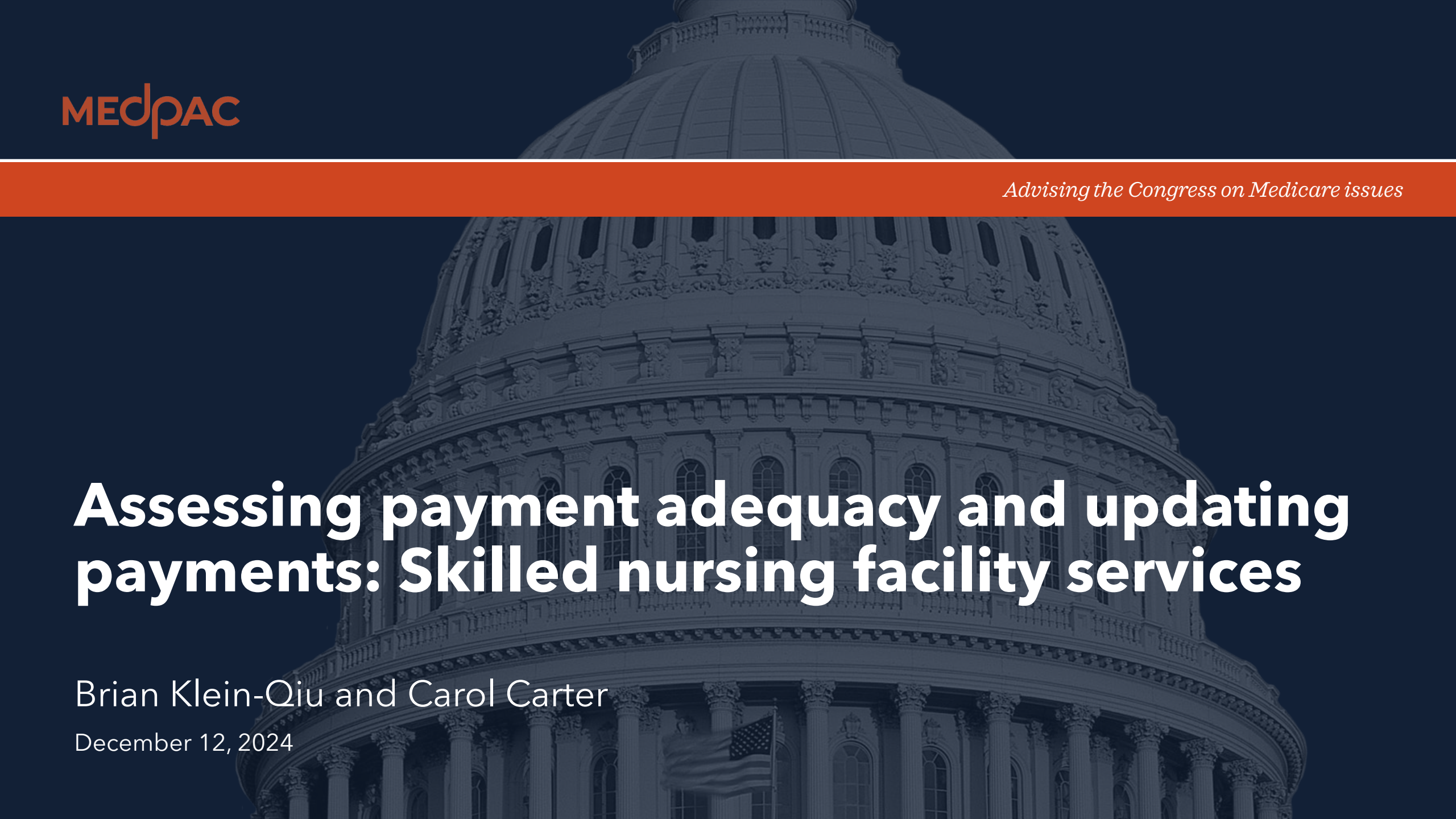

MEDPAC

Advising the Congress on Medicare issues

Assessing payment adequacy and updating payments: Skilled nursing facility services

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Presentation roadmap

1. Overview of skilled nursing facility use and spending under FFS Medicare
2. Access to skilled nursing facility care
3. Quality of skilled nursing facility care
4. Skilled nursing facilities' access to capital
5. FFS Medicare payments and skilled nursing facilities' costs
6. Chair's draft recommendation
7. Minimum staffing requirements for nursing homes

Overview of SNF use and spending under FFS Medicare, 2023

SNFs	14,500

Medicare share of facility days	8% (median)

Services	1.6 million stays (in SNFs)

Payments for services	$27 billion (in SNFs + swing beds)

Note: FFS (fee-for-service), SNF (skilled nursing facility).
Source: MedPAC analysis of Medicare Provider Analysis and Review data.

