

# The Future of Medicaid Payment for Skilled Nursing Facilities in Nebraska

**F**or the last several decades, Nebraska Medicaid has reimbursed nursing facilities based upon their costs. However, recent market shifts, both in Nebraska and at the federal level, have made this less attractive as nationally the industry is moving to value-based purchasing and paying for quality instead of quantity.

Building on the recommendations made to the Department in the Long-Term Care redesign report released in August 2017, this concept paper outlines the goals of the Department regarding the future payment methodology for skilled nursing facilities.

Nebraska Medicaid is committed to the principles of the Quadruple Aim:

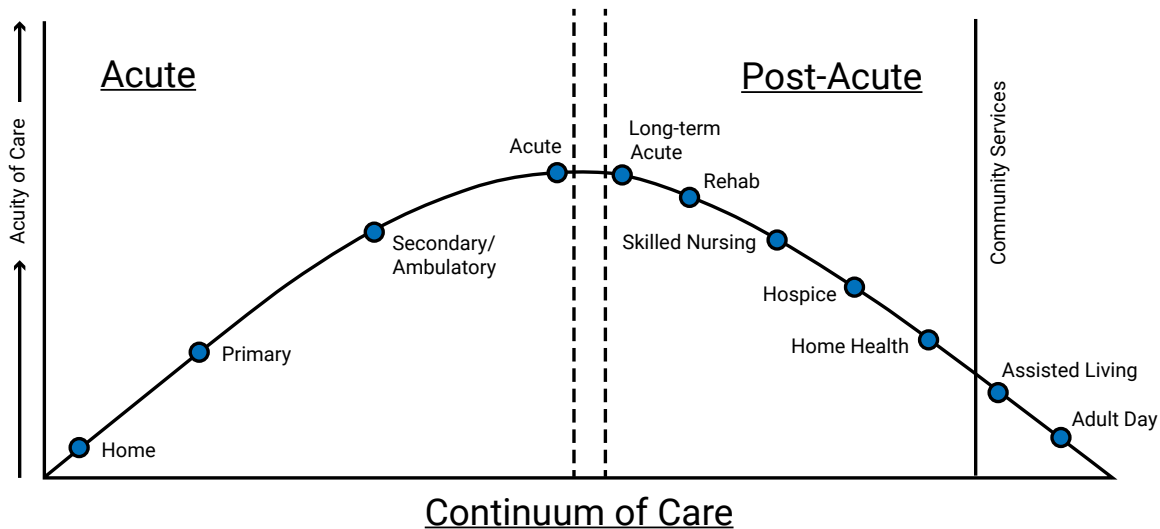
1. Improving the patient experience of care (including quality and satisfaction),
2. Improving the provider experience of care (including quality and satisfaction),
3. Improving the health of populations; and
4. Reducing the per capita cost of health care.

The best way to fulfill these principles is to use a pay-for-performance reimbursement methodology as a transition to a full managed long-term care program for the aged and disabled populations (excluding persons with developmental disabilities). The Division of Medicaid and Long-Term Care is engaging stakeholders on this concept with specific questions at the end of this document.

## The Continuum of Care

The health care system, over the past twenty years, has become more connected as commercial and federal payment models have incentivized different providers across the care continuum to work closer together, improving the patient's health care experience. As shown in the graphic below, the long-term care system cannot be looked at only as services delivered in skilled nursing facilities. Also included are services delivered in the home to allow persons to live independently, hospice services, and assisted living. When considering the payment methodology of nursing facilities, one cannot look at one provider type, but at the patient experience and the entire continuum of care.

While most services are delivered to Nebraska Medicaid members through the Heritage Health program, long-term care services, including the per diem payments made to skilled nursing facilities, are paid directly by the State using rates based on facility cost reports.



**Challenges**

- Scheduling and placement dictated by capacity and volume.
- Access to complete records by providers at the needed point of recall.
- Records retained by providers are not accessible across the continuum of care.

According to national Medicaid data, Nebraska’s spend per skilled nursing facility resident was above the national average of \$175.41, at \$180.22, and ranks 27th across all states. Regionally, Nebraska is consistent with neighboring states’ per-resident spend, with Iowa at 16th, Wyoming at 24th, Missouri at 26th, South Dakota 31st, Minnesota 32nd, Kansas 34th, and Colorado 39th. This demonstrates that there appears to be enough funding in the current long-term care system in Nebraska.

