needed to the state's audit and/or desk review methodology.
-

# Fixed Costs



# Current System

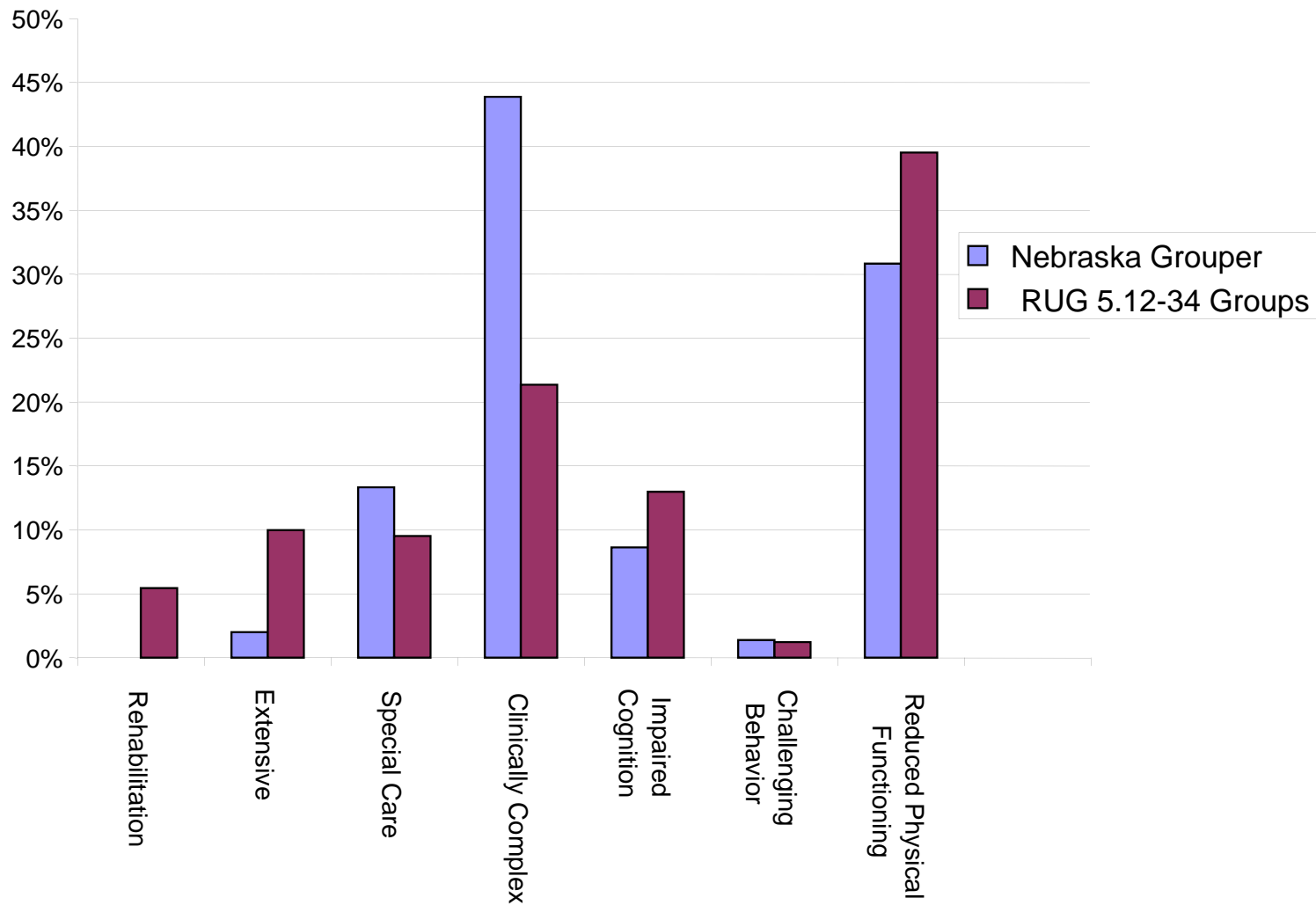
- Prospective and cost-based.
  - Costs from the June 30, 2007 cost reports plus 4 percent inflation were used to establish rates effective from July 1, 2008, until June 30, 2009.
- Incorporates a resident-specific case mix adjustment.
  - The Nebraska specific case mix classification methodology is a collapsed version of the CMS 5.01 RUG algorithm.
- The Direct Nursing Component is comprised of nursing salaries and benefits.
  - Per diem costs are established using resident days weighted by the Nebraska specific case mix weights. A maximum rate per diem is set at 125 percent of the median cost plus inflation. Rates will include the lower of the provider's per diem or the rate maximum.

