



**The Hilltop Institute**

*analysis to advance the health of vulnerable populations*

# **Nursing Facility Payment Policy: Comparing Maryland to Other States**

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# Executive Summary

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- Maryland is the only state that retrospectively settles all cost centers
- Maryland's occupancy rule is more nuanced than most states
- The number of cost centers used in Maryland's system is similar to most states
- Maryland's decision to annually rebase rates is similar to most states
- Maryland is unusual in paying for ancillaries and therapies separately, outside the per diem
- Maryland's approach to risk adjustment (using a state-designed model) is not like most states
- In 2007, Maryland paid NFs at a higher-than-average rate, compared to other states

# Payment Approach: Prospective vs. Retrospective

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- All states use cost data to set rates.
- Prospective payment systems use the cost data to set payment rates prospectively ONLY. For example, cost data from 2007 could be used to set rates in 2009, with or without a health inflation trend to adjust from 2007 to 2009.
- Retrospective payment systems use audited cost data to pay an estimated (or preliminary) rate prospectively, and then settle retrospectively. For example, audited cost data from 2007 could be used to set preliminary 2009 rates, AND be used to settle 2007, based on whether the preliminary rates for 2007 were above or below the actual audited costs.
- States once were required to retrospectively settle (the Boren amendment); this federal requirement was repealed in 1997.



# **Only Maryland retrospectively settles all cost centers**

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- 49 states pay prospectively only
- Maine retrospectively settles fixed costs (otherwise all cost centers are prospective)
- Only Maryland settles all cost centers retrospectively

# Occupancy Standard

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- An occupancy standard is used to avoid paying for empty beds.
- For example, assume there are three 100 bed NFs that cost \$9,000/day to operate (or \$90 per bed, per day). Assume the state has a 90% occupancy standard.
- Assume NF #1 is 90% full (90 residents). Because it meets or exceeds the occupancy standard, all allowable costs are permitted, and the per diem = \$100 per bed (payment = \$9,000/day).
- Assume NF # 2 is 75% full (75 residents). The occupancy standard, not the actual occupancy rate, is used to calculate the per diem. The NF is assumed to be 90% full, and the per diem is \$100 per bed, as with NF # 1. Thus, the NF is paid \$100 per bed, or \$7,500/day total, and it loses \$1,500/day for being inefficient/empty.
- Assume NF # 3 is 100% full (100 residents). The actual occupancy is used, and the NF is paid \$90 per resident, or \$9,000/day.



