
Nursing Home Reimbursement Rates

CHAPTER 2

As we discussed in Chapter 1, the federal government gives each state flexibility in establishing its own Medicaid reimbursement methods and rates for nursing home services. While the five states examined all use prospective, facility-specific reimbursement methods, the way each state has designed its reimbursement system varies significantly. The combination of historical, facility-specific costs, reimbursement limits, and the use of case-mix adjustments results in considerable variation in daily reimbursement rates both among states and within each state.

This chapter examines Medicaid reimbursement rates for nursing homes in Minnesota and the surrounding states. We asked:

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

Minnesota's average daily reimbursement rate was higher than rates in neighboring states.

To answer these questions, we analyzed nursing home reimbursement rates in effect for the 1995 rate year which began January 1, 1995, in North Dakota, and July 1, 1995, in Minnesota, Iowa, South Dakota, and Wisconsin.¹ We reviewed national literature, and collected private-pay rate data from Wisconsin, South Dakota, and Iowa.

We found that there is a wide variation in nursing home per diem reimbursement rates among the states. In 1995, Minnesota's statewide average Medicaid payment rate of \$95.61 per day was significantly higher than the rates in North and South Dakota and Wisconsin. In states without rate equalization, we found that nursing homes charge private-pay residents more than Medicaid residents.

¹ This evaluation analyzed Minnesota's nursing home rates in effect on July 1, 1995 based on 1994 nursing home cost reports (October 1, 1993 to September 30, 1994). These rate and cost years were selected for several reasons. First, Minnesota's 1994 cost reports on which the 1995 rates were based have been desk audited, a sample has been field audited, and costs have been adjusted. Second, South Dakota is adjusting its reimbursement system and will be using rebased 1994 cost data to set rates for 1996, and their staff suggested we use 1994 cost report data. Third, more current data for Iowa were not available until late in the evaluation process.

AVERAGE DAILY NURSING HOME RATES

Daily reimbursement rates are typically determined by taking each nursing home's allowable costs per day, applying reimbursement limits, adjusting for inflation, and adding incentive payments. Since nursing home rates can vary within a state, it is necessary to calculate statewide average rates in order to compare rates among states. Table 2.1 illustrates the 1995 statewide average per diem rates weighted by resident days for nursing homes in Minnesota and the neighboring states.² We found that:

- In 1995, Minnesota's statewide average Medicaid nursing home rate of \$95.61 per resident day was significantly higher than the rates in North Dakota, South Dakota, and Wisconsin.

Table 2.1: Comparison of Average Medicaid Nursing Home Rates Per Resident Day, 1995

Facility Type	Minnesota Weighted Statewide Average Rate	North Dakota Weighted Statewide Average Rate	South Dakota Weighted Statewide Average Rate	Wisconsin Weighted Statewide Average Rate	Iowa Maximum Reimbursement Rates ¹
All	\$95.61	\$79.92	\$74.23	\$83.15	\$61.63 / 64.60
Freestanding	95.49	79.01	72.28	83.29	61.63 / 64.60
Hospital-Attached	99.02	82.45	82.03	80.28	61.63 / 64.60
Public	96.68	-- ²	80.79	83.62	61.63 / 64.60
For-profit	97.52	76.51	73.01	81.71	59.42 / 60.83
Non-profit	95.03	80.23	74.67	85.01	61.63 / 64.60
Number of Beds:					
1-49	92.99	80.19	67.90	81.78	61.63 / 64.60
50-99	89.65	75.81	72.27	79.88	61.63 / 63.90
100-199	97.22	81.21	81.11	83.10	61.63 / 64.60
200 and over	107.74	93.49	-- ³	87.00	61.63 / 64.60

Note: Statewide average reimbursement rates are for the January 1, 1995 through December 31, 1995 rate year for North Dakota, and the July 1, 1995 through June 30, 1996 rate year for Minnesota, Iowa, South Dakota, and Wisconsin.

Source: Program Evaluation Division analysis of state nursing home cost report and rate setting data; Minnesota Department of Human Services.

¹Iowa reimbursement rates represent the maximum reimbursement rate for nursing facilities providing an intermediate level of care only. The rates do not reflect the costs of providing skilled nursing care and, consequently, are not directly comparable to rates for other states. The first rate was effective July 1, 1995; the second rate was effective January 1, 1996.

