NURSING HOME PAYMENT REFORM STUDY

Interim Human Services Committee
Caprice Knapp, Medicaid Director
August 12, 2020
SB 2012 required the Department of Human Services to “appoint a committee to advise the department on the development of the revised payment methodology for nursing facility services”

Report is due to the interim Human Services Committee in October 2020
Department of Human Services staff, members of the Long Term Care Association (LTCA), along with a consultant hired by LTCA have met nine times since 2019.

Meetings focused on:
- Alternative pricing model for care (including direct, indirect, and other care) and an
  Alternative property model.
- Members of the working group also discussed a quality payment model and impacts of the COVID-19 pandemic
- Progress was reported to the Human Services Interim Committee on September 12, 2019
PRICING
MODEL
REFORM
The goal of the pricing model reform was to develop an overall *budget neutral* payment methodology that would:

- Reduce variation among facilities
- Dampen the growth in nursing home spending over time
- Encourage efficiency across the system
$ per category for case-mix index of 1.00 by facility

- **Direct** Care Rate is based on costs associated with nursing and therapy services (compensation, supplies, equipment and training)
- **Other Direct** Care Rate is based on costs for food, dietary supplements, laundry, social service and activities
- **Indirect** Care Rate includes costs associated with administration, plant operation, housekeeping, dietary, chaplain, pharmacy services and medical records
- **Property** Rate includes depreciation, interest expense, property taxes, lease and rental costs, start-up costs, reasonable legal expenses, higher education expense and bad debt expense
- Operating Margin (OM) provides a 3% increase to the direct care and other direct care rates as an operating margin for all facilities
- **The incentive** is calculated at 70% of the difference between the facility’s actual rate without inflation and the limit rate as of the cost report year-end for indirect care, up to a maximum of $2.60 per day.

Source: 2017 DHS Nursing facility cost reports & 2018 rate-setting summary
MORE THAN ~83% VARIATION IN PAYMENT TO FACILITIES PER RESIDENT DAY FOR SAME ACUITY LEVEL

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**Variation exists across all spend categories, but primary driver is direct care spend, w/ +/- 16% std. deviation from mean**
ND DIRECT CARE RATES EXCEED MN DIRECT CARE RATES, WITH ND 25TH PERCENTILE HIGHER THAN MN 90TH PERCENTILE

MN 2019 Rates (based on 9/30/17 year end cost reports)
$ per acuity-adjusted resident-day

ND 2019 Rates (based on 6/30/18 year end cost reports)
$ per acuity-adjusted resident-day

ND vs MN Distribution of Rates
$ per acuity-adjusted resident-day

REDUCE VARIATION AMONG FACILITIES
DAMPEN THE GROWTH IN NURSING HOME SPENDING OVER TIME

Average Rates by Year
Average Daily Nursing Home Rate per resident day in USD at the end of each State Fiscal Year

Source: DHS
NEW PRICING MODEL FEATURES

CURRENT COST METHOD VS PRICE METHOD
NEW PRICING MODEL FEATURES

Current Cost Method
- No incentive to reduce cost
- Rates are not predictable

Price Method
- Incentive to reduce cost
- Rates are predictable
NEW PRICING MODEL FEATURES

PRICE METHOD WITH 3.46% MARGIN OR ~ DIRECT AND OTHER DIRECT AT 120% AND INDIRECT AT 110%
NEW PRICING MODEL FEATURES

- Although the new system is budget neutral overall, there will be some facilities that fall above and below the pricing levels.
- Those that have lower costs than the pricing level will “gain” in the new system.
- Those that have higher costs than the pricing level will “lose” in the new system. To combat this loss, it is recommended that a hold harmless provision be used to supplement these losses.

This is also true in the current system: 20 > direct care limit, 26> indirect limit, 21> other direct limit.
NEW PRICING MODEL FEATURES

Rebasing Frequency
Currently every 4 years
- Nationwide periods are between 2 – 4 years
- Recommended 2 years, but only in the beginning of the new pricing model. Re-assess to determine ongoing frequency.

Inflation
Currently established each legislative session
- Maintain Legislature setting or Skilled Market Index
- Recommended Skilled Market Index
INFLATION COMPARISON

SFY 2019

Legislature 2%

Skilled Market (adj) 2%

SM (no adj) 2.8%

SFY 2018

0% 2% 2.6%
NEW PRICING MODEL FEATURES

- DHS & LTCA have discussed start date (1/1/2022), interest rate, rebasing frequency, and targeted operating margin.

- In the first year under the new pricing model, rebasing will occur. This will determine the final operating margin and the hold harmless amount.

- DHS recommends 2, 2-year rebasing cycles to start the program and allow for quick adjustment to operations. After that the rebasing frequency can be re-assessed.

- To really understand the implications for the state and the facilities, we need 4 years of experience using the agreed upon parameters.
PROPERTY MODEL
CURRENT PROPERTY MODEL

- Calculated annually based on historical cost
- No limit rate
- No inflation factor
- 2019 rates range from $4.85 - $69.85 per day
Property Rate Payment by Facility
$ per occupied per bed-day for “Property” cost category (includes pass-throughs)\(^1\)

1 Pass-throughs are typically very small (~$2-5) compared to depreciation and interest expense
Source: Nursing facility cost reports

\(^{1}\) Debt-service payment on 253k of debt (single bed limit)
\(^{2}\) 1-Bdr Fair Market Rent (FMR) in most expensive ND market
\(^{3}\) Debt-service payment on 169k of debt (double-bed limit)
\(^{4}\) 1-Bdr FMR in median ND market
CURRENT PROPERTY MODEL

Double Bed Construction Limits by Year
Limit per double bed in thousands of $

- ND
- RS Means Indexed\(^1\)

Single Bed Construction Limits by Year
Limit per single bed in thousands of $

- ND
- RS Means Indexed\(^1\)

1 RS Means index is established using ND specific data; this index is commonly used in nursing facility reimbursement mechanisms to provide inflation relative to market

Source: RS Means, ND DHS
NEW PROPERTY MODEL FEATURES

- Called Fair Rental Value System (FRVS)
- Price for use of space irrespective of actual accounting cost
  - Economic value vs. financial accounting value
- Price = Facility value which increases over time based on replacement cost and proper upkeep times a rental rate
- Value based upon professional standards
  - Professional market appraisal
  - Proxy appraisal – Simulated appraisal value using commercial valuation systems such as Marshall Swift/Boeckh or RS Means
- Does not eliminate the need for minimum occupancy thresholds
WHY FRVS?

A well-designed fair rental value system will:

- Differentiate reimbursement based upon age/condition
- Provide incentives to generate capital resources for renovation, improvement and replacement
- Encourage investment in physical plant upgrades and renovations
- Impact the physical environment that can result in improvement of resident quality of life
- Simplify administration and allow the State to exert reasonable budget predictability and control
August 11, 2020 was the most recent meeting of the work group.

There are three primary factors that drive the property model: square footage (which will be determined through a facility survey), FRV rental rate (determined by RSMeans and can be adjusted), and location factor.

Next steps: LTCA conference August 27th to review with members the study progress to date, week of September 7th final meeting between DHS and LTCA to provide member feedback and vote on parameters.
Future Legislative Discussion Related to COVID-19

- Federal grants that were reported and how they should be addressed in cost reporting

- Minimum occupancy threshold

- Note that CMS has been asked to provide guidance on how federal grants should be treated.