Nursing Home - Medicaid Cost Coverage

December 2022

Summary

Wyoming Medicaid's reimbursement rates for nursing homes currently cover, on average, ~ 83% of the total cost of care. However, because the most recent cost report data is from FY2020 and costs have likely escalated by 15 - 25% over the last two years, actual cost coverage is likely between 65 - 72% today.

What is Medicaid cost coverage?

Medicaid pays nursing homes for eligible residents' stays on a per-diem basis. And, just like it sounds, "cost coverage" is the primary measure we use to determine how far those rates go in covering nursing homes' allowable[1] per-day costs for their Medicaid clients. We look at cost coverage in two ways: with and without supplemental[2] payments. Generally speaking, including these net supplemental payments paints a better picture of how well (or poorly) Medicaid pays providers.

Tracking cost coverage is important because Medicaid is the single largest payer for long-term care in Wyoming. For any given nursing home, Medicaid pays for between 46% and 85% of resident days, and its statewide average share has increased from 61% to 64% between 2012 and 2020.[3]

As a result, decreases in cost coverage can significantly impact providers' ability to stay afloat. While Wyoming has been fortunate to avoid catastrophic nursing home closures in the past, the recent closure of Bonnie Bluejacket nursing home in Basin (and transfer of many residents to the nearby Wyoming Retirement Center) may be a bellwether post COVID.

Overall cost coverage, measured with latest available (FY2020) costs was approximately 83%

Figure 1, on the next page, illustrates how Medicaid cost coverage varies by provider based on the latest available (FY 2020) cost report data. Statewide average cost coverage without supplemental payments was 72%, and with supplemental payments was ~83%.

Cost coverage varies significantly across providers because both the numerator (Medicaid rates) and denominator (costs) vary. Medicaid rates are adjusted based on a formula that looks at factors like average care intensity needs, size of the facility and age of the facility. Provider costs, on the other hand, are largely driven by labor, to include:

- Staffing intensity, i.e., labor hours per client per day. Generally speaking, facilities with a higher percentage of private-pay patients can afford higher nurse staff-to-client ratios. Higher percentages of Medicare (e.g., short-term post-hospital stays) business also typically involves a lot more therapy hours due to its rehabilitative (vs. custodial) model.

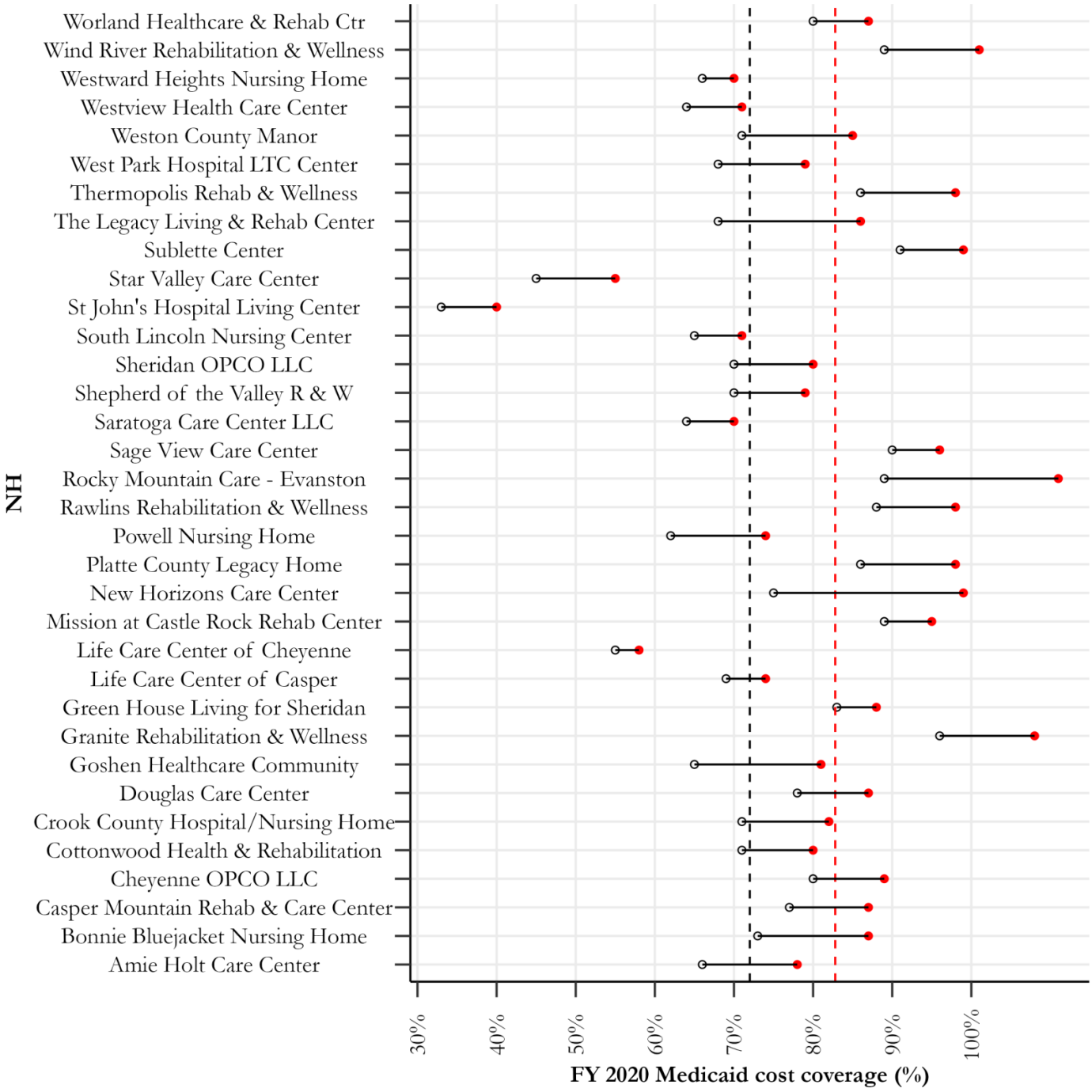
[1] Certain cost centers like gift shops, coffee bars, flower shops, barber shops, physician's offices, and patients' laundry are not considered reimbursable by CMS.