FFS Medicare payment adequacy framework: SNFs

Beneficiaries' access to care

- Supply and capacity
- Volume of Medicare services
- FFS Medicare marginal profit

Quality of care

- Discharge to community
- Potentially preventable readmissions
- Staffing ratios and turnover

Access to capital

- Transaction activity
- All-payer margin

Medicare payments and costs

- FFS Medicare margin
- Projected FFS Medicare margin

Update recommendation for SNF base rates

Note: FFS (fee-for-service), SNF (skilled nursing facility).

Access: Changes do not reflect the adequacy of FFS Medicare's payment rates

Number of SNFs decreased

- Number of SNFs declined about 1% in both 2023 and 2024

Occupancy rates increased

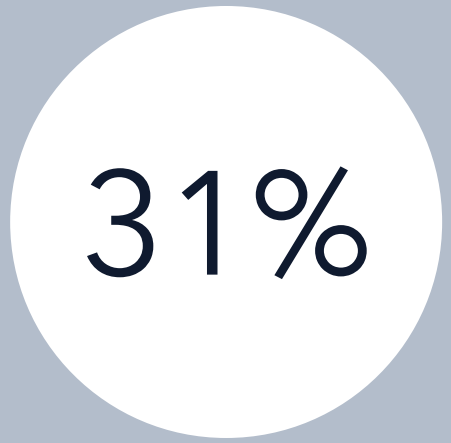
- Facility occupancy rates slowly recovered from pandemic low of 69%
- In October 2024, the median rate was 84%
- For some facilities, workforce challenges limited admissions

Utilization decreased

- Between 2022 and 2023, SNF admissions decreased 12% and days decreased 8%
- Decreases reflect the end of the 3-day hospital stay waiver
- The large decline puts SNF utilization back in line with the slowly declining 2010–2019 levels

Note: FFS (fee-for-service), SNF (skilled nursing facility), SNF (skilled nursing facility).
Source: MedPAC analysis of data from CMS's Quality, Certification and Oversight Reports, Common Medicare Environment, SNF cost reports, monthly COVID-19 nursing home reports, and the Bureau of Labor Statistics.

Access: FFS Medicare marginal profit for freestanding SNFs was high in 2023



On average, freestanding SNFs with available capacity have a financial incentive to serve FFS Medicare beneficiaries

Note: SNF (skilled nursing facility), FFS (fee-for-service). We calculate SNFs' FFS Medicare marginal profit by comparing Medicare's SNF payments with the variable cost of treating an additional FFS Medicare patient.
Source: MedPAC analysis of Medicare freestanding SNF cost reports.

Quality: Measures were stable

Claims-based measures	Median facility rate, 2021–2022	Median facility rate, 2022–2023
Discharge to community	50.7	50.9
Potentially preventable readmissions	10.4	10.4

Staffing measures	Median facility value, 2022	Median facility value, 2023
RN HPRD	0.6	0.6
12-month nursing staff turnover rate (%)	53	53

- Claims-based measures: The median facility risk-adjusted rates of discharge to the community and potentially preventable readmissions were about the same in 2021-2022 and 2022-2023
- Staffing measures: Median facility risk-adjusted RN HPRD and nursing staff turnover rate were identical in 2022 and 2023

Note: RN (registered nurse), HPRD (hours per resident day).
Source: MedPAC analysis of claims-based quality measures and quarterly staffing measures from CMS's provider data catalog.

Quality: Gaps in quality data persist

- Patient experience data are not uniformly collected for SNFs
  - In 2021, the Commission recommended that CMS finalize the development and begin to report measures of patient experience
- Patient function is a key post-acute care outcome
  - The Commission has questioned the accuracy because the information is provider-reported
  - CMS will begin to validate the function information in FY 2027