²North Dakota's only public facility had an average rate of \$95.28 per day.

³South Dakota's only facility with over 200 beds had an average rate of \$83.82 per day.

² The Program Evaluation Division calculated the weighted average rates for Iowa, North and South Dakota, and Wisconsin. The specific procedures used to calculate the rates varied for each state. Generally, we used facility per diem rates contained in each state's financial data base and weighted the rate by resident days and resident case-mix census (when available). The Minnesota Department of Human Services calculated Minnesota's rates, which reflect a case-mix adjusted weighted average rate.

Iowa's nursing home reimbursement rates are not directly comparable to rates in the other states we reviewed.

For all nursing homes, Minnesota's average daily payment rate for the 1995 rate year was approximately 15 percent higher than the average rate in Wisconsin (\$83.15) and nearly 30 percent higher than South Dakota (\$74.23).³ In contrast, the average daily rates in Wisconsin were 4 percent higher than those in North Dakota and 12 percent higher than the rates in South Dakota.

Iowa's statewide average rates are not directly comparable to the rates for other states because they reflect the costs of nursing facilities providing an intermediate level of care only.⁴ Iowa's rates *do not reflect the costs of providing skilled nursing care*, whereas the rate data for all other states represent the costs of providing *both* intermediate and skilled nursing levels of care. In most cases, the reimbursement rates for Iowa's intermediate level of care nursing facilities were the maximum daily reimbursement rate allowed, \$61.63 or \$64.60 per diem (see Table 2.1). In contrast, Iowa's skilled nursing facilities had maximum reimbursement rates of \$108.99 per day for freestanding homes and \$236.84 per day for hospital-attached homes, effective July 1, 1995. Iowa's average rates would be higher if they included the costs of providing a skilled nursing level of care.

Table 2.1 also illustrates that daily reimbursement rates vary by nursing home type and size. We found that:

- **Hospital-attached nursing facilities had higher average per diem reimbursement rates than freestanding nursing homes in Minnesota, North Dakota, and South Dakota during the 1995 rate year.**

In Minnesota, the average reimbursement rate for hospital-attached homes of \$99.02 was nearly 4 percent higher than the average rate for freestanding homes (\$95.49). The difference between North Dakota's average rates for freestanding and hospital-attached facilities was also 4 percent, while South Dakota's was 13 percent.

Several factors could account for higher rates for hospital-attached facilities. First, in Minnesota and some other states, hospital-attached homes file different (Medicare) cost reports than freestanding homes.⁵ Instead of reporting direct costs, a hospital-attached home allocates costs between the nursing home and hospital using various formulas. For instance, large proportions of costs are allocated based on the amount of square feet in each facility, not on the service provided. Other costs are allocated based on services, such as the number of meals served in each part of the facility. Second, Minnesota and South Dakota, provide special

³ Iowa's rates represent only nursing facilities providing an intermediate level of care and therefore, are not directly comparable to Minnesota's rates. Nursing home rates in Minnesota were between 48 and 55 percent higher than Iowa's rates of \$61.63 per resident day effective July 1, 1995 and \$64.60 per day effective January 1, 1996.

⁴ We were unable to obtain detailed information on costs, rates, resident census, and number of beds for Iowa homes providing skilled nursing services. See earlier discussion in Chapter 1.

⁵ The cost reports for hospital-attached facilities in Minnesota do not include detailed salary or other cost information that is available for freestanding homes. For example, hospital-attached facilities report a total cost for nursing services, but no detail is available for salaries, supplies, or other line items.

reimbursement considerations for hospital-attached homes which results in higher costs and rates. This latter issue is discussed in more detail in Chapter 3.

No pattern is evident when average rates are examined by ownership type. In Minnesota, for-profit homes, one-third of all homes in the state, had the highest average daily rate. In Wisconsin, for-profit homes had the lowest average daily rate and non-profit homes had the highest average daily rate. While few in number, the publicly-owned facilities in North Dakota (1) and South Dakota (3) had the highest rates.

