

Policy Title: Rates -- Medicaid Nursing Home and Personal Care Reform

The Wisconsin Medicaid nursing home and fee for service personal care reimbursement systems should be reformed to create payment standards that are reflective of the actual cost of care. Currently, the Medicaid program establishes payment rates for nursing homes and personal care workers according to the funding levels made available by the Governor and Legislators through the State Budget process. As proposed, budgeting for these services in the future would be more directly tied to: (1) paying for a specified percentage of the actual cost of care (for nursing homes) and (2) an estimated hourly wage to be paid to personal care workers.

Primary Contact and Members Who Worked on the Proposal: John Sauer (primary), Beth Swedeen, , Margie Steinhoff, Ted Behnke, Bill Crowley, Lisa Pugh, Todd Costello

Brief Description

As proposed, the nursing home payment standard for direct care (primarily CNA, RN and LPN wages) would be established according to cost-based payments based on a percentage of the nursing home statewide median direct care costs, and the support services (primarily housekeeping, dietary, laundry, maintenance and administrative services) payment standard would be paid at the *lessor* of a percentage of the nursing home statewide median support services costs or the provider's actual cost. This proposal would also address labor region disparities that exist under the current nursing home payment system which negatively impact direct caregiver wages and benefits in many "low-cost" rural areas of the state. Similar adjustments would be made to reflect personal care direct care costs. Under this proposal, budgeted dollars would be explicitly provided to personal care agencies to fund an estimated hourly wage for personal care direct care workers.

Consistent with the Task Force's Family Care recommendations, the nursing home and fee for services personal care payment standards should be annually adjusted by CPI. The goal of reimbursement adjustments is to prioritize increases in worker wages to reflect market dynamics.

Analysis

- Although the DHS Medicaid nursing home reimbursement formula is somewhat complex with multiple cost centers and detailed cost report instructions, the formula has lost much of its meaning over the past several years. The Wisconsin Legislative Fiscal Bureau, notes, "Previously, these cost centers played a greater role in determining the distribution of funding between nursing homes. Facilities could expect to be reimbursed up to their actual expenditure, provided that they did not exceed the targeted cost. However, as funding provided for nursing home reimbursement has lagged behind industry cost growth and inflation, the targeted rates set for cost centers have covered a smaller percentage of average actual nursing home costs. DHS staff estimate that in 2016, 75% of facilities experienced direct care nursing costs in excess of the rates provided for that cost center, after factoring in direct care-related provider incentives. However, when Medicaid costs across all cost centers are considered, 97.1% of nursing homes reported total costs that were greater than the total fee-for-service reimbursement rate, largely due to significant deficits in the support services cost center."

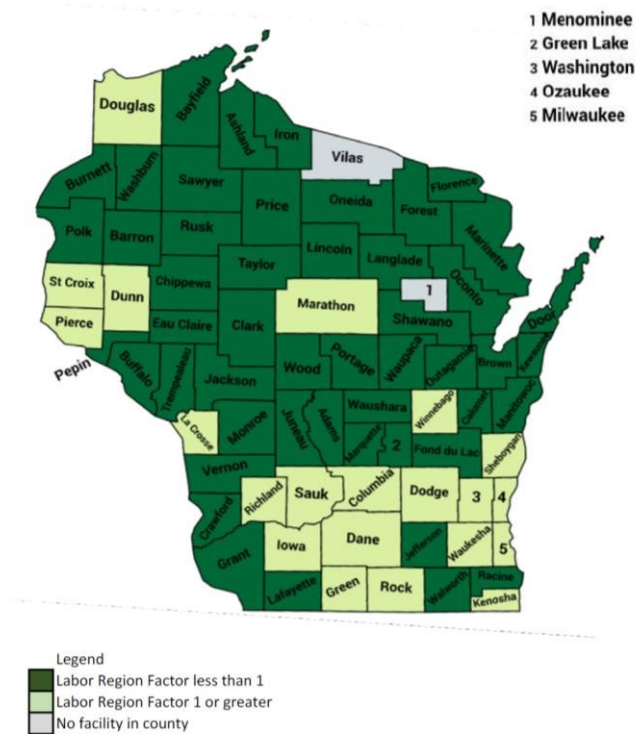
[sistance and related programs informational paper 41.pdf](#), Medical Assistance and Related Programs (BadgerCare Plus, EBD Medicaid, Family Care, and SeniorCare), Prepared by Alexandra Bentzen, Jon Dyck, Charles Morgan, and Aaron Whitaker, Wisconsin Legislative Fiscal Bureau January, 2019}