---

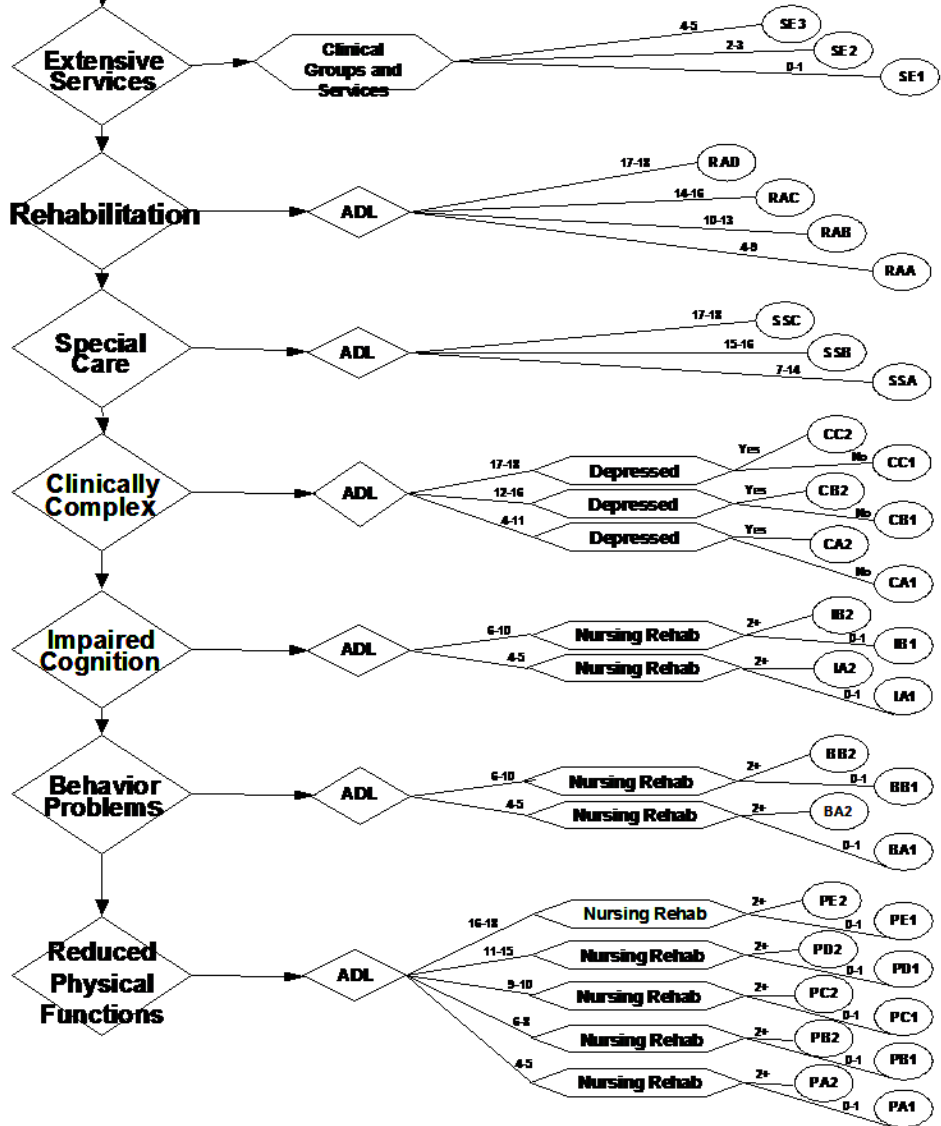
# Current System

- The Support Service Component is comprised of all non-direct nursing and non-fixed costs.
    - Per diem costs are established using actual resident days with the maximum per diem set at 115 percent of median plus inflation. Rates will include the lower of the provider's per diem or the rate maximum.
  - The Fixed Cost Component includes depreciation, interest, amortization and rent, personal property and real estate taxes.
    - Per diem costs are established using actual resident days with the maximum set at \$26.00 per day, excluding personal property and real estate taxes. Depreciation recapture provisions apply when a facility is sold.
  - Special Needs contracts address the higher reimbursement requirements.
-