The average rate by number of beds showed that:

- **In Minnesota and neighboring states, nursing homes with over 200 beds had the highest statewide average daily rates in 1995.**

Although nursing homes with over 200 beds comprise a small share of each state's total nursing homes, in Minnesota and Wisconsin these facilities account for 15 percent and 27 percent of all nursing home beds, respectively.⁶ These large nursing homes had the highest average daily reimbursement rate in every state examined. In Minnesota, the average daily reimbursement rate for nursing homes with over 200 beds was \$107.74. In contrast, Minnesota's nursing homes with between 50 and 99 beds (34 percent of total nursing home beds) had the lowest average daily rate, \$89.65.

In Minnesota, differences in location and average case-mix score explain some of the variation in nursing home reimbursement rates. The majority (88 percent) of Minnesota's largest homes were located in the geographic group with the highest reimbursement (Group 3). The largest homes also had a higher average case-mix score (2.46) than the smallest homes (2.30 for homes with 1 to 49 beds and 2.40 for those with 50 to 99 beds). Homes with between 100 and 200 beds had the highest average case mix score (2.48) and the second highest average daily rate (\$97.22).

We also examined the change in statewide average reimbursement rates from 1990 to 1994. Table 2.2 shows that Minnesota's nursing home rate per day had an average annual increase of 7.6 percent during this period, faster than the general inflation rate (3.3 percent), but about the same as the medical inflation rate (7.8 percent). Minnesota's reimbursement rates increased slightly more than the rates in most of the surrounding states. South Dakota, the one exception, implemented its case-mix reimbursement system in 1993 causing rates to increase. In states using case mix, the average daily rates may be affected by increased occupancy of higher case-mix residents. For all states, the larger rate increases from 1990 to 1992 could be attributed to the costs of implementing federal nursing home reforms. Many provisions of the Omnibus Budget Reconciliation Act of 1987 became effective January 1, 1990, such as new nursing staff requirements (discussed in Chapter 3) and additional training for certified nursing aides.

⁶ Table 1.2 in Chapter 1 compares the number and types of nursing homes in each state. Nursing homes with over 200 beds accounted for 7 percent of all beds in North Dakota and 3 percent of all beds in South Dakota and Iowa.

Table 2.2: Trends in Average Nursing Home Rates, 1990 to 1994

	Percent Change from Previous Year in Average Nursing Home Rates				Annual Average Percent Change 1990-94
	1991	1992	1993	1994	
Minnesota	10.9%	4.8%	7.5%	4.6%	7.6%
Iowa	8.0	5.5	6.0	4.4	6.5
North Dakota	10.4	8.2	3.2	2.2	6.5
South Dakota	8.7	15.9	10.5	7.3	12.3
Wisconsin	9.9	12.3	-2.4	4.0	6.3
National Average	6.2	6.5	3.7	5.3	5.9
Consumer Price Index-Urban	4.2	3.0	3.0	2.7	3.3
Consumer Price Index-Medical	8.9	7.6	6.5	5.2	7.8

Source: James H. Swan, Charlene Harrington, and others, *Medicaid Nursing Facility Reimbursement Methods Through 1994*, June 1996 update of draft article; U.S. Department of Labor, Bureau of Labor Statistics.

In Minnesota and the Dakotas, reimbursement rates vary with resident care needs.

As mentioned in Chapter 1, reimbursement rates can vary with the care needs of residents. Reimbursement rates in Minnesota, North Dakota, and South Dakota are established using resident case-mix classifications: Minnesota has 11 case-mix categories, compared with 16 in North Dakota and 35 in South Dakota.⁷ Wisconsin distinguishes among six levels of care. As Table 2.3 shows, the statewide average reimbursement rate for the 1995 rate year in Minnesota ranged from \$65.84 for a case mix "A" resident needing the least amount of care to \$125.40 for a case mix "K" resident requiring the most costly care. Since each state uses a different system to assess and score resident needs, comparison of the case-mix weighted average daily rates among states is not possible. Research studies suggest that case-mix systems may have higher rates overall because more costly, high needs residents (including hospital patients) will have access to nursing home services, reimbursement rates will more accurately reflect the care needs of all residents, and it will cost more to administer a more complex case-mix system.⁸

⁷ We did not have the detailed resident census data necessary to calculate a range of case-mix weighted rates for South Dakota.