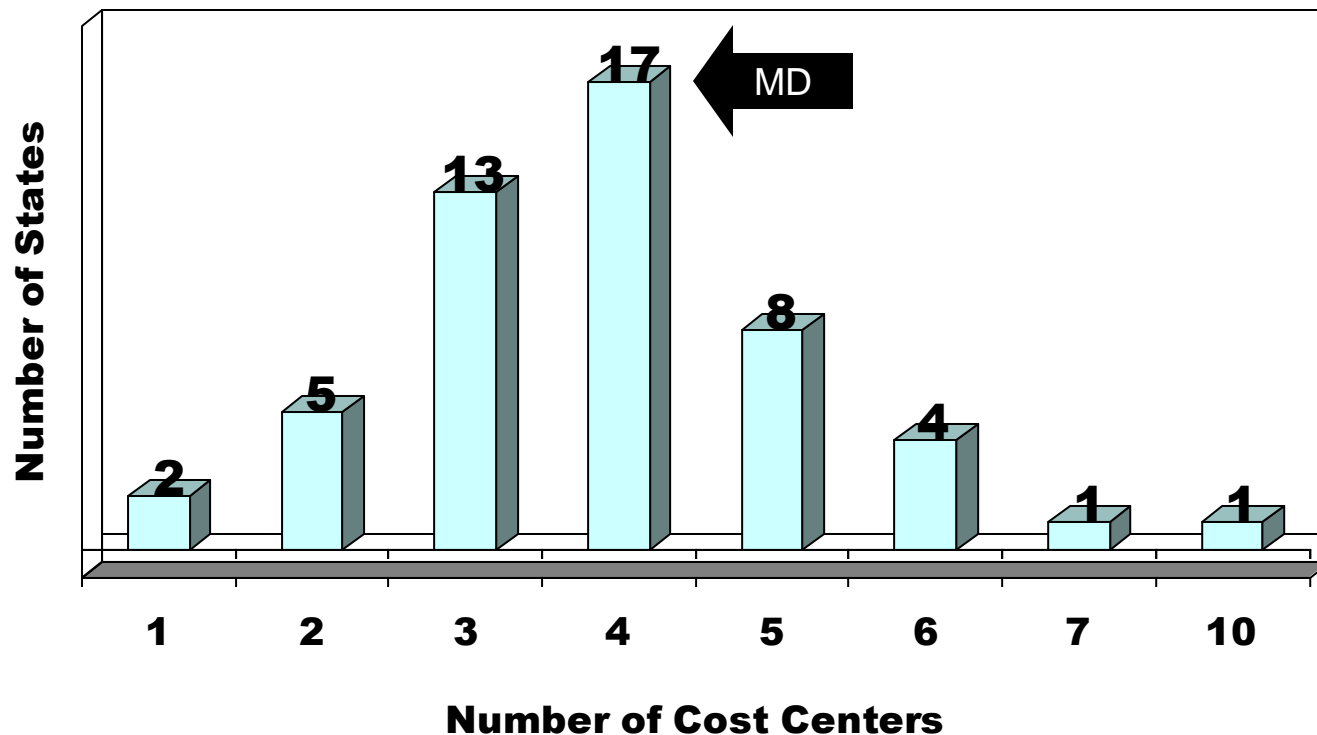
# Maryland's occupancy standard is more nuanced than most states

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- 10 states have no occupancy standard.
- For the states with a standard, the low is 75%, the high is 96%, and the most common standard is 90% (15 states), followed by 85% (10 states).
- Maryland's approach: the occupancy standard isn't a fixed number. Instead, for each home, the occupancy standard is the "statewide occupancy average + 1.5%," so an NF at the statewide average receives a slight disallowance; all NFs are encouraged to keep occupancy up.

