Nursing Home Care in Minnesota

Shortfalls in Medicaid Funding and Economic Impact of Long-Term Care

December 2009
Summary

The American Health Care Association (AHCA) engaged Eljay, LLC, to work with its state affiliates, like Care Providers of Minnesota, and other sources to compile information on the shortfall between Medicaid reimbursement and allowable Medicaid costs.

As in the previous seven reports commissioned by AHCA, the Report on Shortfalls in Medicaid Funding for Nursing Home Care (November 2009) once again illustrates the substantial gap between the rates paid by Medicaid for nursing home residents and the actual cost of caring for nursing home residents.

- According to the report, the national average shortfall in Medicaid nursing home reimbursement was projected to be $14.17 per Medicaid patient day in 2009 or 4.6 billion in total dollars.
- The shortfall for Minnesota’s nursing homes in 2009 is estimated to be $20.31 per Medicaid patient day or 129.4 million in total dollars.

<table>
<thead>
<tr>
<th>Top Ten Under‐Funded States</th>
<th>Medicaid Rate 2009</th>
<th>Projected 2009 Costs</th>
<th>2009 Projected Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>$144.73</td>
<td>$173.14</td>
<td>$(28.41)</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$204.96</td>
<td>$230.09</td>
<td>$(25.13)</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$192.01</td>
<td>$216.96</td>
<td>$(24.95)</td>
</tr>
<tr>
<td>New York</td>
<td>$217.99</td>
<td>$241.69</td>
<td>$(23.70)</td>
</tr>
<tr>
<td>Wyoming</td>
<td>$160.37</td>
<td>$183.43</td>
<td>$(23.06)</td>
</tr>
<tr>
<td>Illinois</td>
<td>$117.09</td>
<td>$137.89</td>
<td>$(20.80)</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$162.58</td>
<td>$182.89</td>
<td>$(20.31)</td>
</tr>
<tr>
<td>Missouri</td>
<td>$122.20</td>
<td>$141.35</td>
<td>$(19.15)</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$138.05</td>
<td>$157.14</td>
<td>$(19.09)</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$182.25</td>
<td>$201.05</td>
<td>$(18.80)</td>
</tr>
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</table>

Medicaid nursing home residents comprise over 59% of the typical nursing home’s clients. Medicaid and Medicare comprise nearly 68% of nursing home resident days and are paid for by the State of Minnesota and the Federal Government. With Minnesota’s unique policy of limiting rates charged to private residents to basically the same rates that Medicaid pays, nearly all of the payment rates for Minnesota nursing homes are controlled by government.

Minnesota, when compared to the other 39 participating states, has the 7th largest shortfall between Medicaid reimbursement and allowable Medicaid costs. While Minnesota’s Medicaid funding shortfall for nursing homes is less than Wisconsin’s (see chart at left), Wisconsin has the ability to make up the gap with private pay dollars. Other neighboring states, such as Iowa, have a smaller shortfall between Medicaid reimbursement and allowable Medicaid costs. North Dakota has a negligible shortfall.

Nursing homes in Minnesota and North Dakota charge private-paying residents basically the same rates that Medicaid pays for similar services - a policy unique to these two states known as rate equalization.

Iowa, South Dakota, and Wisconsin do not have rate equalization.
Why does Minnesota have such a large difference between the rates paid by Medicaid and the actual cost of caring for nursing home residents?

<table>
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<th>Estimated 2009 Cost Coverage (rate divided by cost)</th>
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<tr>
<td>Wisconsin</td>
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<td>Texas</td>
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<td>New York</td>
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</table>

We have the 7th largest shortfall!

Minnesota has not set Medicaid nursing home payment rates according to actual and allowable costs since 1995. Over the years, the gap between costs and Medicaid rates has grown. Analysis of actual cost coverage by Medicaid in Minnesota ranks Minnesota as having the 7th largest shortfall.