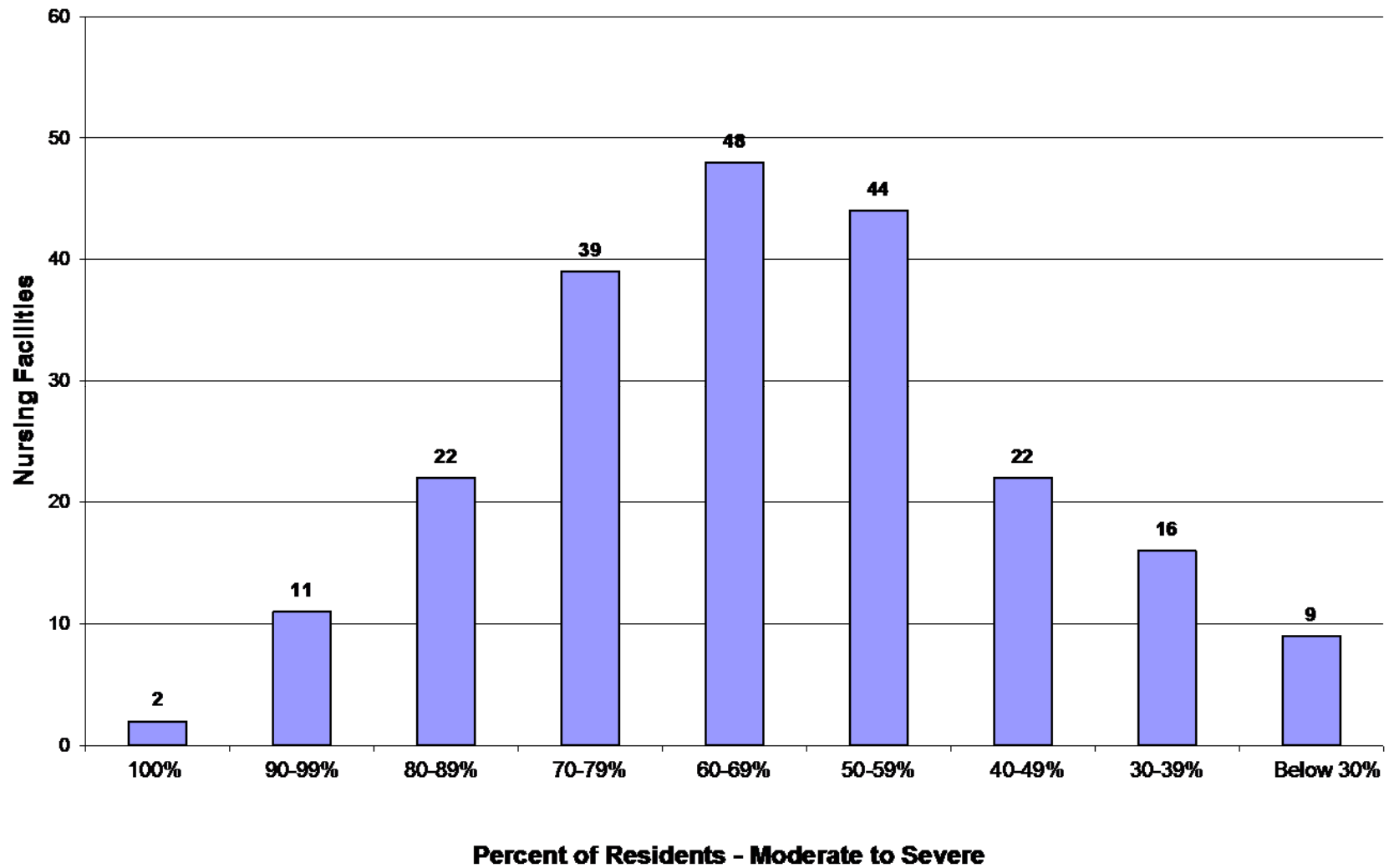
## Patient Acuity Measurements Most Current Assessment as of 3/31/08



