Joint Commission on Health Care

Long-Term Care/Medicaid Reform Subcommittee

August 12, 2008

Virginia Medicaid Policies: Implications for Health System Performance, Care Integration/Improvement and Communities

Virginia Strengths

- **Attractive business climate and diverse economy**
- **7th highest state in per capita income**
- **Rich history of principled policy leadership and fiscal management**
- **Highly ranked schools and higher education systems**
- **Strong hospitals and health care systems**

Health Challenges

Chronic illness is on the rise

- Half of Americans have one or more chronic illnesses
- 80% of spending is linked to chronic illness
- Much of this is avoidable
- Obesity has doubled; Diabetes is on the rise

Virginia trends on rise as well

- Growing gaps in coverage and access to care for regions and populations
- Aging population – by 2030 one in five Virginians will be over 65
- 24% of population obese, 17th highest state in terms of obesity-related costs
- 17th highest infant mortality rate

Source: Centers for Disease Control and Prevention, VaPerforms.Org.

Virginia vs. Other States

- **Second tier performance on overall health and health care performance**
  - *Not where Virginia can or should be*
- **Virginia Medicaid**
  - 48th in Medicaid spending/capita
  - 48th in eligibility for working parents (< $6,000)
  - 45th in state-directed health spending as a share of total state budget (17%) *

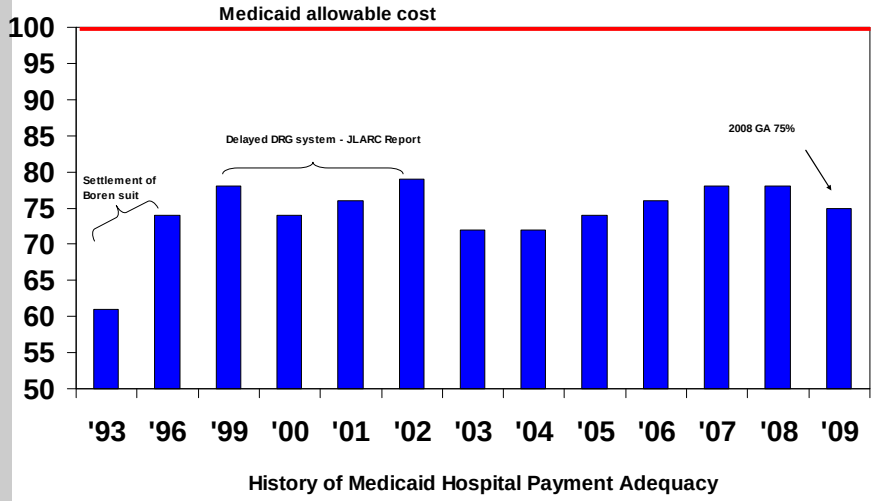
Source: Kaiser statehealthfacts.org. State-directed health spending includes Medicaid, SCHIP, public health, state employee health plan, state mental health and community services from all sources (including federal matching funds).

Virginia State Health Spending

Why so low?

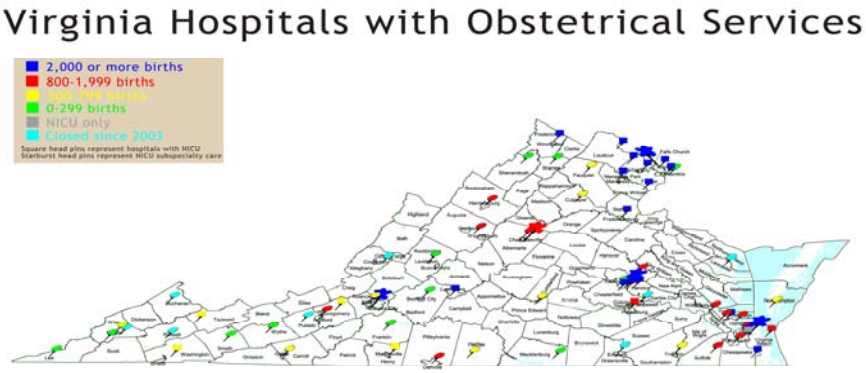
- **Conservative eligibility**
  - Especially relative to high-income states and for adults
  - For kids eligibility is about average
- **Aggressive utilization controls**
  - Historically for SNFs and hospital admissions
  - More recently for drug spending
- **Relatively extensive managed care systems**
  - But principally for acute/low-cost populations
  - Focus on high-need populations, with long-term care and other needs makes sense
  - But we must be mindful of the unique Virginia context where short term savings are not realistic
- **Low provider payments**

