
Introduction

Our study compared 1995 nursing home reimbursement rates in five states in the Upper Midwest.

The costs paid by government and private citizens for nursing home services is a topic of national and state interest. In state fiscal year 1995, Minnesota spent over \$800 million in Medicaid funds on nursing homes; the federal government financed 54 percent of this funding. Medicaid paid for two-thirds of all nursing home residents in Minnesota, Medicare (financed entirely by the federal government) covered about 6 percent, and 26 percent of nursing home residents (or their families) paid for their own care.

The federal government gives each state flexibility in establishing its own Medicaid reimbursement methods and rates for nursing home care. Consequently, nursing home per diem rates vary widely. In 1994, the Health Care Financing Administration (HCFA) reported a range in average Medicaid per diem reimbursement rates from a low of \$49.70 in Oklahoma to \$211.21 in Alaska.¹ Minnesota's average reimbursement rate of \$92.24 per day ranked 13th among the states and was higher than any surrounding state.²

Within Minnesota, nursing home daily rates vary depending on allowable historic facility-specific expenditures, the geographic location of a home (three regions), and the case mix or level of care a resident needs (eleven categories). In 1995, average per diem rates across these divisions ranged from \$60.42 to \$139.53.

In May 1996, the Legislative Audit Commission directed our office to compare Minnesota's Medicaid reimbursement rates for nursing home services with the rates charged in neighboring states. Our evaluation addressed the following questions:

- **To what extent is there variation in the Medicaid reimbursement rates for nursing home residents in Minnesota, Iowa, North Dakota, South Dakota and Wisconsin? How do Medicaid reimbursement rates compare with rates charged to private-pay residents?**

¹ Charlene Harrington, James H. Swan, and others, *1994 State Data Book on Long-Term Care Program and Market Characteristics* (San Francisco: University of California and Wichita: Wichita State University, October 1995).

² Wisconsin, with an average per diem reimbursement rate of \$76.32, ranked 24th; North Dakota's rate of \$75.92 ranked 26th; South Dakota's rate of \$64.37 ranked 42nd; and Iowa's rate of \$58.75 ranked 45th.

- **What specific costs account for the differences in nursing home rates among these states?**
- **Are Minnesota's rates higher because its facilities deliver a superior quality of nursing home care or provide services to more medically needy and costly residents compared with other states?**
- **Do Minnesota's geographic groups, which determine nursing home reimbursement rates, hinder the ability of nursing homes in any particular group to provide competitive salaries for nursing staff?**

Because there is no central source of information on nursing home reimbursement rates or costs, we collected data from a variety of sources to answer these questions. We interviewed state Medicaid officials, policy makers, nursing home providers, and consumer advocates. We reviewed literature and nursing home reimbursement statutes, rules, and procedures. We analyzed the reimbursement rate and cost report data used to set nursing home rates. Working with the Minnesota Department of Health, we used federal government data to analyze the quality of care provided in nursing homes and resident conditions.

Incomplete data and the varying nature of each state's nursing home industry, reimbursement system, cost reporting forms, and financial data frequently complicated the interstate comparisons necessary to answer our evaluation questions. At times, the lack of data prohibited us from comparing Minnesota to *each* of the neighboring states. In these cases, only states with adequate comparable data were examined.

Our report is organized into six chapters. Chapter 1 describes the nursing home industry and Medicaid reimbursement system in each state. Chapter 2 compares the Medicaid reimbursement rates in each state and discusses rate equalization. Chapter 3 examines the allowable costs reported by nursing home providers in each state to determine which cost factors account for the differences in nursing home rates. Chapter 4 focuses on quality of care and the characteristics of nursing home residents in each state. Chapter 5 discusses the effect of reimbursement limits and incentive payments on nursing home rates. Chapter 6 examines Minnesota's nursing home reimbursement geographic groups.