

# Assessing payment adequacy and updating payments: Skilled nursing facility services

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# Outline of presentation

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

# Overview of the SNF industry in 2015

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- 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

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

# Access: supply adequate and stable in 2014

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<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

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

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# Service mix reflects biases of the PPS design

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<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.  
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# Access to capital is adequate

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- 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

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

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# High-margin SNFs pursue cost and revenue strategies

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- 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

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- 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%

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

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- 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?

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- 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

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

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