⁸ John Holahan, "State Rate-Setting and its Effect on the Costs of Nursing Home Care," *Journal of Health Politics, Policy and Law* 9, no. 4 (Winter 1985): 647-667. Robert E. Schlenker, "Comparison of Medicaid Nursing Home Payment Systems," *Health Care Financing Review* 13, no. 1 (Fall 1991): 93-108. Kenneth E. Thorpe and others, "The Resource Utilization Group System: Its Effect on Nursing Home Case Mix and Costs," *Inquiry* 28, no. 4 (Winter 1991): 357-365. Brant E. Fries, "Comparing Case-Mix Systems for Nursing Home Payment," *Health Care Financing Review* 11, no. 4 (Summer 1990): 103-119.

Table 2.3: Comparison of Average Case-Mix Weighted Medicaid Nursing Home Rates, 1995

<u>Facility Type</u>	<u>Minnesota Case Mix Weighted Average Range</u>	<u>North Dakota Case Mix Weighted Average Range</u>	<u>Wisconsin Level of Care Weighted Average Range¹</u>
All	\$65.84 to \$125.40	\$66.18 to \$111.87	\$41.83 to \$101.60
Freestanding	\$70.83 to \$124.50	\$64.73 to \$111.34	\$41.99 to \$101.88
Hospital-Attached	\$76.68 to \$131.37	\$70.71 to \$113.41	\$39.86 to \$95.38
Public	\$67.32 to \$124.94	\$84.65 to \$139.74	\$38.38 to \$102.59
For-profit	\$66.81 to \$127.38	\$63.31 to \$102.89	\$43.57 to \$99.71
Non-profit	\$65.62 to \$125.21	\$66.36 to \$113.70	\$40.57 to \$104.42
Number of Beds:			
1-49	\$67.20 to \$127.64	\$64.36 to \$111.72	-- ² to \$104.31
50-99	\$64.23 to \$120.54	\$64.05 to \$106.44	\$40.77 to \$96.93
100-199	\$67.57 to \$129.77	\$66.35 to \$111.23	\$40.93 to \$101.70
200 and Over	\$73.49 to \$143.39	\$78.87 to \$125.65	\$43.47 to \$105.04

Note: The statewide average reimbursement rates are for the January 1, 1995 through December 30, 1995 rate year for North Dakota, and the July 1, 1995 through June 30, 1996 rate year for Minnesota and Wisconsin.

Source: Program Evaluation Division analysis of state nursing home cost report and rate setting data; Minnesota Department of Human Services.

¹Wisconsin's average rates represent six different levels of care.

²Wisconsin did not have any facilities providing residential intermediate care, the lowest level of care, with between 1 and 49 beds.

RATE EQUALIZATION

Minnesota and North Dakota are the only states that equalize rates between private- and public-pay residents.

The main sources of nursing home payment include Medicaid, as the primary government payer, and residents paying for their own care. In Minnesota, about 26 percent of nursing home residents paid for their own care in 1995, compared with about 45 percent in Iowa. Our review of literature and interviews with industry representatives suggests that the source of payment could explain some of the variation in nursing home rates.

In Minnesota and North Dakota, nursing homes participating in the Medicaid program cannot charge higher rates to private residents than the rates set for similar Medicaid residents.⁹ The purpose of rate equalization is to prevent discrimination and ensure access to nursing home care for Medicaid-supported residents. In some states without rate equalization, nursing homes are able to charge private-pay residents higher per diem rates than Medicaid residents and use these higher private-pay rates to subsidize lower Medicaid rates. Research studies have estimated that nursing facilities in some states charge private-pay residents from 10 to

⁹ *Minn. Stat.* §256B.48, Subd. 1(a); North Dakota Department of Human Services *Rate Setting Manual for Nursing Facilities*, (Bismarck, Oct. 1995), 11. In Minnesota, rate equalization does not apply to single-bed rooms.

30 percent higher rates than Medicaid residents.¹⁰ Wisconsin and South Dakota routinely collect data on the average rates charged to private-pay residents.¹¹ We found:

- **Average nursing home private-pay rates were between 25 and 35 percent higher than average Medicaid rates in Wisconsin in 1994 and between 10 and 14 percent higher in South Dakota in 1995.**

As Table 2.4 illustrates, the differences in average private-pay and Medicaid rates in Wisconsin ranges from 25 percent higher for intense skilled nursing to 35 percent higher for an intermediate level of care.¹² The majority of nursing home residents (77 percent) in Wisconsin receive a skilled nursing level of care, which had a difference of 29 percent between average private-pay and Medicaid rates. Similarly, the average private-pay rate for all nursing homes in South Dakota was \$81.94 in 1995, or 10 percent higher than the statewide average rate weighted by resident days (\$74.23) and 14 percent higher than the non-weighted statewide average Medicaid rate (\$71.83).¹³