[2] These are also known as Upper Payment Limit, UPL, or "gap" programs. Generally speaking, these programs draw down additional federal funds by using provider taxes or transfers as matching funds in lieu of State General Funds.

[3] Analysis of consolidated 2012 - 2020 HCRIS reports for WY nursing homes.

- Nursing-related wages, which are driven by both national and local market conditions (e.g., cost of living in the Jackson area, which explains why both Teton County (St. Johns) and north Lincoln County (Star Valley) nursing facilities Medicaid cost coverage is so low.

Figure 1: FY2020 Medicaid cost coverage by nursing facility. Open circles represent cost coverage without supplemental payments and red dots indicate cost coverage with supplemental payments. The red dashed line shows cost coverage with supplemental payments and the black dashed line shows the average without.



Actual FY2022 cost coverage is almost certainly lower than reported due to recent inflation

Because cost coverage calculations require standardized cost reporting submitted to the Centers for Medicare and Medicaid Services (CMS), these measures are not current. Our latest reported estimate of cost coverage (83% with UPL) is based on FY 2020 data (the latest available).

Given the significant inflation (both generally and in the nurse labor market specifically) that has occurred since 2020, Medicaid payments are likely covering less and less of increased costs today.

Figure 2, below, shows change in cost per day by State in our region. Using data from the handful of nursing homes that have reported FY2021 data around the country, we extrapolate that overall costs per day have increased between 10 - 15% between July 2020 and July 2021. If the trend continues, average costs may be close to $380 per day now.

On the figure, each black line shows per-diem cost trends for individual nursing homes, by state. The red line and shaded area show the estimated state average and 90% uncertainty intervals for the overall distribution of costs.