	<b>NF Data FY2016</b>	
<b>State</b>	<b>Spend/Resident</b>	<b>State Rank</b>
Iowa	\$ 217.32	16
Wyoming	\$ 194.32	24
Missouri	\$ 184.31	26
<b>Nebraska</b>	<b>\$ 180.22</b>	<b>27</b>
South Dakota	\$ 165.57	31
Minnesota	\$ 165.36	32
Kansas	\$ 149.10	34
Colorado	\$ 133.57	39
50 State Avg.	\$ 175.41	N/A

Source: <https://www.medicaid.gov/medicaid/ltss/downloads/reports-and-evaluations/ltssexpenditures2016.pdf>

Additionally, Medicaid is only one payer for skilled nursing facility services in an ecosystem of payers, which includes private pay, Medicare, and the Veterans Administration. Just as these payers look at ways to control the rapid growth of medical costs, while at the same time; ensuring quality services are delivered to patients, Nebraska Medicaid must do the same. The current payment methodology does not incentive quality or fiscal responsibility.

### The Current Payment Methodology

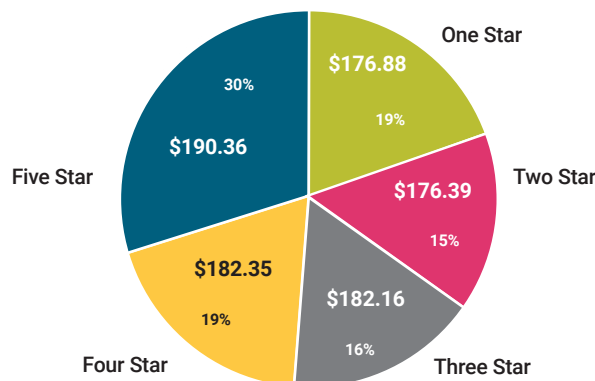
The current Medicaid payment methodology for Nebraska’s skilled nursing facilities is outlined in state regulation (471 NAC 12). These regulations require the Department to set payment rates annually for facilities on a defined cost based methodology. This formula is based on facility costs, census, and appropriation changes - it does not factor in the quality of care provided by these facilities. Because each facility’s costs are different, this methodology produces a significant range in payments to Nebraska’s skilled nursing facility providers. In the current state fiscal year, the rates range from a facility per diem of \$119.73 to \$241.09. Given the methodology is based on cost, it can produce higher rates for less efficient operations.

Another consideration in calculating rates for each skilled nursing facility is the inflation factor, as outlined in 471 NAC 12-011.08D5. This factor is used to ensure the Medicaid spending for skilled nursing facilities does not exceed appropriated funds. Because nursing facility costs have exceeded the appropriated amount over the past two years, the inflation factor has moved from an inflation factor to a deflation factor.

### Current Quality Initiatives

The federal Centers for Medicare and Medicaid Services, or CMS, has developed a five-star rating system for evaluating the quality of the nation’s skilled nursing facilities. There is an overall five-star rating for each skilled nursing facility, and a separate rating for health inspections, staffing, and sixteen different physical and clinical quality measures.

**Star Ratings of Nebraska Skilled Nursing Facilities and Average Medicaid Reimbursement**



**Note:** Only skilled nursing facilities with CMS star ratings are included on this chart. Data is current as of September 2018.

There is a \$13.48 difference between the average per diem of one star and five star facilities.

**Sources:** Nebraska Medicaid and [medicare.gov](http://medicare.gov)

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The chart above reflects rates and ratings for 2018. As shown, nearly half of Nebraska's skilled nursing facilities are performing at a four- and five-star level, while the other half are performing at a three-, two-, and one-star level. From this data there comes two conclusions: 1) Nebraska has a quality chasm; and 2) the difference between the state's top-quality performers (those at a five-star level) and the state's lowest-quality performers (those at a one-star level) provides very little incentive for providers to maintain quality, to control costs, to become more efficient, or to improve. While not a perfect system, CMS star ratings have created a nationally recognized and industry accepted market assessment tool that is accessible to all.

### **Moving Forward: Pay-For-Performance**

The State of Nebraska has an opportunity to release the skilled nursing industry and Nebraska Medicaid from the regulatory constraints of an outdated payment system that prohibits innovation and market adaptability. While providers have raised concerns regarding the cost-based methodology over the years, there has not been consensus on what changes need to be made. As a result, the methodology has been largely unchanged for decades. Nebraska Medicaid has spent several years engaging the provider community on strategies to change the payment methodology and, due to recent changes in the marketplace, this has become a high priority for Nebraska Medicaid. The current administration is committed to a payment methodology based on quality, rather than cost, and one that is predictable for both the State and providers.