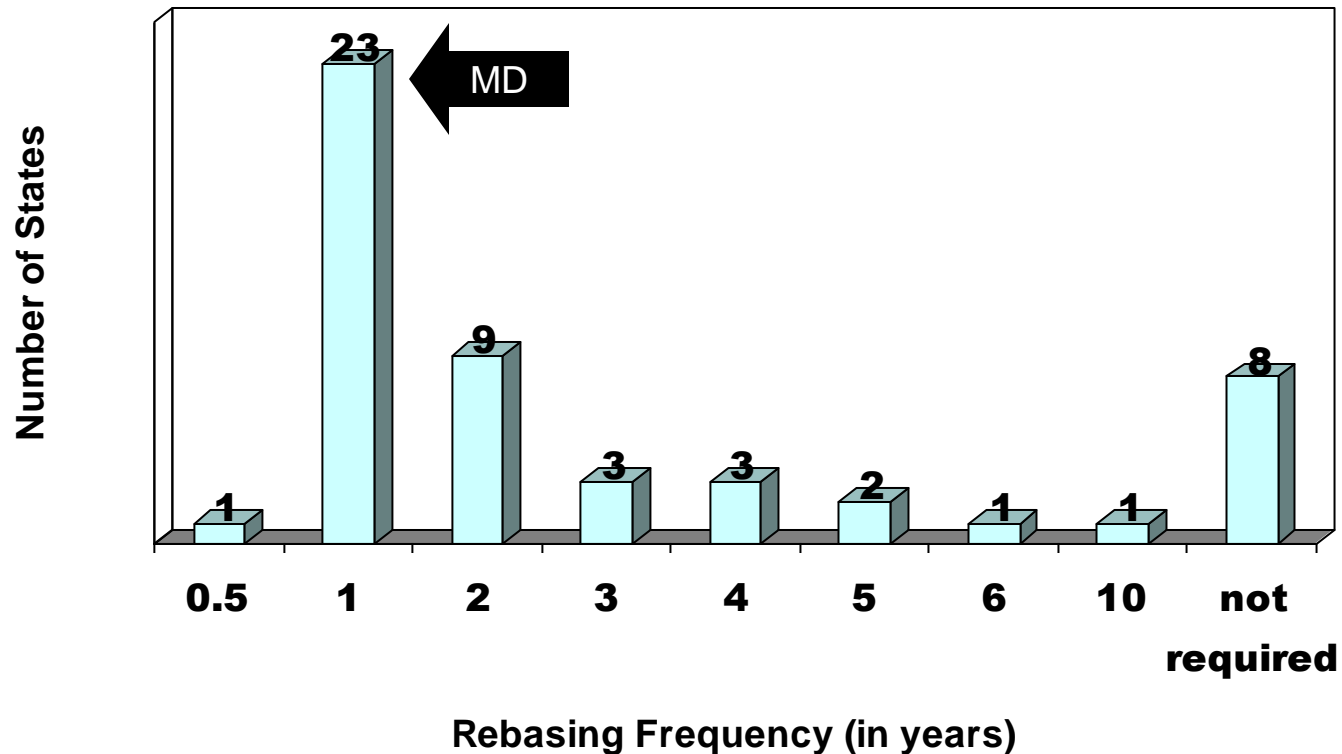


# Number of Cost Centers



Maryland's cost centers are: nursing care, other direct patient care, administration, and capital.

# Frequency of Rebasing





# Treatment of Ancillaries

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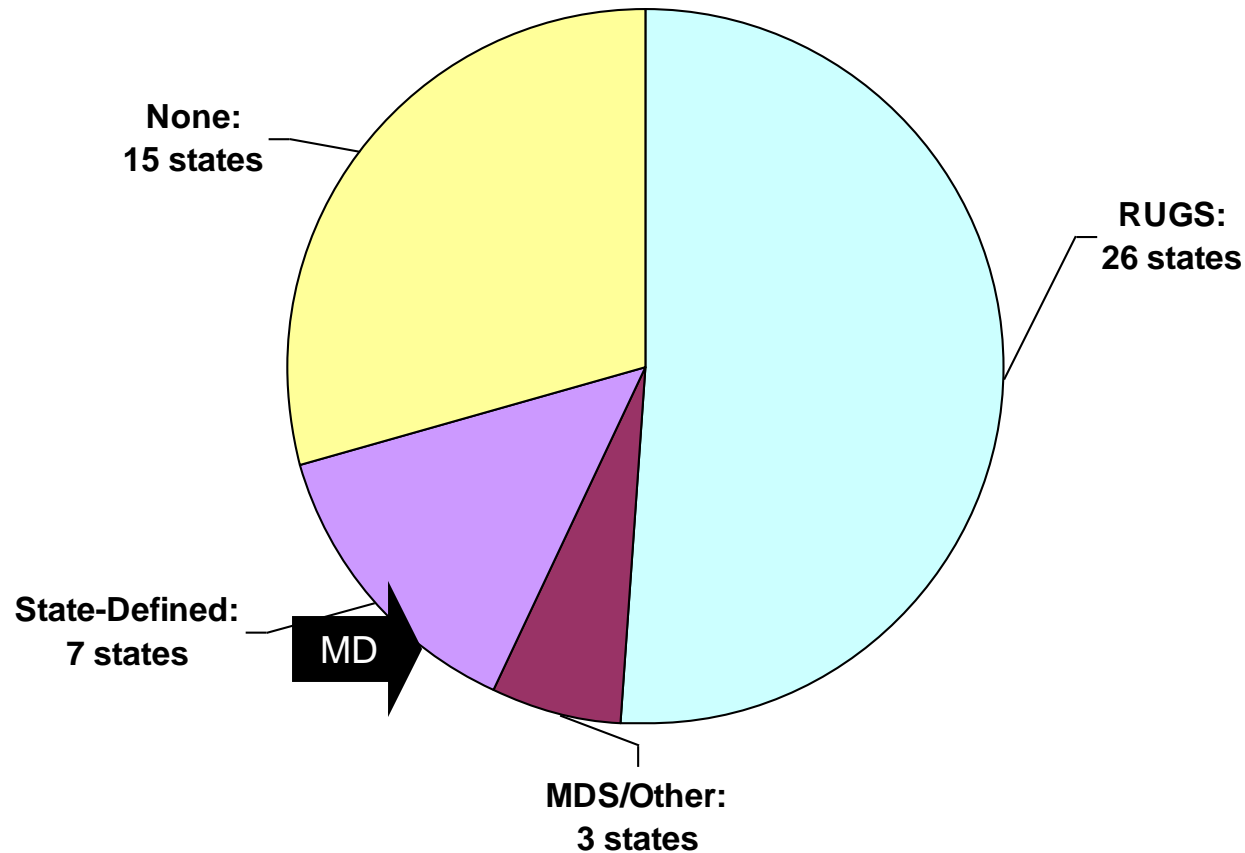
- Ancillary services could be included in the per diem, or they could be paid separately.
- We were able to collect information on 18 states.  
Of these:
  - Fourteen states include ancillaries in the base per diem
  - One state negotiates this with each NF
  - Maryland and two other states pay separately

