
1996 Legislative Changes to Minnesota's Medicaid Nursing Home Reimbursement System

APPENDIX A

This report examined Minnesota's nursing home reimbursement policies that were used to establish Medicaid rates for the 1995 rate year (which began July 1, 1995). Table B.1. in Appendix B contains a brief description of Minnesota's Medicaid nursing home reimbursement system in 1995. The Minnesota Legislature made several changes to the nursing home reimbursement system for the 1996 rate year (which began July 1, 1996), making the current system different from the one examined in this report.

The following changes apply only for the 1996 rate year. When setting nursing home reimbursement rates for 1997 and future rate years, the law requires the Commissioner of Human Services to use the reimbursement limits adopted in 1995.¹ For the 1996 rate year, the Legislature:

1. Modified "spend-up limits" and suspended the "high-cost facility reduction." Beginning in the 1995 rate year, the Legislature adopted two new reimbursement limits -- spend-up limits and high-cost facility reductions -- to reduce the rate of increase in nursing home spending.

The spend-up limits in effect for the 1996 rate year were modified in two ways. First, the spend-up limit was changed to equal a home's operating costs inflated by the change in the nursing home market basket plus zero, one or two percent (or 3.2, 4.2, or 5.2 percent) depending on a nursing home's costs relative to similar homes in the same group. Originally, the spend-up limit would have been based on operating costs inflated by the change in the nursing home market basket plus one percent (or 4.2 percent). Second, the thresholds used to determine where a home's costs fell in relation to other homes were changed so that more nursing homes in 1996 than 1995 would be subject to the highest spend-up limit.²

If implemented for the 1996 rate year, the "high cost facility reduction" would have reduced reimbursement by 2 or 3 percent depending on where a nursing home's operating cost per diems fell in relation to nursing homes in the same group.

¹ *Minn. Laws* (1996), Ch. 451, Art. 3, Section 11.

² The 1996 Legislature also required that per diem operating cost reductions be divided proportionately between "care-related" and "other-operating" costs. Rule 80 facilities were exempted from the "care-related" spend-up limits.

2. Suspended the “care-related,” “other operating,” and plant and maintenance cost reimbursement limits. For the 1995 rate year, “care-related” costs were limited to 125 percent and “other operating” costs to 110 percent of the median costs per day for all nursing homes in each geographic group. Plant and maintenance costs were limited to \$325 per bed annually.
3. Provided a one-time payment increase of six cents per resident per day to each nursing home’s reimbursement rate.³

³ *Minn. Laws* (1996), Ch. 451, Art. 1, Section 1.