SENIOR LIVING TRUST FUND UPDATE

Iowa's Senior Living Trust Fund was established in House Files 2408 (2000 Senior Living Program Act) to administer federal funds received as a result of revised billing practices under the Medicaid Program. The revised billing entails claiming the "Upper Payment Limit" reimbursement for government-owned nursing facilities, and includes the following steps:

- The State pays the maximum allowable amount (the Medicare rate) to qualified facilities and thereby maximizes the federal match received by the State.
- The State then requires nursing facilities receiving the maximum allowable reimbursement to return a portion of the reimbursement to the State. The amount to be returned is the difference between the maximum allowable amount paid (the Medicare rate) and the usual rate paid (the Medicaid rate).
- The State is able to use the money returned from the nursing facilities to fund other Medicaid expenses. See *Table 1* for an example of the funding flow.

Iowa has proposed that the returned money be placed in the Senior Living Trust Fund and used to fund alternative long-term care services. Proposed long-term care alternative expenditures include $20.0 million per year to convert nursing facilities to assisted living, $5.0 million in FY 2001 to convert nursing facility reimbursements to a case-mix methodology, $12.8 million in FY 2001 to maintain the 70th percentile reimbursement for nursing facilities, and between $6.5 million and $12.2 million per year for alternative long-term care services.

The federal Health Care Financing Administration has recently expressed concern over states' use of this funding mechanism in part because states are using the money returned from the nursing facilities for expenditures that are not Medicaid-related. A Notice of Proposed Rulemaking has been drafted which would phase-out states' ability to claim federal reimbursement based on the Upper Payment Limit. Three classifications of states have been identified:

- States with state plan amendments pending but not approved: These states are likely to have their amendments disapproved at the earliest possible date.
- States with approved state plan amendments but whose plans have been in effect for a short period of time: These states are likely to receive a very limited phase-out period.
- States with approved state plan amendments whose plans have been in effect for a long period of time: These states are likely to receive an extended phase-out period.

Iowa received approval for its state plan amendment in April 2000, and would thus be classified as the second type of state (approved plan with a short effective period). When Iowa initially submitted its plan amendment, the Iowa Department of Human Services (DHS) estimated Iowa would receive approximately $80.0 million in each of FY 2001 and FY 2002, and would receive approximately $65.0 million, $35.0 million, and $10.0 million in FY 2003, FY 2004, and FY 2005, respectively. These estimates have been revised based upon indications from the federal Health Care Financing Administration. The DHS now estimates Iowa will receive approximately $95.0 million in FY 2001, $10.0 million in FY 2002, and nothing thereafter. If federal funding is received as now anticipated and expenditures from the Senior Living Trust Fund continue as originally planned, the Senior Living Program will deficit in FY 2004.

Table 1

Sample of Using the Upper Payment Limit to Maximize Federal Funds

For the purposes of this example assume:

There are 1,000 nursing home beds in a state;
900 are private and 100 are county-owned;
The state Medicaid program pays $60 per day;
Medicare would pay $100 per day; and
The state has a 50% federal matching rate under Medicaid.

1) Under current regulations, the state may estimate how much Medicare would theoretically have paid for nursing home care.
(1,000 beds x $100 per day under Medicare = $100,000)

2) The state then would estimate its share.
(50% state match x $100,000 = $50,000)

3) Then the state would claim a federal matching payment on the amount.
(50% federal match x $100,000 = $50,000)

4) Then the state would pay its usual rate to private nursing homes.
(900 private beds x $60 per day = $54,000)

5) Then the state would direct all of the additional funding to the county-owned nursing homes.
($100,000 - $54,000 = $46,000)
($46,000/100 beds = $460 per day)

6) Then the state would require the county-owned nursing home to return all but the usual Medicaid payment to the state.
($60 per day x 100 beds = $6,000)
($46,000 - $6,000 = $40,000)

7) Then the state could keep the money (meaning the state received $50,000 of federal funds for only a $10,000 state match); use the money for other purposes; or use this money as the state matching payment to restart the process by drawing down additional federal matching with no additional state contribution.

Source: Health Care Financing Administration (HCFA)