Iowa also collects some private-pay rate data from a random survey of approximately 30 percent of all nursing homes. These data should be considered with caution because the survey process did not attempt to consistently account for costs included in the rates reported. The average private-pay rate of \$70.62 in Decem-

Table 2.4: Comparison of Average Medicaid and Private-Pay Nursing Home Per Diem Rates in Wisconsin, 1994

<u>Level of Care</u>	<u>Average Per Diem Medicaid Rate</u>	<u>Average Private-Pay Rate</u>	<u>Private-Pay Rate as a Percent of Medicaid Rate</u>
Intense Skilled Nursing	\$96.90	\$121.28	125.2%
Skilled Nursing	82.24	106.32	129.3
Intermediate Care	69.18	93.37	135.0
Limited Care (ICF-2)	69.75	88.16	126.4
Personal Care (ICF-3)	50.12	71.93	143.5
Residential Care (ICF-4)	40.80	56.44	138.3

Source: Wisconsin Department of Health and Social Services, *Wisconsin Nursing Homes: 1994*, January 1996, Table 16. Source of data for this report was the 1994 Annual Survey of Nursing Homes.

¹⁰ James K. Tellatin, "Medicaid Reimbursement in Nursing Home Valuations," *The Appraisal Journal* (Oct. 1990): 461-467; Howard Birnbaum and others, "Why Do Nursing Home Costs Vary? The Determinants of Nursing Home Costs," *Medical Care* 14, no. 11 (Nov. 1981): 1095-1107; Jane Sneddon Little, "Public-Private Cost Shifts in Nursing Home Care," *New England Economic Review* (July/Aug. 1992): 3-14; Jane Sneddon Little, "Lessons from Variations in State Medicaid Expenditures," *New England Economic Review* (Jan./Feb. 1992): 43-66.

¹¹ The Wisconsin Department of Health and Social Services reviews and audits private-pay rate data to calculate the spend-down of residents' assets before qualifying for Medicaid services.

¹² Private-pay rates for personal care and residential care were 43 and 38 percent higher than the Medicaid rates, respectively, but less than one percent of Wisconsin nursing home residents received these two levels of care combined.

¹³ Source: Program Evaluation Division analysis of South Dakota private and public rate data.

ber 1995 was between 9 and 16 percent higher than Iowa's maximum Medicaid reimbursement rates of \$61.63 per day effective on July 1, 1995 and \$64.60 effective on January 1, 1996.

One research study found that as cost-controlling reimbursement features increase, so does the difference between private-pay and Medicaid rates, suggesting that "private patients appear to be subsidizing public patients."¹⁴ Below-average Medicaid spending for nursing home care may indicate a more efficient delivery of services, but it may also reflect below-average quality, or above-average use of cross subsidies. In some states, Medicaid nursing home spending may only appear to be low cost because private-pay residents are subsidizing the public residents. In comparison, some states' Medicaid spending may appear relatively high partly because spending better reflects the full cost of providing nursing home care.¹⁵

SUMMARY

In this chapter we have demonstrated that Minnesota's 1995 nursing home Medicaid payment rates were higher than those in neighboring states. Minnesota's statewide average rate was \$95.61 per day in 1995, or between 15 and 30 percent higher than the statewide average rates in North Dakota, South Dakota, and Wisconsin.

Minnesota and North Dakota are unique because they are the only two states in the nation that limit the rates nursing homes can charge private-pay residents to no more than the rates set for Medicaid residents. In states without rate equalization, private-pay rates have been estimated to be between 10 and 30 percent higher than Medicaid rates. Some researchers have made the theoretical argument that private residents appear to be subsidizing public residents. However, we do not have evidence to conclude that rate equalization contributes to Minnesota's higher average daily nursing home rates. In Chapter 3, we examine the detailed nursing home cost reports used to establish reimbursement rates to determine what specific costs account for the differences in rates among the states.

¹⁴ Birnbaum, 1107.

¹⁵ Little, "Public-Private Cost Shifts," 3, 8.