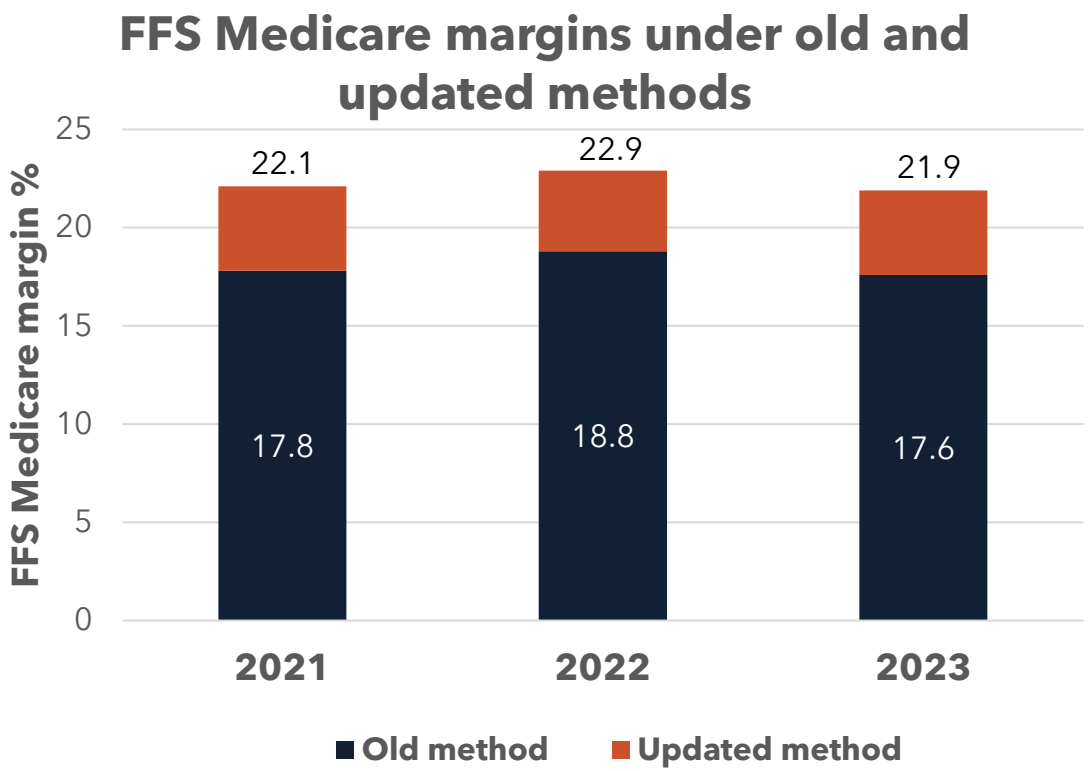
Note: SNF (skilled nursing facility), FY (fiscal year).

Access to capital: Indicators are positive

- Reported transactions indicate strong investor interest
  - More transactions from January to June 2024 than in the past few years
- HUD financed more projects in FY 2024 compared with FY 2023
- All-payer margin for freestanding SNFs increased from –1.3% in 2022 to 0.4% in 2023
  - Fewer SNFs had negative total all-payer margins
  - Overall financial performance of this sector is heavily influenced by states' Medicaid nursing home rates

Note: HUD (Department of Housing and Urban Development), FY (fiscal year), SNF (skilled nursing facility).
Source: MedPAC analysis of data from Irving Levin Associates, HUD, and Medicare freestanding SNF cost reports.

FFS Medicare margins for freestanding SNFs remained high in 2023



Source: MedPAC analysis of cost report data for 2021–2023.

Group	FFS Medicare margin
All	21.9%
25th percentile	10.6
75th percentile	32.0
For profit	25.1
Nonprofit	7.3
Urban	22.2
Rural	20.3
Low volume	6.9
High volume	26.8

Note: FFS (fee-for-service), SNF (skilled nursing facility).
Source: MedPAC analysis of Medicare freestanding SNF cost reports.

Updating the adjustment to account for the greater complexity of FFS Medicare stays compared with other stays

Why do we adjust the costs of care?

- Beneficiaries in a Medicare-covered stay are more complex and costlier to treat than average NH resident
- The Medicare cost report allocates costs to Medicare but does not reflect the differences in complexity
- This adjustment is not new, and is done annually

How do we adjust costs to account for complexity?

- Adjust each SNF's nursing costs upwards by the ratio of the FFS Medicare Nursing CMI to Other Payer Nursing CMI
- Update this ratio using the case-mix weights from the new case-mix system

Effect of the updated adjustment on costs

- Under the new case-mix system, the difference in nursing CMI between FFS Medicare and other payers is smaller
- This new, smaller ratio lowers calculated FFS Medicare costs compared with the old case-mix system, thereby raising the FFS Medicare margin
- Adjustment does not affect total margins

Note: FFS (fee-for-service), SNF (skilled nursing facility), NH (nursing home), CMI (case-mix index).
Source: Analysis of patient assessment data 2017 and first two quarters of fiscal year 2024 by Abt Associates.