- The failure to maintain a nursing home payment standard has resulted in significant financial hardship on the nursing home provider community. Since 2016, forty nursing homes have closed, including twenty closures in the past 17 months.
- National reports indicated Wisconsin has the second worst nursing home payment system in the country (relative to covering the actual cost of care)
https://www.ahcancal.org/facility_operations/medicaid/Documents/2017%20Shortfall%20Methodology%20Summary.pdf.
- In 2018, the CLA study reported Wisconsin nursing homes had an overall net operating margin (3.5%) in the country. (<https://www.claconnect.com/resources/white-papers/2019/34th-snf-costcomparison-and-industry-trends-report>):
- Wisconsin's residential and nursing facilities report a caregiver vacancy rate of 23%. Many facilities have been forced to deny admissions due to lack of staff. See: [2020 Workforce Crisis Report](#)
- Bottom-Line for Caregivers: It is extremely challenging for nursing homes to offer competitive wages and benefits, and improve staffing hours, because of poor Medicaid payment rates which are not reflective of the actual cost of care.
- Wisconsin Medicaid nursing home rates are established based on overall State Budget decisions, and only after the State Budget passes do policymakers begin to determine how the available dollars will "shoe-horned" into the current payment formula. That is, a payment standard is not funded reflective of the cost of care and workforce considerations; instead, the formula is changed from year-to-year simply based on the funds available. The proposal would move the payment system to a "cost-based" formula.
- The proposal is based on the nursing home payment system established by the State of Minnesota. The Minnesota Medicaid nursing home payment system reimburses direct care costs, including CNAs, based on the actual and projected direct care costs for facilities located in the seven metro counties (Twin Cities area). According to MN Department of Human Services officials, very few Minnesota nursing facilities do not have their actual resident direct care costs covered, the opposite of what occurs in Wisconsin. In Minnesota, no facility is paid more than their direct care cost. For support services costs, (e.g., housing keeping, dietary, laundry, maintenance and administration) the cost-based payment standard is set at 105% of the cost within the seven-county metro area. <https://www.house.leg.state.mn.us/comm/docs/324f64d1fcba-48a6-971a-ec8acf6ca6c8.pdf>. On average, Minnesota CNAs are paid approximately \$2.00/hour more than CNAs working in Wisconsin: <https://www.findcnaclasses.com/cna-salary/> and <https://www.house.leg.state.mn.us/comm/docs/324f64d1-fcba-48a6-971aec8acf6ca6c8.pdf>.

- The Wisconsin nursing home payment standard would be established by the Governor and the Legislature. The payment standard may need to be phased-in, as the shortcomings of our State’s nursing home reimbursement formula are unlikely to be fixed over a single biennium.
- To address the financial inequities of the nursing home payment formula’s labor regions, the proposal would adjust all Medicaid nursing home labor regions so that no region fell below the statewide factor of 1.0 and this would be accomplished without a redistribution of funds (i.e., without creating winners and losers). Using the statewide labor region factor as the “floor” payment would help rural facilities pay caregivers a more competitive wage and address the overall challenges facing these providers. The following map shows the areas in dark green that receive lower direct care payments because they fall below the statewide labor factor of 1.0:



Wisconsin Medicaid Labor Regions



Personal care rates, which support community-based personal care workers, have been underfunded for decades. The result is a workforce shortage so severe that it is jeopardizing the health, safety and welfare of older adults and people with disabilities. Consistent rate increases are needed to support an adequate provider network and a quality workforce— both of which are in jeopardy because of chronic underfunding.

- The personal care reimbursement rate is paid to personal care agencies to fund all of the agencies' costs associated with providing care, including: (a) wages and benefits for personal care workers; (b) the agencies' other direct care costs, such as nursing staff, supervisors, and travel costs; and (c) indirect costs, such as office operations and insurance costs. Thus, personal care agency funding increases must cover several operating expenses in addition to direct care workers' wages and benefits.
- Building off the current State Budget assistance for personal care workers, the proposal is to establish payment standards such that rates paid for direct care to personal care agencies reflect necessary market adjustments and CPI increases.
- The personal care agency payment standard would be applied to personal care provided on a fee-for-service and managed care basis, as well as for personal care services provided to IRIS participants, including self-directed IRIS personal care services.

Potential funding options/cost savings/benefits.

- If Wisconsin hopes to improve wages and benefit to caregivers serving nursing home residents, the overall nursing home payment system must be reformed. One cannot happen without the other. This investment is necessary to preserve CNA jobs and address the need to improve wages, benefits and hours.
- Personal Care Agencies, and those they serve, would be greatly assisted if the State of Wisconsin committed to a payment standard reflective of market trends and the need to offer competition wages and benefits for direct care workers.

What state agency or other entity would be responsible for implementing the proposal, if it were approved? (e.g. DHS, DWD)

The Department of Health Services would be responsible for implementing both the nursing home payment standard and personal care payment standard proposals.

Cost Estimates

The fiscal effect of the nursing home and personal care agency proposals is obviously dependent on the payment standards selected. To give some perspective, the State Budget increased nursing home rates by \$15.0 million GPR in 2019-20, sufficient to fund a 5.4% first year increase (excluding a 1% acuity adjustment). The Budget provided a 12% increase to the Medicaid Personal Care Reimbursement Rate: The rate increased by 9% on July 1, 2019 to about \$18.23 per hour and it is estimated the rate will increase by 3% in July 2020 to about \$18.77 per hour. The cost of this initiative was \$15.3 million GPR in 2019-20 and \$21.6 million GPR in 2020-21. The cost of the nursing home labor region proposal is estimated to annually cost no more than \$4.0 million GPR.

The Governor's Task Force on Caregiving should request the assistance of DHS to establish:

Governor's Task Force on Caregiving
Policy Proposal, June 11, 2020

- What percentage of facilities are currently paid for their direct care costs?
- What percentage of facilities are currently paid for their support services costs?
- What percentage of median costs are paid for each cost center and overall?
- What would it cost to establish a payment standard at 50%/60%/75% of the direct care statewide median?
- What would it cost to establish a payment standard at 50%/60% of the support services statewide median?
- What would it cost to enable personal care agencies to pay direct care workers \$14/\$15/\$16 per hour and tie future increases to CPI?

Once the DHS provides information on these cost estimates, the Task Force should be in a better position to recommend payment standards as discussed above.