Nebraska Medicaid plans to change the current cost-based methodology to a pay-for-performance model. Nebraska Medicaid believes such a model would provide greater predictability for the State and provider community, while simultaneously rewarding top performers and incentivizing lower performers to improve the quality of care delivered to patients. The first step is to remove the current payment methodology from the State's regulations, which will occur in 2019.

The move to pay-for-performance for skilled nursing facilities is also mirrored by other payers, like Medicare. In November 2018, the Centers for Medicare and Medicaid Services (CMS) announced it would be reducing the amount it reimbursed 11,000 facilities and providing bonuses for 4,000 of them based upon the number of avoidable hospital readmissions each facility had. In federal fiscal year 2019 (October 2018 to September 2019), for each Medicare patient, the best-performing facilities will receive 1.6% more. Poor-performing facilities will have payments reduced two percent for each Medicare patient. In the information released in November for Nebraska, 27% of skilled nursing facilities are to receive bonuses and 66% incentives.

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In order to assist skilled nursing facilities with this move to pay-for-performance, Nebraska Medicaid is partnering with CMS and the Nebraska Health Information Exchange (NeHIE), to provide skilled nursing providers in Nebraska cost-free access to NeHIE data for at least three years. With 73% of all Nebraska hospitals and 100% of pharmacies pushing data into the exchange, expanding access to the post-acute care nursing environment represents a monumental step forward in improving quality and coordination of care across the continuum. Access to admission, discharge, and transition data, including the medication administration record, is paramount to sound continuity of care during patient transitions. Hospitals are keenly interested in ensuring a high quality of care is delivered in skilled nursing facilities to which they refer and transition patients, as the Medicare readmission rule penalizes hospital providers for readmissions within 30 days of discharge. This federal policy change has pushed greater care coordination across the continuum of care, as well as heightened the importance of quality in the marketplace. Nebraska Medicaid's work with NeHIE will benefit the entire continuum of care in Nebraska, specifically improving the patient experience, provider experience, improving the health of populations, and reducing the per capita cost of health care by helping to avoid costly readmissions and reducing medical errors.

### **Engaging Stakeholders**

The Division of Medicaid and Long-Term Care is engaging stakeholders on the following issues.

#### **Timeline**

Nebraska Medicaid is currently working to remove the current methodology for the payment of nursing facilities from its regulations. Nebraska Medicaid is engaging stakeholders on when to implement pay-for-performance and whether there should be a transition period between the current cost-based payment methodology and the new pay-for-performance model.

#### **Base Rates**

The current cost based reimbursement can lead to a wide range of costs between different providers. Nebraska Medicaid is engaging stakeholders on what should go into calculating the base rates for skilled nursing facilities prior to any pay-for-performance bonus.

#### **Amount Tied to Pay for Performance**

As mentioned above, Medicare has recently introduced pay-for-performance measure which can impact Medicare payment positively or negatively two percent. Nebraska Medicaid is engaging stakeholders on the appropriate amount to reward high-performing skilled nursing facilities. Any pay-for-performance amount must be included in the existing appropriations for skilled nursing facility services.

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## **Difficult-to-Place Patients**

Over the past several years, Nebraska Medicaid has seen an increase in the number of individuals who, because of behavioral health issues, sexual aggressions, or cognitive impairment, are placed in inappropriate care setting (namely hospitals), when their health care needs can be more appropriately addressed in skilled nursing facilities or other care settings with appropriate supports. Nebraska Medicaid is engaging stakeholders on the necessary supports skilled nursing facilities need to properly care for these difficult to place patients which would be factored into the payment received by these facilities.

## **Managed Long-Term Care**

In 2017, Nebraska Medicaid launched Heritage Health, an integrated health care program delivering behavioral health, pharmacy, and physical health services to most Medicaid members, including those receiving long-term care services, although these services are currently not delivered through managed care.

Nebraska Medicaid believes that carving long-term care services into managed care will allow greater care coordination, ensuring care is delivered in the most appropriate and cost-effective setting based upon the choice of the patient. This not only includes skilled nursing facility services, but also those services paid for by Nebraska Medicaid to allow members the choice to live in their own homes longer. Managed care is accountable to provide care in the most appropriate setting, looking at each patient's needs.

Additionally, due to the sunseting of the state's MMIS, the state will be unable to continue processing fee-for-service claims. The largest number of claims outside of managed care are skilled nursing facility claims. Since most Medicaid claims are being processed by the Heritage Health plans, it makes sense to include skilled nursing facility payments into their processing. Additionally, the greater coordination of care, by including long-term care services into managed care, will lead to a better experience for our members—increasing the quality of their care.

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