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# More Nursing Care and Higher Labor Costs Contribute to Minnesota's Higher Nursing Home Rates

## SUMMARY

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Nursing homes in Minnesota provided more hours of nursing care and paid higher salaries and benefits than homes in most neighboring states, according to a study by the Legislative Auditor. The study examined 1995 Medicaid nursing home reimbursement rates in five states in the Upper Midwest: Minnesota, Iowa, North Dakota, South Dakota, and Wisconsin.

The study found that Minnesota's average nursing home reimbursement rate of \$95.61 per day was between 15 and 30 percent higher than similar rates in neighboring states in 1995. Minnesota and North Dakota are the only states in the nation that prohibit nursing homes from charging private-pay residents more than the rates set for Medicaid residents.

Average private-pay rates were between 25 and 35 percent higher than average Medicaid rates in Wisconsin and between 10 and 14 percent higher in South Dakota. However, the

study was unable to determine whether rate equalization contributes to Minnesota's higher nursing home rates.

*Program Evaluation Report*  
**Nursing Home Rates  
in the Upper Midwest**  
*January 23, 1997*

**Key Findings:**

- Minnesota's average Medicaid nursing home reimbursement rate of \$95.61 per day in 1995 was higher than similar rates in neighboring states.
- Nursing homes in Minnesota provided more hours of nursing care, paid higher salaries, and had higher fringe benefit and workers' compensation costs than most neighboring states.
- Minnesota's nursing home rates include items, such as a provider surcharge and pre-admission screening fees, not included in the rates for most of the surrounding states.
- More residents in Minnesota nursing homes were dependent on nursing staff for daily care.

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Staffing levels and labor costs were important factors contributing to Minnesota's higher rates. Minnesota's nursing homes provided more hours of nursing home care per resident day (3.33) than South Dakota (2.85), but less than Wisconsin (3.37). Nursing homes in Minnesota also had a higher ratio of licensed nurses to nursing aides (0.50) than South Dakota (0.41) or Wisconsin (0.45), the only states for which comparable information was available.

Nursing costs accounted for over one-half of the total cost differences between Minnesota and surrounding states. Nursing homes unattached to hospitals in Minnesota paid higher average hourly salaries for almost every job classification than homes in South Dakota and Wisconsin. Nursing home

wages generally followed the pattern of variation in wages observed for all private industry employees; most jobs in Minnesota paid more than comparable jobs in neighboring states, but less than the national average.

Fringe benefits in Minnesota nursing homes averaged \$3.64 per resident day in 1994, higher than similar costs in South Dakota (\$2.65) and North Dakota (\$2.88), but lower than those in Wisconsin (\$4.77). The cost of workers' compensation in Minnesota averaged \$3.10 per day in 1994, higher than any neighboring state.

Minnesota's nursing home rates were also higher because they include items not included in the rates for most of the surrounding states. Minnesota includes a provider surcharge (\$1.69 per day) and a pre-admission screening fee (\$0.29 per day) in its reimbursement rates.

Minnesota's higher nursing home rates may be related to a higher percent of nursing home residents who are dependent on nursing staff for daily care, such as bathing, dressing, and eating. However, the quality of care in Minnesota's nursing homes appears to be similar to that in neighboring states.

While Minnesota used more techniques to limit reimbursement of nursing home costs than other states, the report found that Minnesota did not contain nursing home costs as

much as Wisconsin. For instance, in Minnesota nearly 5 percent of nursing homes' non-care related operating costs were not reimbursed in 1995. In comparison, more than 8 percent of similar costs were not reimbursed in Wisconsin.

Minnesota sets Medicaid nursing home reimbursement rates based in part on a nursing homes geographic location within the state. The report examined the perceived inability of nursing homes in geographic groups with lower reimbursement limits to offer competitive nursing salaries. The report found that relatively few nursing homes in each geographic group (between 4 and 6 percent) exceeded reimbursement limits for nursing salaries, while many (between 15 and 34 percent) exceeded the limits for other operating costs, such as dietary, housekeeping, plant maintenance, and administration. A full evaluation of alternatives to Minnesota's current geographic groups and fiscal consequences requires a more in-depth analysis than was possible in the study.

Copies of the report, *Nursing Home Rates in the Upper Midwest*, may be obtained from the Office of the Legislative Auditor. A summary may be found on the World Wide Web at <http://www.auditor.leg.state.mn.us/pe9702.htm>. For further information, contact Susan Von Mosch or Roger Brooks at the Office of the Legislative Auditor (612/296-4708).



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