History of Inpatient Payments



History of Medicaid Hospital Payment Adequacy

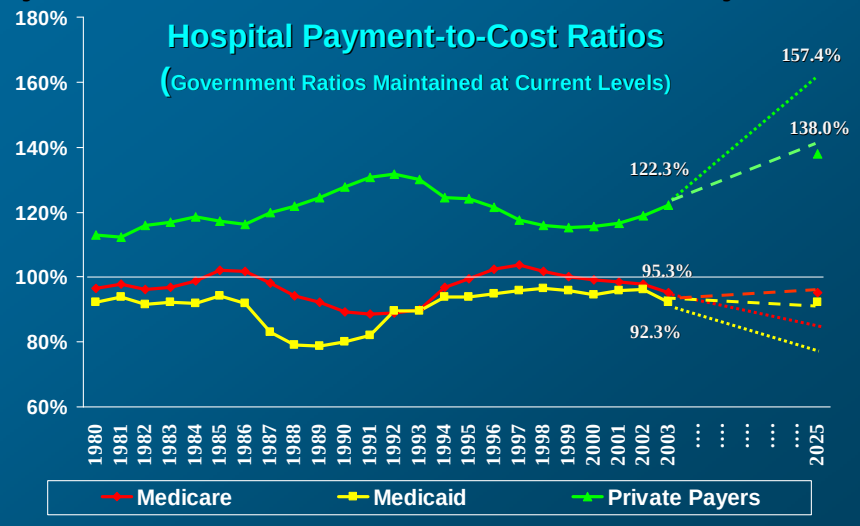
Consequences of Cuts



Virginia Medicaid Policies
Economic Implications

- **Greater inflationary pressure on private health care costs**
- **Delayed care often means more expensive care later**
- **Foregone federal matching funds**
  - **and associated economic benefit**
  - **and when rates are cut, every $1 in GF savings yields $2 in cuts to providers and communities**

Can Private Insurance Payments Continue To Pay For The Shortfall In Government Payments



Source: 2005 TrendWatch Chartbook, AHA and the Lewin Group.

Virginia Medicaid Policies
Health System Implications

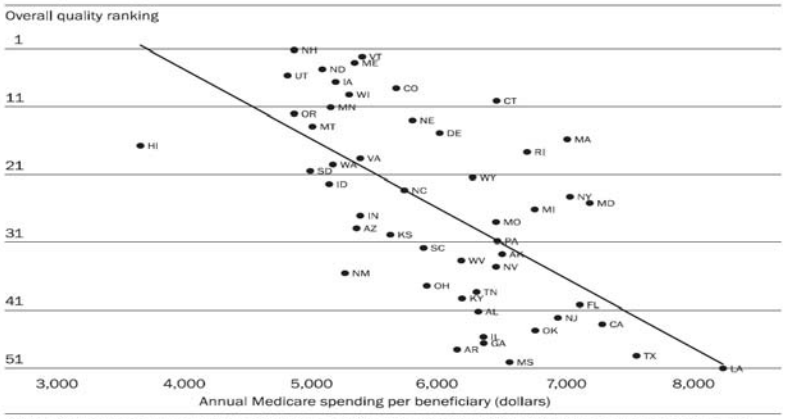
- **Better quality yields lower costs**
- **Access to care a prerequisite to quality**

Bottom Line

Improving state-directed eligibility and provider payment policies are necessary conditions, but not sufficient in themselves, for elevating Virginia health and health system performance