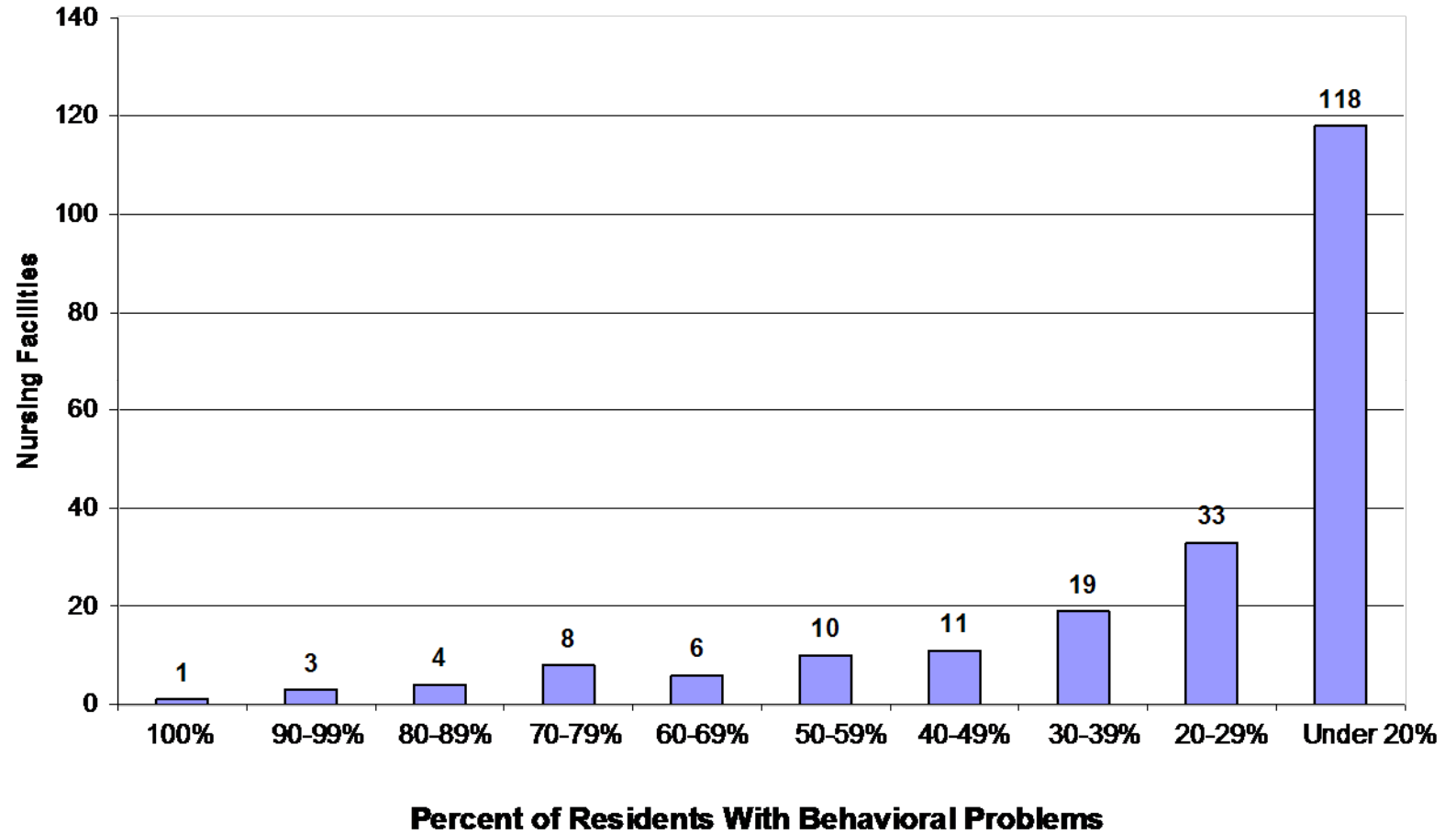
**MDS Assessments**



## Cognitive Impairments in Nursing Facility Residents



## Behavioral Problems



---

# Special Needs Program

- Specialized units developed for clients with complex or intensive medical/nursing needs that exceed services ordinarily provided in a nursing facility.
    - Ventilator dependent
    - Acquired a traumatic brain injury
    - Pediatric clients
    - Clients with excessive amounts of supplies, equipment, and/or therapies
  - All special needs services clients must have prior approval and reviewed on a quarterly basis.
-