A healthy Medicaid payment system will provide at least 95% cost coverage. A state like Minnesota with rate equalization needs cost coverage of 97% to be considered healthy. North Dakota, the only other state with rate equalization, is estimated in 2009 to have cost coverage of 99.92%

On October 1, 2008 Minnesota began an 8-year phase-in of the rebasing of operating rates. Rebasing and other increases on October 1, 2008 allowed for some closing of the Medicaid underfunding gap. However, in 2009, the Legislature suspended rebasing as a budget-saving measure. With this suspension, Minnesota can expect the growth of the Medicaid shortfall to increase.

What are some of the consequences of the Medicaid Shortfall for Minnesota’s Nursing Homes?

- Limited staff wage increases
- Reduced step or merit increases for staff
- Reduced healthcare benefits (examples include reducing benefits, increasing deductibles or co-pays)
- Cross-subsidization of Medicaid by Medicare and third-party payors
- Delayed building physical plant expenditures
- Spending of reserves
- Reserves tapped out
- Line of credit used to meet obligations
- Fundraising
- Reduced or eliminated long-term disability insurance
- Reduced or eliminated retirement benefits
- Reduced non-direct care staff hours
- Reduced direct care staff hours
- Staff layoffs
- De-licensed beds for bed closure incentives
- Closure of facility

The Importance of Medicare

Nursing homes maintain their ability to operate by subsidizing their Medicaid deficits with the margins attained on the Medicare program. With such an equilibrium created by the combination of these two payers, any increase in Medicaid deficits or decrease in Medicare margins could have serious adverse financial implications for the industry.

According to the Medicare Payment Advisory Commission (MedPAC), the average margin on Medicare payment to nursing homes in 2007 was 14.5% while our analysis indicates a 9.0% shortfall on Medicaid payment for that year. The weighted average 2007 margin from the two government funded programs combined is a negative 1.2%.

Medicare cuts are likely at the federal level in 2010 as a result of the health care reform legislation.
Economic Impact of Long-Term Care Facilities in Minnesota

The Lewin Group was commissioned by the American Health Care Association (AHCA) and the National Center for Assisted Living (NCAL) to estimate the economic impact of LTC facilities on the U.S. and state economies.

According to the 2009 Report, nursing facilities, assisted living and other residential care facilities contribute significantly to the State of Minnesota’s economy.

The direct economic impact on Minnesota represents:
- 1.5% of economic activity
- 1.4% of labor income
- 2.5% of employment

The total economic impact on Minnesota supports:
- 2.6% of economic activity
- 1.9% of labor income
- 3.2% of employment

Generates $1.1 billion in tax revenue:
- $0.4 billion in state/local taxes
- $0.7 billion in federal taxes

Long-Term Care Facilities Support $6.7 Billion in Economic Activity*

Long-Term Care Facilities Contribute to Approximately 112,600 Jobs*

Shortfalls in Medicaid Funding for Nursing Home Care

This year’s compilation, like the previous seven, identifies the shortfall for the latest year in which audited or desk-reviewed cost reports were available, which in most states was 2007. In a few states, cost reports for providers with fiscal year ends of June 30, 2008 were available and used. In addition, similar to last year’s study, a shortfall for the current year (2009) is projected by trending the 2007 costs (or 2008 if available) to the current year and comparing them to current Medicaid rates.

Information and data provided in “Shortfalls in Medicaid Funding” is based on a report prepared by ELJAY, LLC for the AMERICAN HEALTH CARE ASSOCIATION (AHCA). Long Term Care National Economic Impact Statistics in the United States was prepared for AHCA/NCAL by the Lewin Group, Inc. 2009.

Methodology

Overall, data were obtained from 39 states and the District of Columbia for 2007 and represented over 84% of the Medicaid patient days in the country. The data from just under two thirds of the states reporting in 2007 were based upon audited or desk-reviewed cost reports, or some blend of both. As-filed Medicaid cost reports or Medicare cost reports were used for the remaining states.