

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

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# Presentation roadmap

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# Overview of SNF use and spending, 2022



**SNFs**

14,700



**Medicare share of facility days**

10% (median)



**Services**

1.8 million stays



**Payments for SNF services**

\$29 billion (SNF + swing beds)

**Note:** SNF (skilled nursing facility)

**Source:** MedPAC analysis of Medicare Provider Analysis and Review data

# Patient Driven Payment Model (PDPM) changes and effects

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- New PDPM payment system implemented in October 2019
  - Improved targeting of payments for medically complex patients
  - Therapy payments based on function and diagnosis
- After PDPM, minutes of therapy declined
- PDPM increased payments to SNFs starting in FY 2020 by an estimated 4.6% above budget neutral amount
  - CMS did not correct for the excess payments until 2023 and 2024, when it made a –2.3% adjustment in each year
  - payments in 2020–2022 were not recouped

# FFS Medicare payment adequacy framework: SNFs



## Beneficiaries' access to care

- Supply and capacity
- Volume of Medicare services
- FFS Medicare marginal profit



## Quality of care

- Discharge to community
- Potentially preventable readmissions
- Staffing ratios and turnover



## Access to capital

- All-payer margin
- Transaction activity



## Medicare payments and costs

- FFS Medicare margin
- Projected FFS Medicare margin

**Update recommendation for SNF base rates**

**Note:** FFS (fee-for-service), SNFs (skilled nursing facilities).

# Access: Supply declined slightly, occupancy and use per FFS beneficiary increased

## Number of SNFs declined

- Number of SNFs declined about 1%; certified beds declined less than 1% in 2023
- Sector employment growing, but remained below pre-pandemic levels in 2023

## Occupancy increased

- Median facility occupancy: 81% in September 2023
- Pandemic low occupancy: 69% in January 2021
- Prepandemic occupancy: 85% in 2019

## Users per FFS beneficiary increased

- SNF admissions and days per FFS beneficiary increased more than 10% in 2022
- Share of acute care hospital discharges going to SNFs increased in 2022

**Note:** FFS (fee-for-service), SNF (skilled nursing facility).

**Source:** MedPAC analysis of data from CMS's Quality, Certification and Oversight Reports (QCOR), Common Medicare Environment (CME), SNF cost reports, monthly COVID-19 nursing home reports, and the Bureau of Labor Statistics.

# Access: Medicare marginal profit on SNF services was high in 2022



27%

With marginal profit of 27% on average, SNFs with available capacity have a financial incentive to serve FFS Medicare beneficiaries

**Note:** FFS (fee-for-service). We calculate SNFs' FFS Medicare marginal profit by comparing Medicare's SNF payments with the variable cost of treating an additional FFS Medicare patient.

**Source:** MedPAC analysis of Medicare freestanding SNF cost reports.



# Quality: Discharge to community rates and staffing ratios show slight decline compared to pre-pandemic

Claims-based measures	Median facility rate, 2018-2019	Median facility rate, 2021-2022
Discharge to community	51.7	50.7
Potentially-preventable readmissions	N/A	10.4

Staffing measures	Median facility value, 2019	Median facility value, 2022
Nursing HPRD	3.7	3.6
RN HPRD	0.59	0.57
12-month nurse turnover rate (%)	N/A	53

- Claims-based measures: The median facility risk-adjusted rate of discharge to the community declined slightly
- Staffing measures: Median facility total nurse and RN staffing ratios declined slightly

**Note:** HPRD (hours per resident day), RN (registered nurse).

**Source:** MedPAC analysis of claims-based quality measures and quarterly staffing measures from CMS's provider data catalog.



# Quality: Gaps in quality data persist

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- Patient experience data are not collected for SNFs
- Patient function is a key post-acute care outcome
  - The Commission has questioned the accuracy of function information reported by PAC providers and discussed strategies to improve function data (June 2019)
  - Measuring function is important under PDPM to monitor effects of reduction in therapy