---

# Special Needs Program

## ■ Providers

- Must be licensed
  - Must demonstrate the capacity/capability to provide highly skilled multi-disciplinary care
-

---

# Stakeholder Involvement

- Three onsite meetings
    - North Platte
    - Kearney
    - Lincoln
  - Total attendance for all three sessions of 96 participants.
-

---

# Stakeholder Involvement

- Session included
    - Overview
      - Project's goals and objectives
      - Current Nebraska nursing home reimbursement system
      - Current trends in Medicaid reimbursement, and reimbursement components in surrounding states
    - Updates
      - National trends in rewarding for quality in nursing home payment systems
      - Anticipated implementation of the MDS 3.0
      - Results of Staff Time and Resource Intensity Verification and Evaluation (STRIVE) time study and the post acute payment demonstration
-

---

# Reimbursement Systems Major Policy Options

- Prospective vs. retrospective.
  - Cost-based (provider dependent) vs. price (provider-independent).
  - Rate component methodologies.
  - Acuity adjustment techniques.
  - Capital reimbursement methodology.
  - Reimbursement for special populations.
-

---

# Development of the Model

- Data sources for Interactive Workbook
    - Cost Data - Cost reports ending June 30, 2007.
    - Inflation - The DRI-WEFA Total Skilled Nursing Home Market Basket, Fourth Quarter 2008.
    - CMI – RUG-34 using the standard grouper case mix indices 1991, 1995 and 1997 time studies.
    - Cost Normalization - Removing cost variations associated with different levels of resident case mix.
    - Weighted Median - The per diem cost of the nursing facility that falls at the median of all resident days.
-

---

# Development of the Model

## ■ Components

- ❑ Four cost components: direct care costs, care related costs, administrative and general and capital (fixed) costs.
  - ❑ Each line of the Medicaid cost report was assigned to one of the four components.
  - ❑ The direct care cost center is the only cost center adjusted for case mix.
-

---

# Development of the Model

## ■ Components

- The interactive model calculates a price or cost limit for the direct care, care related and administrative and general cost centers:
  - Total Rate = Direct Care (case mix adjusted) + Care Related (non-case mix adjusted) + Administration and Operating + Property (FRV)



---

# Development of the Model

- Parameters - The interactive model provides for the application of the following parameters:
    - Different assignment of costs to one of the cost centers.
    - Different percentages of the median cost per diem to calculate the price or limit.
    - Different minimum occupancy limits.
    - The option of an incentive allowance under a cost-based system and a corresponding percentage.
    - The option of a provider tax and the corresponding tax per diem.
    - Inclusion or exclusion of Medicare days in the provider tax calculation.
    - FRV options to include depreciation rate, rental factor and minimum occupancy (pass through of real estate taxes).
-

# Development of the Model

- Additional Parameters –
  - Geographic adjustment
    - The reimbursement system model allows users to either include or exclude a geographic adjustment factor.
  - Government Providers
    - The reimbursement system model allows users to select a cost-based pass-through payment for government providers who frequently serve as safety net providers and may be less cost-competitive than other for-profit or non-profit nursing facilities.
      - If the government owned facility's model rate is less than their cost, a pass-through payment is calculated that bring their rate equal to costs. The pass-through rate is matched using Certified Public Expenditures (CPE). This means that there is no contribution to the rate using state funds, but rather the net additional reimbursement, above the reimbursement system's model rate, is limited to the federal share of the pass-through amount.

---

# Recommendations

- ***Option 1***
  - ***Adopt a price-based reimbursement for nursing facility services***



---

# Recommendations

- ***Option 2***
  - ***Continue the cost-based reimbursement system, with modifications***



---

# Additional Recommendations

- Utilize Medicaid 34 RUG case mix classification system and develop CMI using federal time study data.
  - Adopt a fair rental value capital reimbursement system.
  - Continue to utilize existing cost reporting forms, reporting cycles and desk review/audit processes.
  - Continue to use resident-specific case mix reimbursement.
  - Continue to utilize special rate contracts for extremely heavy care patients to ensure access to care, but evaluate Medicare payment levels when negotiating contract rates.
  - Adopt quality of care feature for the nursing facility reimbursement system to continue to encourage adequate direct care staffing and resident/guardian satisfaction levels.
-

