

**Iowa Department of Human Services
New Price-Based Nursing Facility Case Mix Reimbursement System**

Briefing Document

Why is Iowa implementing a case mix reimbursement system?

➤ **To improve access for heavier care nursing facility residents**

Case mix reimbursement can improve access because it:

- Removes the current system incentive to admit lighter care needs residents. For example, under the current system, nursing facilities with costs above the 70th percentile have an incentive to lower their costs below the payment limit. Since costs vary with case mix, these nursing facilities have likely reduced costs by admitting lighter care residents.
- Case mix reimbursement rates for direct resident care have been designed to vary depending on nursing resource needs. Since resources are higher for heavier care residents, Medicaid reimbursement under case mix is increased to account for these higher direct care costs.

➤ **To improve cost containment incentives**

The proposed case mix reimbursement system increases the incentive to contain costs because:

- Facilities are encouraged to operate as efficiently as possible -- maximizing profits or minimizing losses are tied to controlling costs relative to a facility's case mix.
- Case mix rewards economic and efficient nursing facilities with greater reimbursement.
- Encourages inefficient providers to consider minimizing participation or withdrawing from the Medicaid program.

➤ **To increase consumer choice for long term care services**

Case mix can increase consumer choice for LTC services because it:

- Reduces incentives for nursing facilities to take lighter care residents that can be otherwise served in non-institutional environments.
- Recognizes consumers' preference for alternatives to institutional care by adopting reimbursement policies that encourages the development and placement of residents in alternatives to institutional LTC.

➤ **To contribute to the quality of lives of Iowans**

The accountability measures offer an opportunity to link Medicaid payment to quality of care.

- The proposed system recognizes a portion of the Medicaid rate to be based on each facility achieving certain accountability and quality measures.
- These measures are proposed to include surveys and compliant investigations, customer satisfaction, employee retention rates, nurse staffing levels, provision of specialized Alzheimer's units, percentage of expenses towards staff training, ratio of patient care expenses versus administrative expenses, occupancy rates, Medicaid utilization, and Resident Advocate Committee surveys.

➤ **To achieve a balance between institutional and non-institutional LTC alternatives**

Case mix can help align Iowa's Medicaid reimbursement policy with the goals of the Senior Living Program (SLP).

- Nursing facilities have state-funded grants available for them to convert beds to alternative uses when deemed appropriate by market demand. Iowa's proposed case mix reimbursement policies reduce payments to nursing facilities that have under utilized plant assets.
- Iowa's proposed case mix reimbursement policies encourage admission of residents with greater clinical needs that might otherwise be served in a more costly acute care environments.
- Iowa's proposed case mix reimbursement policies encourage care for residents with the greatest needs, and therefore residents with lesser care requirements can be served in less restrictive non-institutional settings, at lower costs and ultimately leading to more consumer choices for health care services in the most cost-effective setting.

What are the main differences between "cost-based" and "price-based" reimbursement systems?

A cost based system links Medicaid reimbursement to actual costs incurred by facilities, while a price based system establishes a standard price for a given level of nursing facility service. That is, each facility's Medicaid reimbursement in a price-based system is independent of their actual costs incurred. The standard price is adjusted based on each facility's individual case mix level, so that facilities that need higher resources to care for more acute and dependent residents will receive higher reimbursement under the price-based system.

➤ **Price-based reimbursement system**

- Effective cost containment incentives
- Uniform payment for a given level of care
- Administratively simple
- Easy to budget (State and provider)
- Will produce larger gains (low cost providers) and losses (high cost providers)

➤ **Cost-based reimbursement system**

- Typically has less incentive to reduce costs than a price based system
- Will not likely lead to changes in provider behavior that is needed to fully achieve the SLP goals
- Provides Medicaid reimbursement for variations in costs other than nursing
- More reflective of actual facility cost patterns
- Avoids large windfalls created by a pure pricing system
- Easier transition coming from the current cost-based system

What are the industry positions and DHS' response to them?

IHCA and Iowa Council

The IHCA/IC are in general agreement with the structure of the new system to be implemented. They have, however presented comments requesting that the payment parameters be increased beyond those proposed by DHS. Their position is based on their belief that additional budgetary resources are available to support the higher funding levels.

IAHSA

The IAHSA does not believe that the price-based system is an appropriate Medicaid reimbursement system. They believe that facilities should be reimbursed based on the costs they incur, on the theory that reimbursing on that basis will result in higher quality of care. Additionally, the IAHSA believes that increased reimbursement available to low cost providers under a price-based system will lead to profit taking, and will not lead to improvements in quality care.

DHS Position

The DHS must seek a reasonable balance between providing adequate resources to Iowa nursing facilities to enable them to meet the needs of elderly Iowans entrusted in their care, our fiduciary responsibilities to prudently manage the State's limited Medicaid budget resources, and lastly, to ensure that the legislative intent of SF 2193 is

accomplished through the development of sound public policies and programs. The DHS strongly believes that the price-based case mix system reimbursement provides this balance.

Concerns over quality of care – As a primary purchaser of nursing facility services, DHS recognizes that quality of care must be a high priority. The proposed system includes additional reimbursement incentives to achieve certain quality measures. This feature of the new system will link additional Medicaid reimbursement directly to a facility achieving standards most closely related to high quality. In addition, we intend to work closely with DIA to closely monitor any undesirable trends observed in quality of care.

Concerns over windfall/profit-taking – The DHS recognizes that some facilities will receive significant rate increases under the proposed case mix system. In response to considerable feedback received from the industry, we believe that these additional resources will be directed toward improvements in the quality of care and quality of life for residents. The DHS will monitor changes in provider spending patterns, and will make appropriate refinements to the system if undesirable patterns are observed.

It is clear that the long-term industry is changing, not just in Iowa, but across the nation. The Iowa General Assembly with substantial bi-partisan support to recognize the need for Iowa and the nursing facility industry to adapt to these marketplace changes enacted the SLP. While the new price-based case mix system is not “all things to all people,” the DHS is confident that this system moves Iowa and the industry toward achieving the goals of the SLP. By continuing to reimburse the costs incurred, a cost-based system on the other hand does not offer strong incentives for facilities to adapt to these marketplace and SLP changes. As a result, a cost-based system may therefore artificially impede Iowa’s progress towards achieving the SLP goals by not providing appropriate incentives for facilities to change behavior and adapt to the changing marketplace.