# Access to capital: Investor interest in sector remains, all-payer margins fell in 2022

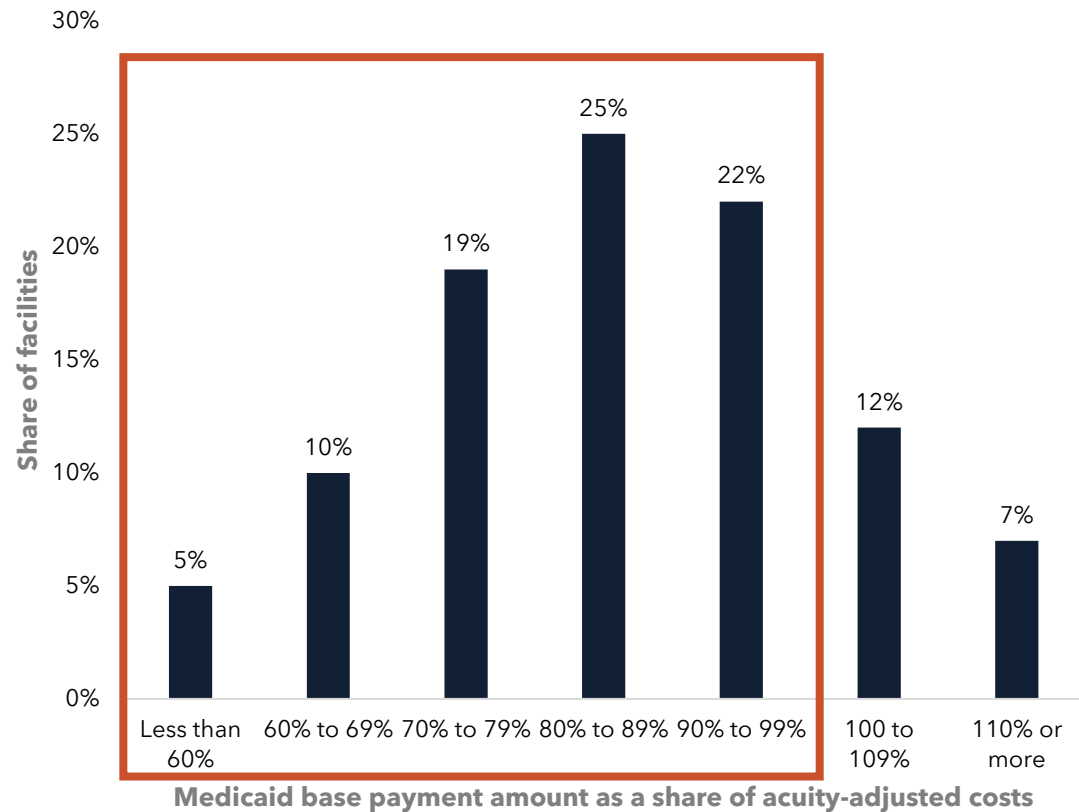
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- Reported SNF transactions
  - Fewer transactions, involving more facilities in 2022 compared to 2021
  - Average price per bed hit record high in 2022 compared to 2021
- HUD financed fewer projects in 2023 compared to 2022, but the amount of financing was about the same in each year (~\$3 billion)
- All-payer margin for freestanding SNFs fell in 2022 to -1.4%
  - Half of SNFs had negative total margins
  - Overall financial performance of this sector is heavily influenced by states' Medicaid nursing home rates

**Note:** SNF (skilled nursing facility). HUD (US Department of Housing and Urban Development).

**Source:** MedPAC analysis of data from Irving Levin Associates, HUD, and Medicare freestanding SNF cost reports.

# MACPAC: Medicaid base nursing facility payment amounts vary widely as a share of acuity-adjusted costs



- MACPAC study: At the median, Medicaid base rates (not including supplemental payments) were 86% of SNFs' costs in 2019
- Study highlighted numerous data limitations; MACPAC recommended improvements to cost and payment data collection

**Source:** Medicaid and CHIP Payment and Access Commission (2023). Report to the Congress on Medicaid and CHIP. Washington, DC, MACPAC.