## Cost Classification Summary

<b>Cost Description</b>	<b>Current System</b>	<b>Price-Based Option 1</b>	<b>Cost-Based Option 2</b>
Real Estate/Personal Property Tax	Fixed	FRV Pass through	FRV Pass through
Amortization Costs: Start Up, Organization, Bond and Gain/Loss	Fixed	FRV	FRV
Depreciation	Fixed	FRV	FRV
Interest	Fixed	FRV	FRV
Long Term Leases	Fixed	FRV	FRV
Activities	Support	Care Related	Care Related
Food	Support	Care Related	Care Related

## Cost Classification Summary

<b>Cost Description</b>	<b>Current System</b>	<b>Price-Based Option 1</b>	<b>Cost-Based Option 2</b>
Medical Records Salaries/Benefits	Direct Care	Care Related	Care Related
Nursing Dues	Support	Care Related	Care Related
Nursing Education & Training	Support	Care Related	Care Related
Nursing Equipment Rental	Support	Care Related	Care Related
Nursing Oxygen	Support	Care Related	Care Related
Nursing Supplies	Support	Direct Care	Direct Care
Nursing Travel	Support	Care Related	Care Related
Recreation	Support	Care Related	Care Related
Social Service/Activities Consultant	Support	Care Related	Care Related
Social Services	Support	Care Related	Care Related
Transportation	Support	Care Related	Care Related

# Parameters – Option 1 - Price

<b>Modeling Parameters</b>	<b>Price-Based Option 1</b>
Acuity Adjustment	RUG 34
Direct Care	110%
Care Related	110%
Administrative and Operating (Support)	105%
Geographic Adjustment Include in Rate	Yes
Percent of Limit/Price to Adjust	70%

# Retail Value Option 1 - Price

Nursing Home Value per Bed (FRV Model)	\$73,500
Average Cost Indices - all NE cities	.8846
Percent Increase for Land	7.5%
Value per Bed for Equipment	\$4,000
Depreciation Rate per Year (age)	2%
Maximum Age	30
Rental Factor	6.5%
Minimum Occupancy	85%

# Parameters Option 1- Price

Minimum Occupancy	None
Public Provider Pass-Through	Yes
Direct Care	Price
Care Related	Price
Administrative and Operating	Price
Tax per Day	\$4.65
Exclusion of Medicare Days	No

# Model Findings Option 1 - Price

<b>Direct Care</b>	
Price/Limit before Geographic and Case Mix Adjustment	\$81.29
Price/Limit After Geographic and Case Mix Adjustment:	
Average	\$77.50
Low	\$58.90
High	\$125.22
Medicaid Paid Day Weighted Average	\$78.45
Percent of Providers Subject to Price/Limit	34%

# Model Findings Option 1 - Price

<b>Care Related</b>	
Price/Limit Before Geographic Adjustment	\$16.86
Price/Limit After Geographic Adjustment:	
Average	\$16.71
Low	\$16.48
High	\$17.82
Medicaid Paid Day Weighted Average	\$16.86
Percent of Providers Subject to Price/Limit	32%

# Model Findings Option 1 - Price

<b>Administrative and Operating</b>	
Price/Limit Before Geographic Adjustment	\$48.63
Price/Limit After Geographic Adjustment:	
Average	\$48.20
Low	\$47.52
High	\$51.41
Medicaid Paid Day Weighted Average	\$48.63
Percent of Providers Subject to Price/Limit	42%

# Model Findings Option 1 - Price

<b>Capital</b>	
Price/Limit:	
Average	\$9.33
Low	\$5.24
High	\$18.21
Medicaid Paid Day Weighted Average	\$9.20
Percent of Providers with Higher Current Rate	17%

---

# Model Findings Option 1 - Price

- **Total Modeled Rate**
  - Percent of Providers with Rate Increases 78%



# Fiscal Impact – Option 1 - Price

Federal Share	59.54%
State Share	40.46%
Estimated Public Provider Pass-Through funded with CPE	\$10,584,386
Total Estimated Program Expenditures	\$403,951,274
State Share Impact	\$21,114,462
Provider Tax Revenue	\$21,170,599
Net State Impact	\$56,137