Summary: SNF payment adequacy indicators

Beneficiaries' access to care

- Slight decrease in supply
- Decreased volume reflects changes in policy, not adequacy of payments
- Occupancy rates increased to pre-PHE levels and indicate available capacity
- 2023 FFS Medicare marginal profit: 31%

Mostly positive

Quality of care

- Quality measures remained stable
  - Discharge to community
  - Readmissions
  - RN hours per resident day
  - Nurse staffing turnover rate

Positive

Access to capital

- Continued investor interest in the sector
- 2023 all-payer margin improved to 0.4%

Positive

FFS Medicare payments and costs

- 2023 FFS Medicare margin: 21.9%

Positive

Note: SNF (skilled nursing facility), PHE (public health emergency), FFS (fee-for-service), RN (registered nurse).

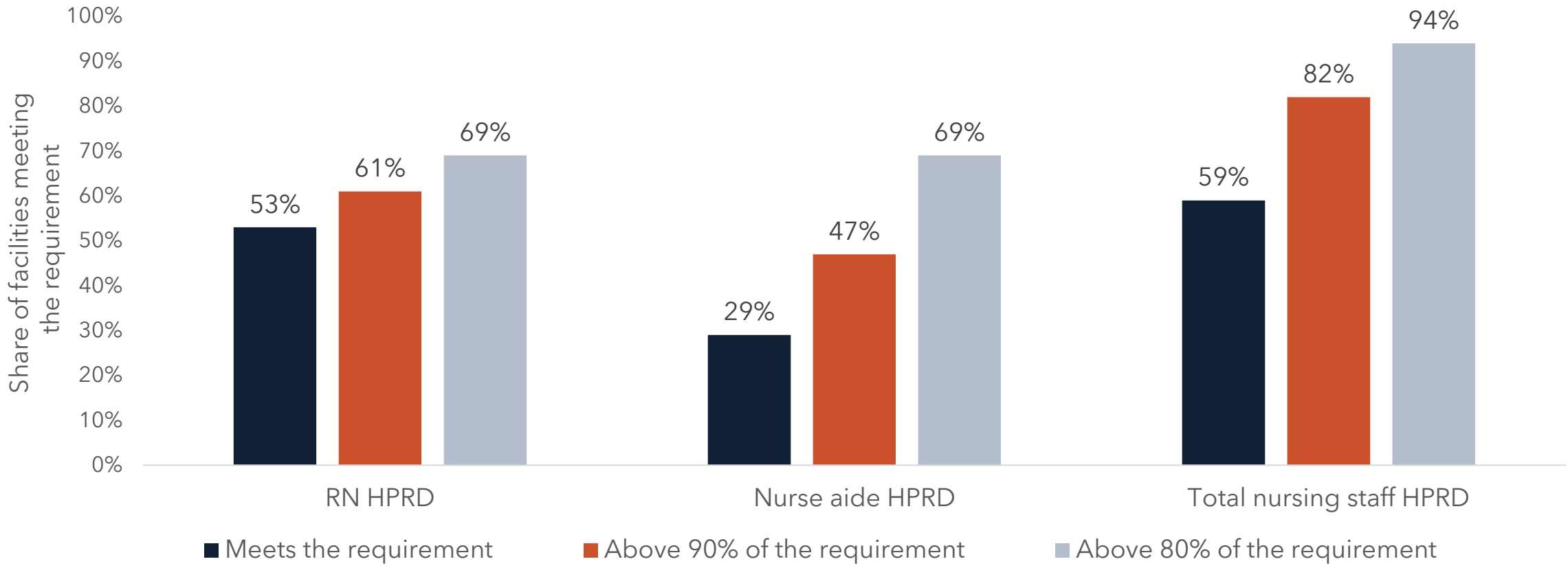
New minimum staffing requirements finalized by CMS

New minimum staffing requirements begin May 2026

- New CMS requirements:
  - Total nurse staffing (RNs, LPNs, NAs) minimum: 3.48 HPRD
  - RN minimum: 0.55 HPRD
  - NA minimum: 2.45 HPRD
  - RN on-site 24/7
- Urban facilities: Beginning May 2026, must meet total nurse staffing HPRD and 24/7 RN on-site requirements; in 2027, must meet all requirements
- Rural facilities: Begin phase-in starting 2027
- Facilities in labor shortage areas can apply for exemptions
- Our analyses are for information-purposes only; the Commission has not taken a position on the new staffing requirements

Note: RN (registered nurse), LPN (licensed practical nurse), NA (nurse aide), HPRD (hours per resident day).
Source: CMS final rule.