# Treatment of Therapies

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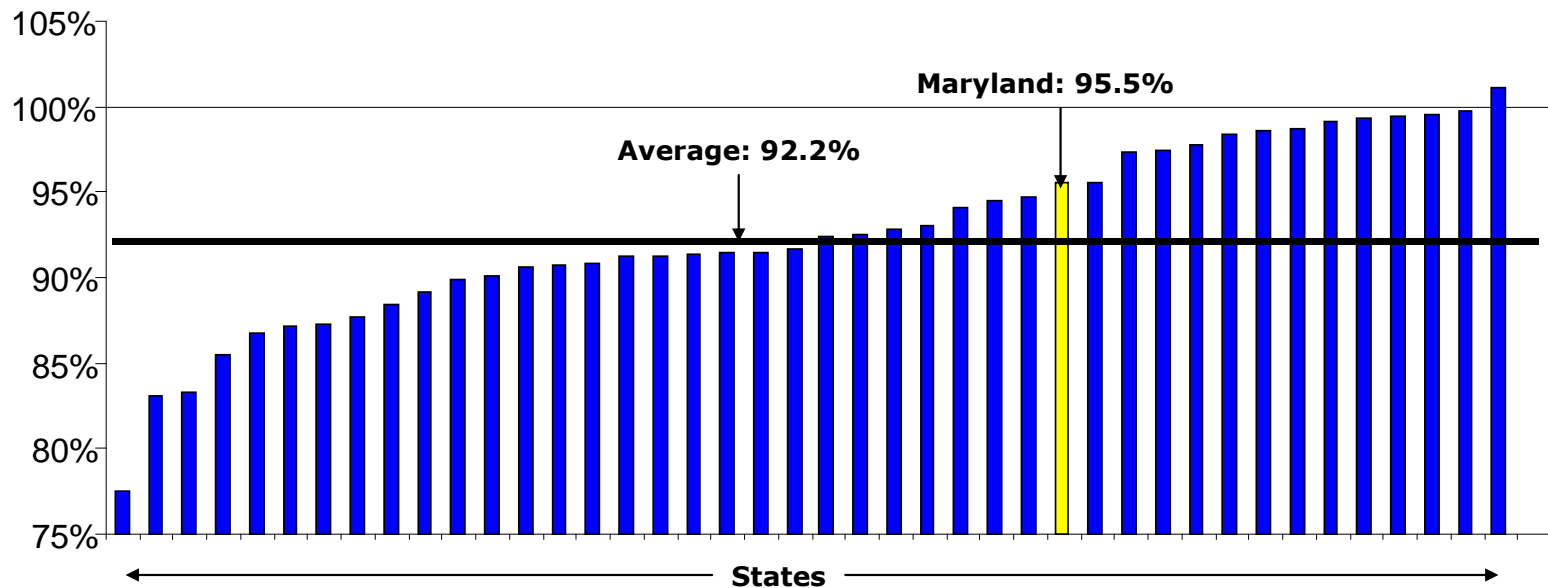
- Therapies could be included in the per diem, or they could be paid separately.
- We were able to collect information on 22 states. Of these:
  - Eighteen states include therapies in the base per diem
  - One state negotiates this with each NF
  - Maryland and two other states pay separately