# Parameters Option 2 Cost-Based

<b>Modeling Parameters</b>	<b>Cost-Based Option 2</b>
Acuity Adjustment	RUG 34
Direct Care	112%
Care Related	112%
Administrative and Operating (Support)	105%
Geographic Adjustment	Yes
Percent of Limit/Price to Adjust	70%

# Parameters Option 2 Cost-Based

Minimum Occupancy	None
Public Provider Pass-Through	Yes
Efficiency Incentive Direct Care	0%
Efficiency Incentive Care Related	0%
Efficiency Incentive Administrative and Operating	25%
Tax per Day	None
Exclusion of Medicare Days	N/A

# Retail Value Option 2 Cost-Based

Nursing Home Value per Bed (FRV Model)	\$73,500
Average Cost Indices - all NE cities	.8846
Percent Increase for Land	7.5%
Value per Bed for Equipment	\$4,000
Depreciation Rate Per Year (Age)	2%
Maximum Age	30
Rental Factor	4.5%
Minimum Occupancy	85%

# Model Findings Option 2 – Cost-Based

<b>Direct Care</b>	
Price/Limit Before Geographic and Case Mix Adjustment	\$82.77
Price/Limit After Geographic and Case Mix Adjustment:	
Average	\$69.24
Low	\$40.84
High	\$127.50
Medicaid Paid Day Weighted Average	\$69.88
Percent of Providers Subject to Price/Limit	48%

# Model Findings Option 2 – Cost-Based

<b>Care Related</b>	
Price/Limit Before Geographic Adjustment	\$17.17
Price/Limit After Geographic Adjustment:	
Average	\$14.67
Low	\$5.90
High	\$17.17
Medicaid Paid Day Weighted Average	\$14.80
Percent of Providers Subject to Price/Limit	27%

# Model Findings Option 2 – Cost-Based

<b>Administrative and Operating</b>	
Price/Limit Before Geographic Adjustment	\$48.63
Price/Limit After Geographic Adjustment:	
Average	\$45.70
Low	\$32.41
High	\$51.41
Medicaid Paid Day Weighted Average	\$46.12
Percent of Providers Subject to Price/Limit	42%

# Model Findings Option 2 – Cost-Based

## Capital

Price/Limit:

Average	\$6.67
Low	\$3.63
High	\$14.54
Medicaid Paid Day Weighted Average	\$6.59
Percent of Providers with Higher Current Rate	49%

---

# Model Findings Option 2 – Cost-Based

- **Total Modeled Rate**

- Percent of Providers with Rate Increases 72%



# Fiscal Impact Option 2 – Cost-Based

Federal Share	59.54%
State Share	40.46%
Estimated Public Provider Pass-Through funded with CPE	\$11,962,619
Total Estimated Program Expenditures	\$351,735,345
State Share Impact	\$12,103
Provider Tax Revenue	0
Net State Impact	\$12,103

---

# Transition

- **State/Provider Work Group**
  - **Implementation Issues**
    - **Keeping Reimbursement within Appropriated Levels**
    - **Administrative Rule Making and State Plan Requirements**
    - **Phase-in or Hold Harmless Provisions**
    - **Administrative Issues**
    - **Appeals**
  - **Future Considerations**
    - **Transition-MDS 3.0 and RUG IV**
-

---

# Questions and Comments:

- Reasoning for reducing the caps from 125% to 112% or 110% for direct care & care related?
  - Why was food included in care related, but not dietary labor?
  - Why include an incentive factor in the A&G cost center?
-

---

# Questions and Comments:

## ■ Fair Rental Value Questions:

- Where does the bed value come from?
  - Where does the average cost index come from?
  - Would these values be updated annually?
  - Should the value of land & equipment be included?
  - Shouldn't 100% be used as minimum occupancy?
  - Why a different rental rate for price & cost model?
-

---

# Questions and Comments:

## Questions Regarding the Price-Based Option

- Should there be a cap on profit?
  - Are there risks with a provider tax program?
  - Should the Medicaid rate be limited to the private pay rate?
  - Does this system reward providers that have not invested in their building and/or staff?
-

---

Questions and Comments:

**Additional Questions & Comments**

---