# Freestanding SNFs' payments per day increased more than costs per day in 2022

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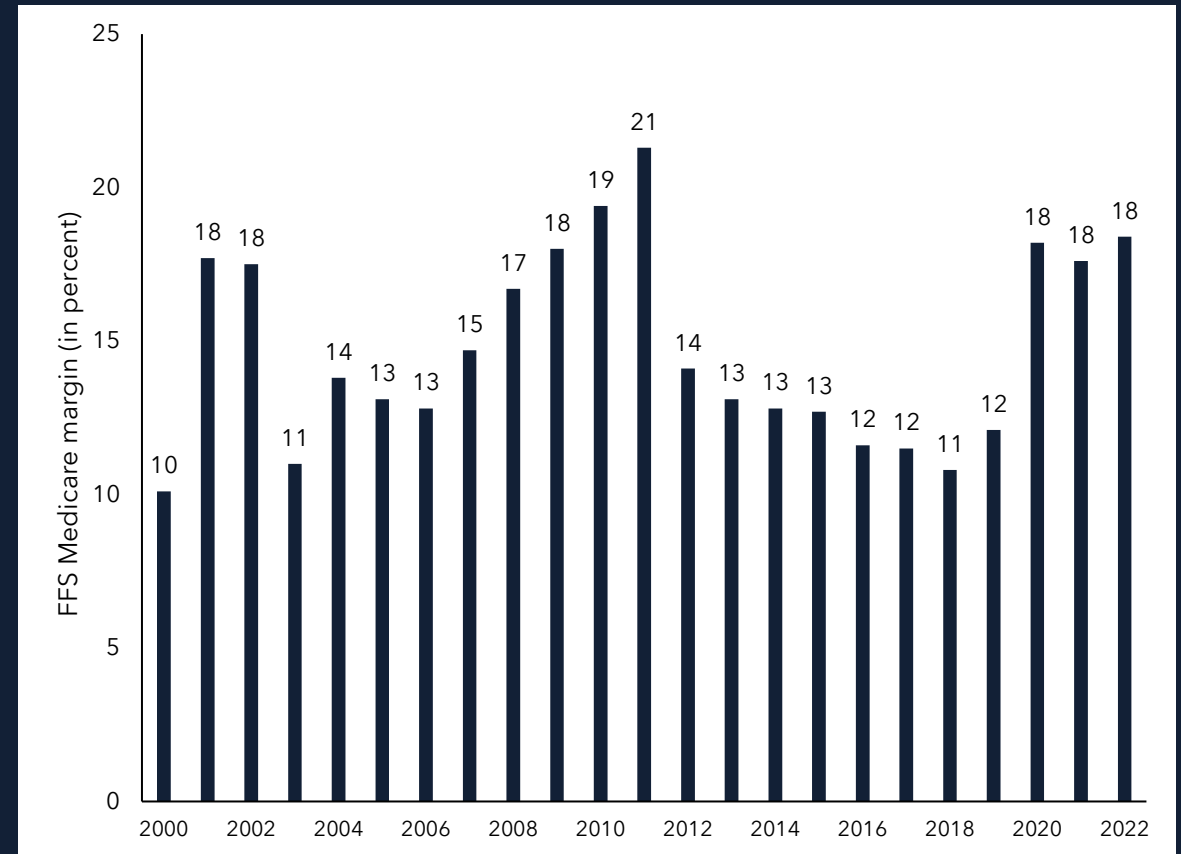
- Average payment per day increased 2.2%
- Average cost per day increased 1.7%
  - More covered days over which to spread fixed costs
  - Higher-than-historical average growth in routine costs per day
  - Partially offsetting reductions in ancillary costs per day

**Note:** FFS (fee-for-service), SNF (skilled nursing facility).

**Source:** MedPAC analysis of Medicare freestanding SNF cost reports.

# FFS Medicare margins for freestanding SNFs remained high in 2022

Provider type	FFS Medicare margin
All (interquartile range)	18.4% (4.4 –28.9)
Nonprofit	1.1
For profit	22.0
Urban	18.5
Rural	17.5



**Note:** FFS (fee-for-service). SNF (skilled nursing facility)  
**Source:** MedPAC analysis of Medicare freestanding SNF cost reports.

# Summary: SNF payment adequacy indicators



## Beneficiaries' access to care

- Slight decrease in supply
- Employment below pre-pandemic levels
- Increased volume and occupancy indicate available capacity post-pandemic
- 2022 FFS Medicare marginal profit: 27%



## Quality of care

- Small decline in facility rate of discharge to the community
- Small decline in total nurse and RN staffing



## Access to capital

- Continued investor interest in the sector
- Record high price per bed
- 2022 all-payer margin: -1.4%



## Medicare payments and costs

- 2022 FFS Medicare margin: 18.4%

**Note:** SNF (skilled nursing facility), FFS (fee-for-service).



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