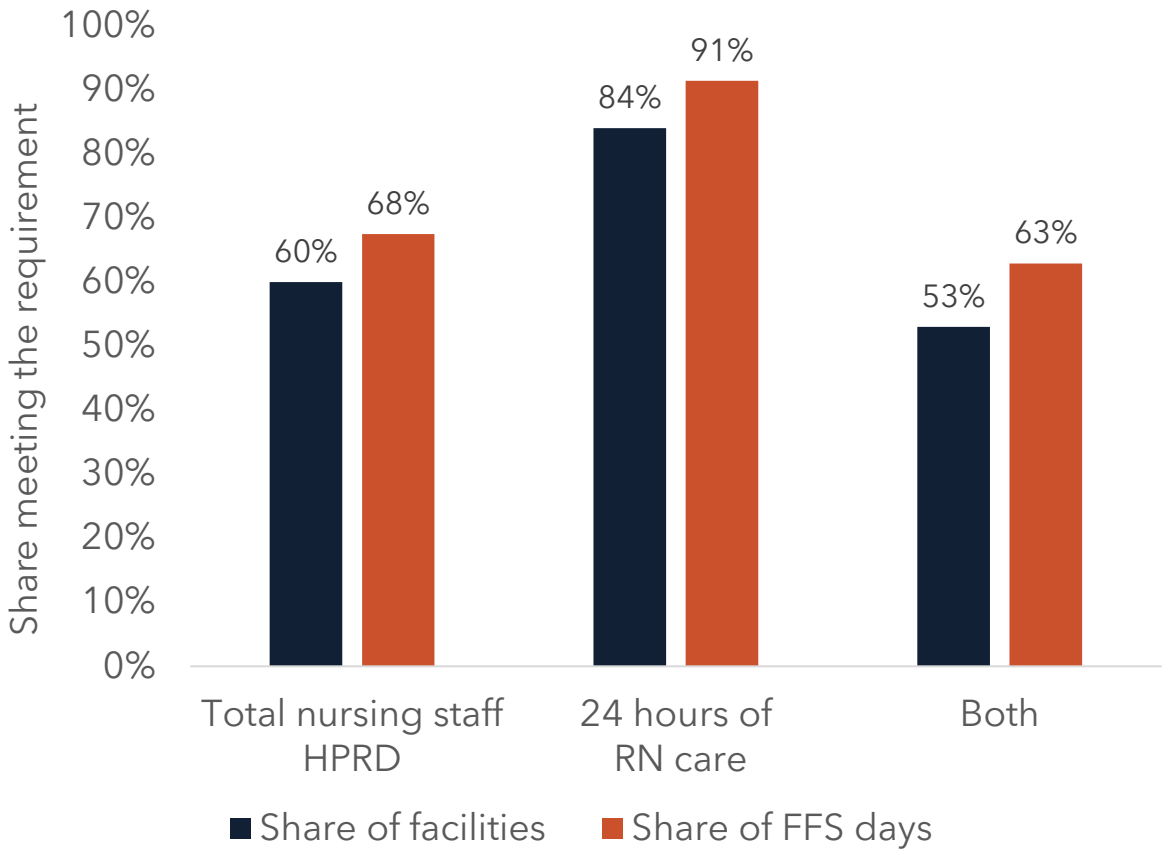
Estimated share of nonexempt facilities meeting new HPRD requirements in 2024



Note: HPRD (hours per resident day), RN (registered nurse). A nonexempt facility does not meet the definition of being located in a labor shortage area (the worker-to-population ratio is at least 20% below the national average) and could not apply for an exemption.

Source: MedPAC analysis of Bureau of Labor Statistics, Census Bureau, and Nursing Home Compare data, 2024.

Urban nonexempt facilities: Estimated share meeting 2026 requirements, based on 2024 staffing levels



- In 2026, urban facilities are required to comply with two requirements (total nursing staff HPRD and RN on-site 24/7)
- Based on 2024 staffing levels, the majority of urban facilities would meet these two requirements, but many would not

Note: HPRD (hours per resident day), RN (registered nurse). MedPAC calculated 24 hours of total RN care, which may include overlapping RN hours and thus not represent 24/7 RN care. A nonexempt facility does not meet the definition of being located in a labor shortage area (the worker-to-population ratio is at least 20% below the national average) and could not apply for an exemption.

Source: MedPAC analysis of Bureau of Labor Statistics, Census Bureau, and Nursing Home Compare data, 2024.

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