

Priority strategy: olderadults_388_131_valuebasednursingfacilities

Priority Strategy title: Value-Based Reimbursement in Nursing Facilities

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- 1) This priority strategy addresses the following aspect of the Commission's charge (select only the one that represents the best fit):

- Transform the health and human services system.
- Increase administrative efficiencies and improve program simplification within health and human services public programs.
- Identify evidence-based strategies for addressing the significant cost drivers of State spending on health and human services.
- Reduce waste in administrative and service spending in health and human service
- Advance health equity across geographies, racial and ethnic groups

- 2) Please describe the populations impacted by this strategy:

This strategy will impact the daily Medicaid and Private Pay per diem rates determined by DHS for nursing facility care. All nursing facility residents who either pay for their care with private resources or are eligible for Medicaid will be impacted. Some residents receiving therapy may be impacted by a proposed change to the resident assessment schedule.

This is a cost savings strategy that will result in smaller rate increases from year to year and could have a positive impact if the revised rate setting formula incentivizes nursing facilities to improve the quality of care they provide to residents.

- 3) Problem statement

- a) What is the primary problem the strategy is expected to mitigate or resolve relative to the focus area?

Value-Based Reimbursement (VBR) was passed by the legislature in 2015 in response to an industry proposal to address workforce issues and create incentives to invest in direct care and improve quality. Key features of VBR are care related costs are reimbursed at actual costs subject to a quality limit, other operating costs are reimbursed using a pricing model and health insurance costs are treated as a pass-through. It was a large investment by the legislature designed to re-base nursing facilities rates to cover their actual costs however the

package did not include limits on future spending growth. This strategy is a comprehensive budget change proposal to address the spending growth and strengthen the quality incentive.

VBR incorporates pay for performance by setting nursing facilities' care-related payment rate limits based on their quality. Under the current rate calculation methodology, most nursing facilities are significantly under their care-related spending limits. With the gap between actual costs and the facility specific rate limit, there is no incentive for the facility to improve its quality performance as they are being reimbursed for all their direct care costs regardless of the quality of their services.

Another aspect of VBR rate determination is the capping of other operating costs to slow the growth rate of this rate component. The strategy also includes the elimination of the hold harmless clause in VBR; suspension of APS inflation and continued suspension of Critical Access Nursing Facility Program (CANF).

- b) What is the secondary problem(s) the strategy is expected to mitigate or resolve relative to the focus area and/or other focus areas?

Under current law, a nursing facility may assess a resident as needing therapy services (physical, occupational or speech). This addition of therapy services often results in an increase to the resident's daily payment rate. The need for this therapy might end before the next quarterly assessment is due and current law does not require nursing facilities to complete a new assessment to indicate that therapy services have been discontinued. This results in residents remaining at a higher daily payment rate even after therapy services are no longer being provided, yet the resident continues to be billed for this service until the next scheduled assessment.

4) Priority Strategy description

- a) What is the strategy?

The strategy consists of a number of modifications to the rate setting formula including:

- Redesign the rate setting formula to create a stronger quality incentive while at the same time rewarding cost efficiencies.
- Establish a cap on the growth of the other operating price from year to year tied to a published inflation factor (Skilled Nursing Facility Market Basket inflation adjustment) or some other percentage increase established in law.
- Suspend the Critical Access Nursing Facility Program (CANF) funding as it has no value under VBR.
- Suspend the Alternative Payment System automatic property inflation adjustment.
- Eliminate a hold harmless clause which states that facilities at least receive the rate they had for the year prior to the implementation of VBR.
- Add an assessment when therapy services are discontinued, which will result in a decrease in the resident's daily payment rate because the assessment will reflect that the service is no longer needed and no longer being provided.

What steps are required to implement the strategy?

Changes in statutory language.

- i. Who will need to take them?

The Department of Human Services (DHS) can provide technical assistance in drafting legislation for the changes to VBR and the additional end of therapy assessment. The legislature will need to enact new law.