Figure 2: Actual and estimated cost increases, FY2011 to FY2021

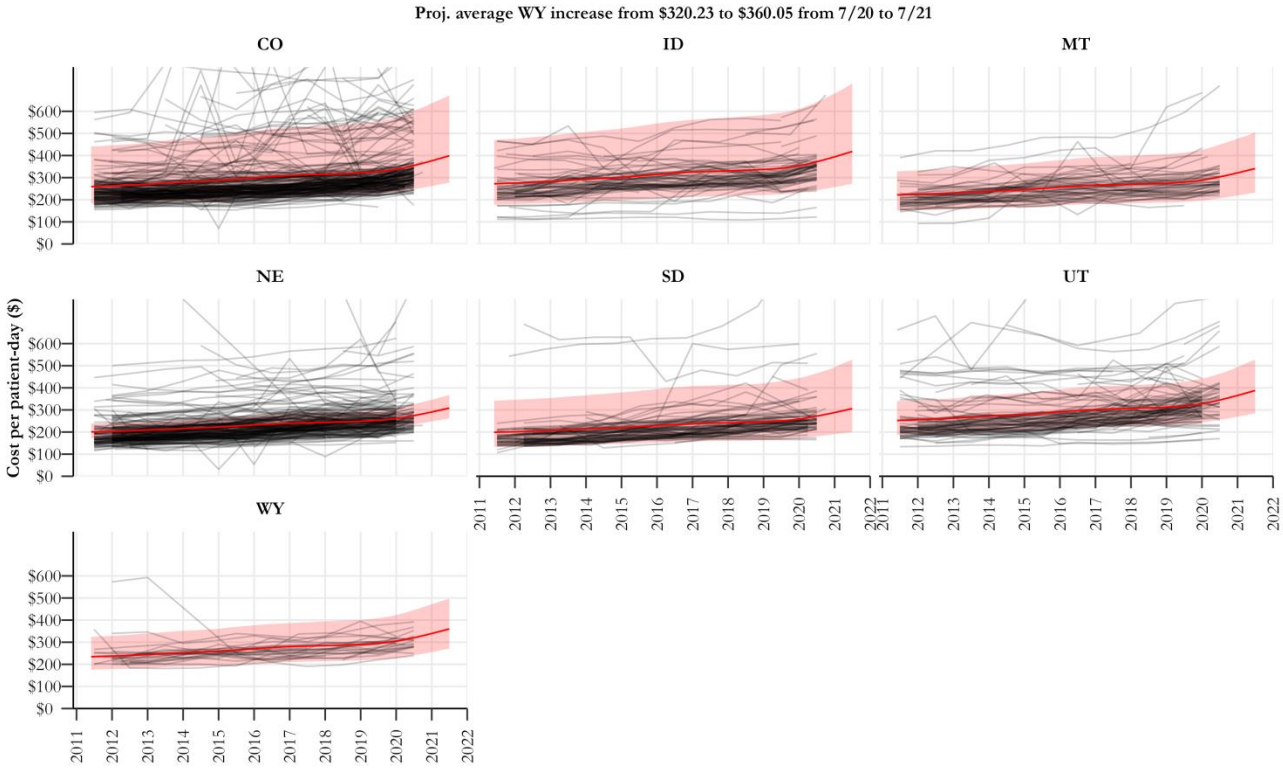
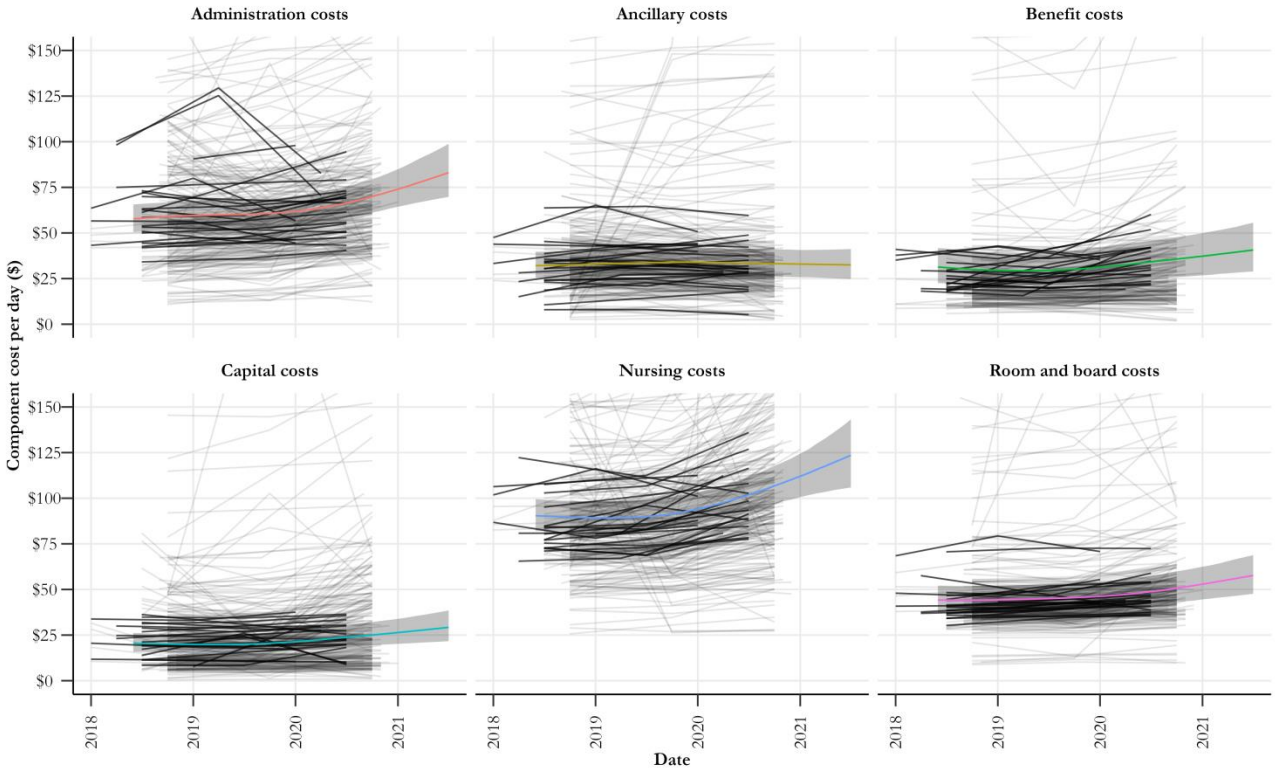


Figure 3, on the next page, breaks down the growth in cost by reported cost center. On the figure, Wyoming nursing homes are shown in black; all other nursing homes used in the model (including many that submitted FY2021 data) are shown in light gray. The estimated average for each cost center is shown, with uncertainty, with a colored line. Note that most of the growth has largely been in the nursing, administrative, and "room and board" (i.e., to include plant, laundry, housekeeping, dietary, etc.) areas.

