Nursing facility value-based reimbursement modification and property payment reform

Issues:

- In 2015, the Minnesota Legislature enacted major reforms to the Medicaid nursing facility reimbursement system at a time when nursing home average operating costs exceeded Medicaid reimbursement.
- This new system, referred to as Value-Based Reimbursement (VBR), was implemented in January 2016.
- Under VBR, nursing homes receive reimbursement based on their actual reported care-related costs with quality-related spending limits.
- The main goals of VBR were to increase Medicaid reimbursement for direct care and care-related services, address workforce issues and to incentivize better care quality through the Medicaid rate-setting process.
- A 2018 independent evaluation found that VBR has had a mixed impact on its intended goals:
  - Direct care staff salaries and benefits have increased.
  - No evidence was found that VBR quality incentives led to higher facility quality.
  - Almost all nursing homes (97.5 percent) are operating below quality-related spending limits so there is no financial incentive for quality improvement.
- VBR has had a significant impact on state spending, increasing payments to nursing homes by a projected 76 percent, from $759 million in 2014 to $1.3 billion in 2023 (forecasted), even while the number of people served is projected to decrease by 12 percent.
- Minnesota has a rate equalization law, which means nursing facilities must charge the same rate for residents served under Medical Assistance and those who pay privately for their stays. An increase in Medicaid reimbursement has a corresponding increase to rates charged to private paying consumers.
- VBR reform did not address the nursing home property rate system. The current property rate system is extremely complex, inequitable and lacks incentives to maintain and/or invest in replacement buildings.

Proposal:

Governor Tim Walz proposes modifying nursing home reimbursements with the following changes:

- Modify VBR to promote quality care by revising rate limit formulas to create meaningful pay-for-performance that better aligns a facility’s quality score and its reimbursement limit.
- Establish a 3 percent inflation cap on annual growth of the rate for other operating expenses, such as dietary, housekeeping, laundry, maintenance and plant operations and administrative costs.
• Maintain current suspension of the critical access nursing facility program, made unnecessary by the VBR system.
• Modify resident acuity assessment schedules to more accurately determine how much private pay and Medicaid should pay for a resident’s therapy needs.
• Replace the current nursing facility property payment system with:
  o A fair rental value-based system for determining property rates, and
  o Incentives to maintain and/or invest in replacement buildings.

**Benefits:**

• Offers more effective pay-for-performance in the reimbursement system, paying more for higher quality and less for low quality, ensuring better value for public dollars.
• Modifies the rate of spending growth to the Medicaid forecasted budget.
• Makes the property rate setting system simpler, more transparent, more equitable, and more supportive of incentives to maintain or invest in replacement buildings.

**Fiscal impact:**

• $68.4 million savings in FY20-23 as follows:
  o VBR quality incentive limits — $14.8 million savings in FY 2020-23
  o Nursing facility property payment reform — $5.6 million investment in FY 2020-23
  o Limit inflation rate for other operating rate — $49.4 million savings in FY 2020-23
  o Suspension of critical access nursing facility program — $5.1 million savings in FY 2020-23
  o Better align therapy needs with spending — $4.7 million savings in FY 2020-23

**Related information:**

• Revised Governor’s Budget Recommendations for FY 2020-21, Pages 135 to 142:
• DHS nursing homes webpage: [https://mn.gov/dhs/people-we-serve/seniors/services/nursing-homes/](https://mn.gov/dhs/people-we-serve/seniors/services/nursing-homes/)

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