MASSACHUSETTS
SENIOR CARE
ASSOCIATION

Health Policy Commission
2015 Cost Trends Hearing
October 5 & 6, 2015
Testimony
Massachusetts Senior Care Association

On behalf of the Massachusetts Senior Care Association (MSCA), representing approximately 400 nursing facilities employing and caring for more than 200,000 individuals, we thank you for the opportunity to submit comments at Health Policy Commission's 2015 Annual Health Care Cost Trends Hearing. We commend the Commission for their commitment to working with providers, consumers and all stakeholders to control the growth of health care spending in the Commonwealth. As highlighted below, we want to emphasize that the nursing facility provider community is **not** the cause of escalating health care expenditures as total nursing facility revenues continue to decline annually for the period 2011-2013 (2014 CHIA cost report data not yet available).

The Commonwealth's 425 nursing facilities are committed to providing quality care to individuals who can no longer live safely in the community or are in need of short-term rehabilitation before returning home after a medically complex hospital stay. We care for approximately 150,000 individuals each year and more than half return home within a few weeks. **Our long-term care residents** are frail, mostly dependent on assistance with all aspects of daily living and have a very high medical acuity. The typical resident is female, age 86, has multiple illnesses (including dementia) and lived alone prior to entering a nursing facility. **Our short-term patients** are younger and admitted directly from the hospital following a surgical procedure or other type of medical intervention. These patients, who have their care paid for primarily by Medicare, receive intensive skilled nursing and rehabilitation services before returning home within a few weeks.

The vast majority of long term nursing home residents have their care paid for by the state Medicaid program. As a result of the "Great Recession" and competing state budget priorities, there has been little state investment in nursing home care in nearly a decade. During this same time, the operating costs, of which labor wages and benefits constitute 75%, have increased. This has resulted in a record-high $37 a day gap between the cost of providing quality care and Medicaid payments. This translates into an average annual loss of about $900,000 per facility for a total of $353 million for the entire provider community – making the Commonwealth the 4th worst in the nation for the highest gap between the cost of quality nursing home care and Medicaid reimbursement.

Nursing facilities have worked diligently for years to offset Medicaid losses by being extremely efficient and by cross-subsidizing Medicaid shortfalls with payments from Medicare and Private Pay, which better reflect the cost of care. However, it is important to recognize that recent changes in Medicare reimbursement, including strict utilization controls by HMOs and now ACOs, in combination with Medicare rate reductions, have resulted in a significant decline in Medicare reimbursement. More

directly put, the state needs to more adequately fund Medicaid because Medicare payments can no longer shoulder Medicaid underfunding.

Using state data from annual nursing facility cost reports, Mass Senior Care Association has documented the financial viability of the Commonwealth's nursing homes looking at Medicaid, Medicare and overall operating margins. We are extremely concerned that the recent trends indicate a provider community that is at great risk. At best the data is alarming and at worst it is catastrophic.

- Specifically, increasing costs of delivering care, and years of a Medicaid rate freeze have contributed to a **negative 15%** Medicaid margin for nursing facilities in 2013 - the worst, since the program's inception. Again, we want to emphasize that over 2/3 of our residents have their care paid for by Medicaid. Given our high proportion of Medicaid residents, the adequacy of Medicaid payment is critical. In short, nursing facilities are uniquely dependent upon state funding to invest in quality care and staff.

- Medicare margins, which have subsidized inadequate Medicaid payment, while still positive, have declined over the last few years. We anticipate that this downward trend in Medicare margins will continue due to rigorous utilization and payment control by Medicare managed care payers, including Pioneer ACOs.

- As a result of negative Medicaid margins and declining Medicare margins, we project the typical nursing facility to have had an **overall negative 1% margin in 2014**. This means that approximately 215 of the states 425 nursing homes are operating on substantial budget deficits. It is worth noting that these homes have a higher than average percentage of Medicaid residents. This is unsustainable. While the nursing facility community has always operated on razor thin margins (around 1% in better times), we are currently in the red.