If the changes to VBR are enacted, DHS, Division of Nursing Facilities Rates and Policy (NFRP) will need to provide education and outreach to make certain providers are aware of the changes and how the changes may impact their nursing facility

If the requirement for the additional end of therapy assessment is enacted, education and training time will be needed to make certain providers are aware of the new requirement. The MN Department of Health will need to be directly involved in these efforts..

ii. When will they need to be taken?

Draft language will need to be ready for the 2021 legislative session.

iii. How long will implementation take?

If passed during the 2021 session, implementation could begin effective January 1, 2022.

iv. What will be the associated systems impacts?

This strategy will have minimal systems impact.

v. What will be the associated resource requirements?

No infrastructure, hardware, software or training changes are anticipated for these strategies at DHS. Some programming changes are needed related to the quality incentive and limit on other operating rates and will involve about 120 hours of a programmer's time. There may be costs associated with programming changes and training at the MN Department of Health related to the therapy assessment strategy.

vi. What will be the implementation challenges? Does the strategy create an administrative burden or additional costs for the State or for any external stakeholder(s)?

There are no anticipated administrative burdens for the State or stakeholders with respect to the VBR strategy. The end of therapy assessment will be an additional assessment by the nursing facility (stakeholder) and will need to be transmitted to the State as is required of the other assessments that establish the appropriate payment rate for the resident.

b) How will the strategy mitigate or resolve the primary problem it is addressing?

Value Based Reimbursement (VBR) incorporates pay for performance by setting nursing facilities' care-related payment rate limits based on quality. Most nursing facilities are significantly under their care-related spending limits and would need to increase their spending significantly to reach their limits as currently defined. With the gap between actual costs and the facility specific rate limit, there is no incentive for the facility to improve its quality performance as they are being reimbursed for all their direct care costs regardless of their quality of services. Revising VBR rate limit formulas will address this.

Under VBR, the other operating rate component pays for dietary staff, housekeeping, laundry, utilities and administrative costs. Currently the other operating rate component has been increasing beyond the rate of inflation. Part of this strategy would be capping the annual growth rate of the other operating rate to the published Skilled Nursing Facility Market Basket Index or some other percentage increase established in law. The goal of this change is to slow the rate of growth within operating costs and promote operating efficiency

Continued suspension of CANF, a program designed to preserve access to nursing facility services in isolated areas of the state under financial distress by establishing rates based on actual costs and other rate enhancement features. With the enactment of VBR, which implemented full rebasing of payment rates to facility costs, the partial rebasing under

the CANF program was not of value and the program was suspended for two years. This proposal continues that suspension into future years.

Under current law facilities receive an annual inflation adjustment to their property rates based on the change in the Consumer Price Index. The APS property rate inflation adjustment was suspended from October 1, 2011 until January 1, 2018. The inflation rate adjustment for property rates effective January 1, 2019, was 2.45%, which increased the property payment average rate per day by \$0.45. The inflation rate for property rates effective January 1, 2020 was 1.87%, which increased the property payment average rate per day by \$0.36. Facilities with a moratorium exception project approved and completed after March 1, 2020 will be ineligible for the annual APS property rate adjustment once they are transitioned to the new Fair-Rental Value property rate system.

VBR contains a hold harmless clause which states that facilities at least receive the rate they had for the year prior to the implementation of VBR. This hold harmless clause is no longer needed as facilities have had time (four years) to adjust to VBR.

MN law establishes a Resident Reimbursement Classification system based on assessments of residents to determine a resident's clinical and functional status, which determine the daily rate that the facility charges for the resident's care. Assessments intervals are specified by statute. Each resident receives a quarterly assessment every 90 days. Residents assessed at a higher therapy RUG at the beginning of a quarterly assessment may not need or receive therapy after a certain point into the quarter after the assessment, but will remain in (and be billed for) that therapy group for the entire 90 days regardless of how many days therapy is actually provided. While this proposal affects the MA budget, it also affects what private pay residents will pay for nursing home care. The number one complaint by private paying residents to the Minnesota Department of Health (MDH) Case Mix Section is having to pay for services at a higher level when the services are not provided.

c) What are possible unintended consequences this strategy could have?