Figure 3: Estimated increases by cost center



As we noted before, nursing home costs are labor intensive. It's likely that most of the cost growth seen above is likely caused by three main factors, all related to the COVID pandemic:

- **Contract labor**. The nurse labor market has been stretched thin. Many providers have had to rely more and more on contract/traveling nurse agency labor to fill staffing gaps.

  Figure 4, on the next page, shows how the percentage of nurse hours that are contracted increased dramatically after the large initial COVID surge in late 2020, after a year of gradual growth. The percent has gone down since, but remains elevated. Agency nurse labor wasn't cheap before COVID, but hourly rates responded to demand and have almost doubled (on average — many facilities have seen even higher prices).[4]

- **Salaried labor costs** have increased as well, though much less steeply, as higher pay becomes necessary to retain existing staff. This retention issue is exacerbated by the use of agency labor: salaried nurses see what agency nurses are making and either demand higher wages or quit to work for an agency themselves.

- **Inflation** generally since 2020 has increased labor costs across the board, but also costs of food, utilities and other 'room and board' expenses. The Consumer Price Index[5] was 257.2 in July 2020. It was 295 in July of 2022 — a 15% increase over two years.

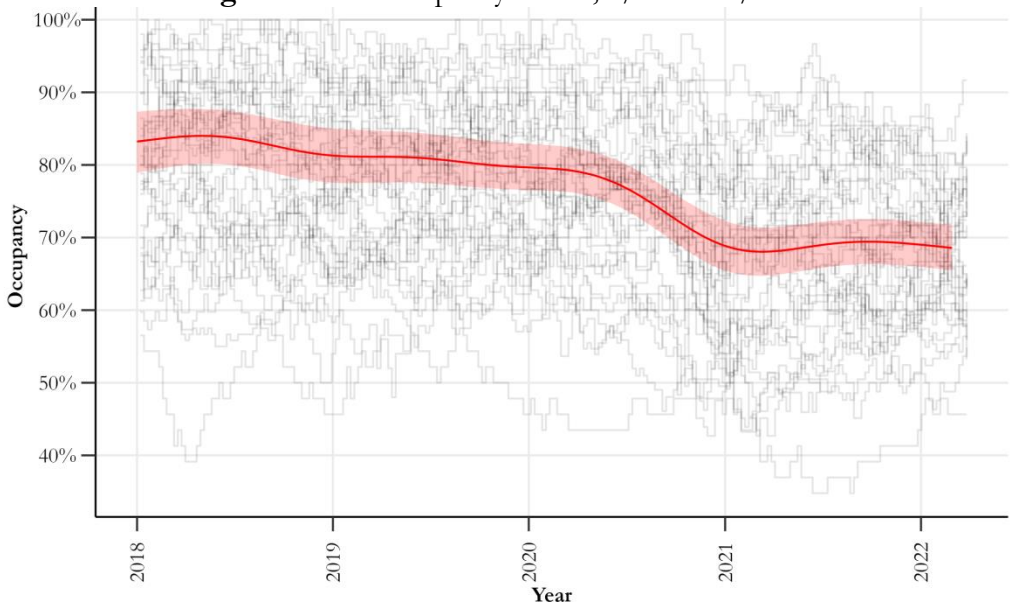
[4] According to one survey, contract labor expenses for hospitals increased from 2% of total labor expenses in 2020 to 11% in 2022. Median hourly wage rates for contract nurses increased from $71/hr to $132/hr over the same time period. https://www.kaufmanhall.com/sites/default/files/2022-05/KH-NHFR-Special-Report-2.pdf

[5] https://fred.stlouisfed.org/series/CPIAUCSL

Figure 4: Percent of total nurse labor hours that are contracted (2018 - 2022)

One final factor behind per-person cost growth has been declining occupancy. Figure 5, below, shows how occupancy has trended for Wyoming nursing homes (gray) and on average (red) since 2018.

Figure 5: NH occupancy trends, 1/2018 - 3/2022[6]



While occupancy varies significantly across nursing homes, as well as over time for individual facilities, most facilities lost a significant number of residents during the COVID pandemic, and occupancy has not recovered since. While administrators can usually calibrate labor hours to a declining census, any fixed costs (i.e., plant, utilities, overhead) must be spread across a smaller number of people, which also increases underlying costs per day.

[6] Payroll-based Journal Data. CMS.