So what does this mean for our staff and residents? Despite inadequate government funding, we have a higher overall 5 star rating compared to the nation's nursing facilities, 25% of our facilities are deficiency free according to the Department of Public Health, our rehospitalization rate is 10% lower compared to the nation and we have had a 25% decline in the use of antipsychotic medications for long stay residents since the start of the CMS campaign to reduce antipsychotic medication use. And, perhaps the best measure of quality, consumer satisfaction remains extremely high, at over 90%.

As the Commonwealth continues to move towards a full employment economy, nursing facilities are experiencing increasing instability in our workforce, as reflected in higher staff vacancy rates for direct care nursing and shorter retention periods for the same staff. Indeed, labor challenges are reaching a crisis point, as one in ten certified nursing assistant positions is vacant. It is critical that we work with the Administration and Legislature to invest in nursing home worker wages to enable facilities to meet their mission of providing quality care. We are grateful that the Legislature began this important effort in FY 2016 by funding a "direct care labor add-on" which will increase wages on average by about 10 cents per hour. A significantly larger investment is needed in order to ensure a quality workforce and create a living wage for our dedicated caregivers.

FACTS

- **Total Nursing Facility Revenues, 2011 through 2013** – based on CHIA cost report data, total revenue for nursing home care has declined since 2011. As highlighted below, we have experienced over a $283 million decline in total nursing facility revenue in calendar years 2012 and 2013, representing a cumulative 6% decline in revenue in that 2-year period. Total revenue includes all payers (Medicaid, Medicare, Private)

Calendar Year	$ Total Revenue	Annual $ Change	Annual % Change
2011	$4,289,705,776	N/A	N/A
2012	$4,102,220,263	($187,485,513)	-4%
2013	$4,006,179,673	($96,040,590)	-2%
2-year 2011-2013		($283,526,103)	-6%

- **Medicaid Revenue** - Approximately two-thirds of nursing facility residents (about 30,000) have their care paid for by Medicaid each day. The nursing facility provider community's disproportionate dependence on Medicaid means that MassHealth has an even greater obligation to adequately fund facilities to ensure quality care. Unlike virtually all other health care providers who are not reliant on Medicaid funding, nursing facilities do not have the ability to offset Medicaid underpayments by shifting costs to other payers. And, since approximately three-quarters of a nursing facility's budget is used to fund employee wages and benefits, a nursing facility's ability to increase wages and benefits to its dedicated staff is largely dependent upon state funding for nursing facility care. Unfortunately, for the eight-year period covering SFY 2009-SFY 2016 (July 2008 through June 2016), the state has failed to adequately recognize the true cost of delivering quality nursing home care to Medicaid residents. The state has imposed a rate freeze on operating costs (wages) for seven of the last eight fiscal years. As a result, there is a $37 per day gap between Medicaid payments for nursing facility care and the actual allowable cost of patient care. Only 4 states have larger gaps in the amount they reimburse under Medicaid compared to allowable costs. Simply put, current Medicaid rates are woefully inadequate relative to the actual cost of care. This is unsustainable, particularly in light of the nursing facility provider community's disproportionate dependence on Medicaid funding and given the recent material reduction of Medicare revenue which has subsidized Medicaid for the first half of the extended rate freeze period. We believe that for those who no longer can be cared for safely at home as determined by the state, Medicaid has an obligation and moral responsibility to adequately fund nursing homes to ensure quality care for the care provided to low-income frail elders and disabled individuals.

- **Medicare revenue** – after a steady annual increase in Medicare NF revenue from 2009 through 2011, Medicare nursing facility revenue declined significantly in 2012 and 2013, totaling cumulatively over $200 million, or 18% for the 2-year period. The decline in Medicare revenue results from a combination of CMS imposed rate reductions and a decline in Medicare SNF ALOS. Because Medicare subsidizes inadequate Medicaid rates, this Medicare revenue decline has a particularly negative impact on nursing facility margins.

- **NF margins** – as a result of Medicare rate cuts and Medicaid rate freezes, the overall financial status of the nursing home provider community has declined precipitously, as highlighted in the chart below. In the best of times, nursing facilities operate on razor thin margins. In 2012 and 2013, the median margin was close to a negative 1%. This is unsustainable.

CY	**MEDIAN 50th Percentile**
2008	**0.9%**
2009	**0.9%**
2010	**1.1%**
2011	**0.9%**
2012	**-0.9%**
2013	**-0.7%**