Stakeholders including providers, union representatives and some legislators are likely to see these strategies as "cuts" to nursing homes. Most components of this strategy were included in the 2019 Governor's proposal and was met with very strong resistance. Union representatives have expressed concerns that placing a cap on the other operating rate component could suppress wage increases for dietary, housekeeping, laundry and maintenance workers. Some providers may view the addition of the end of therapy assessment as a loss of revenue due to the inability of providers to bill for therapy services that are not being provided until the next regular assessment is due.

5) Expected results and supporting evidence

a) What are the expected results, and when will their impact be experienced?

This strategy would result in Medicaid savings however the most transformational piece of the strategy which is the redesign of the VBR quality incentive, would not likely have a budget impact until the 3rd year after enactment. There is approximately a two year delay from the time nursing facility costs are incurred and when the costs are used to establish payment rates. A revision to the quality incentive would require lag time to allow providers to respond to the established incentives.

Suspension of the CANF provision would result in Medicaid savings but would not have an impact on the daily payment rate for nursing facilities as this provision is not currently in use.

A repeal of the VBR hold-harmless clause will not impact the daily payment rate and will not produce Medicaid savings as this provision has not been needed in the most recent years of VBR implementation.

Suspension of the APS annual property rate inflation adjustment will essentially result in a property rate freeze from year to year and produce Medicaid savings. However, there are other provisions in law which will still continue to impact the property rate such as major construction projects or taking beds out of service.

Placing a cap on the growth of the Other Operating rate component will likely have an impact on the daily payment rate as other operating cost growth has historically exceeded the annual inflation rate. This strategy will result in Medicaid savings.

Adding the end of therapy assessment will not impact the daily payment rates established by DHS but will produce Medicaid savings as fewer days will be billed at a higher case mix classification rate. This change will result in a decline in revenue for nursing facilities as the change impacts both Medicaid and private pay.

i. What is the anticipated fiscal impact to the State in the next biennium? (select one)

- New costs
- Budget neutral
- Cost savings

ii. If costs or savings are anticipated, what is the scope of the impact? (select one)

- Small: \$1 to \$999,999
- Medium: \$1 million to \$9,999,999
- Large: Greater than \$10 million

Each provision in this strategy could be adopted independently. Scope of the savings impact by rate modification:

- Redesign the quality incentive. (Medium)
- Establish a cap on the growth of the other operating. (Medium)
- Suspend the Critical Access Nursing Facility Program (CANF). (Medium)
- Suspend the Alternative Payment System automatic property inflation adjustment. (Medium)
- Eliminate the hold harmless clause. (No Impact)
- Add an assessment when therapy services are discontinued. (Medium)

iii. Will any state investment be required?

No state investment is anticipated.

iv. What will be the programmatic and population impacts?

The proposed strategy would result in estimated state share savings of \$11 to \$13 million for the biennium ending June 30, 2023. The total savings would be impacted by the timing and design of the revised VBR quality incentive. The population impacted by the strategy includes private pay and Medicaid eligible nursing home residents. The daily payment rates established under the proposed rate modifications would likely be less than rates established under existing law.

- v. What are the key results of the equity review evaluation?

Equity Considerations

- What is the population and geographic impact?
- What equitable mechanisms are being used in the modification of the rate setting formula?
- How does this strategy impact consider stakeholder engagement?

Further Equity Considerations

- How is this strategy impacting wages?
- How will this strategy promote equitable access?
- What accountability measures will be built in the assessment process?

- b) What evidence supports the strategy's effectiveness, if any?

This strategy supports modification to the formula that limits the reimbursement of care-related expenditures in ways that are more sensitive to individual nursing facilities. The impact will be positive if the revised formula incentivizes poorer performing nursing facilities to improve the quality of care and quality of life they provide to residents. The proposed changes are likely to reflect a nursing facility's effort to provide authentic, person centered care. Person centered care done in a culturally competent manner will ensure that the individual needs of all residents, including those who are ethnically and racially diverse, are being met.