# Risk Adjustment for Payment



# Payment Amount

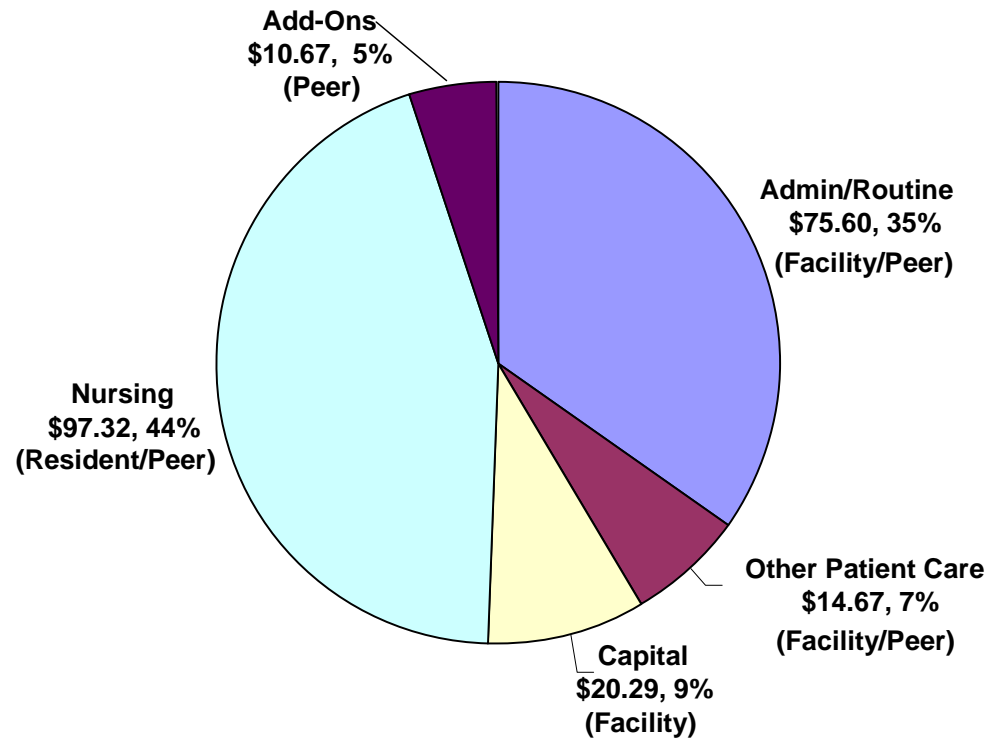
Nursing Home Medicaid Revenue as a Percentage of Nursing Home Costs (2007)\*



Source: BDO Seidman, LLP

# Payment Distribution

Maryland Nursing Home FY 2009 Average Daily Rate (\$218.55)\*



\*As of February 5, 2009

# Contact Information

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