Quality and Cost Related

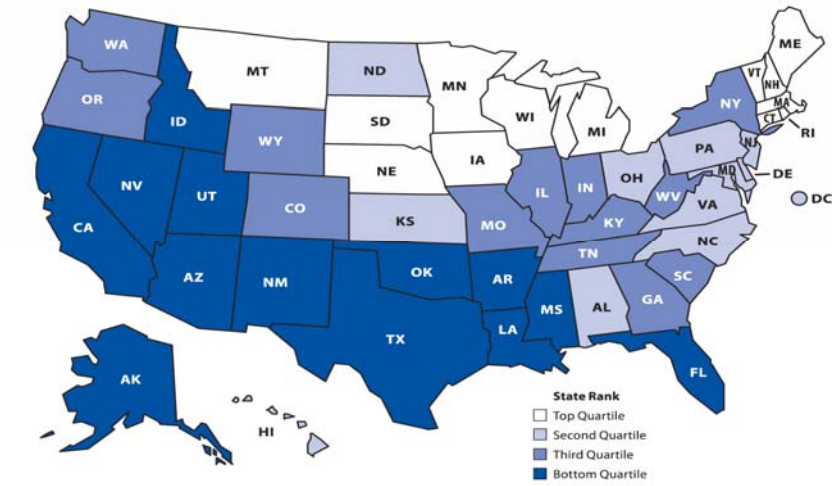
Relationship Between Quality And Medicare Spending, As Expressed By Overall Quality Ranking, 2000–2001



SOURCES: Medicare claims data; and S.F. Jencks et al., "Change in the Quality of Care Delivered to Medicare Beneficiaries, 1998–1999 to 2000–2001," *Journal of the American Medical Association* 289, no. 3 (2003): 305–312.
NOTE: For quality ranking, smaller values equal higher quality.

Quality Differences Among States

State Ranking on Quality Dimension



SOURCE: Commonwealth Fund State Scorecard on Health System Performance, 2007

Virginia Health Scorecard

Virginia's Health Scorecard	Virginia Rate/Score	Target
Higher Quality Care		
1. Percent of hospitalized patients receiving recommended care for heart attack, congestive heart failure and pneumonia	89.3	92.4
2. Percent of surgical patients receiving appropriate timing of antibiotics to prevent infections	78.5	88.6
3. Percent of children with both a medical and dental preventive care visit in the past year	60.8	72.6
4. Percent of high-risk nursing home patients with pressure sores	15.8	8.1
Improved Efficiency		
5. Medicare hospital admissions for ambulatory care sensitive conditions per 100,000 beneficiaries	7,328	4,610
6. Hospital admissions for pediatric asthma per 100,000 children	187.2	81.3
7. Percent of nursing home residents with hospital readmission within three months	12.8	7.5
8. Total single premium per enrolled employee at private sector establishments that offer health insurance	$3,865	$3,216
Access and Coverage for All		
9. Percent of adults (ages 18-64) uninsured	13.2	9.1
10. Percent of children (ages 0-17) uninsured	8.3	5.3
11. Percent of adults visited a doctor in the past two years	84.0	89.9
12. Employer-based insurance premiums as a percent of median income	12.9	12.2
Better Information		
13. Percent of private medical practices that use an electronic health record with 4 to 6 components	17	80
Public Health & Safety		
14. Mortality amenable to health care, deaths per 100,000 population	104.1	74.1
15. Infant mortality, deaths per 1,000 live births	7.3	5.1
16. Percent of adultsage 50 and older receiving recommended screening and preventive care	45.1	48.8
17. Percent of adult diabetics receiving recommended preventive care	45.0	58.5
18. Percent of children ages 19-35 months receiving recommended doses of 5 key vaccines	85.8	88.3
19. Achieve full accreditation by the Emergency Management Accreditation Program	Fully accredited	Fully accredited
Strong Workforce		
20. Number of newly licensed registered nurses per year	2,759	3,659

VIRGINIA HOSPITAL & HEALTHCARE ASSOCIATION

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VHCA Virginia Health Care Association

Implications of Medicaid Funding Policy Decisions

On Virginia's Nursing Facilities

VIRGINIA HOSPITAL & HEALTHCARE ASSOCIATION

VHCA Virginia Health Care Association

Key Virginia Nursing Facility Statistics

• Licensed nursing facility beds[1]	31,880
• Average number of residents[1]	27,183
• Average occupancy[1]	91.3%
• Average operating margin[1]	2.3%
• Medicaid utilization (% of days)[2]	62.7%
• Avg. Medicaid payment rate (per day) [2]	$132.52
• Avg. cost per patient day [2]	$137.74

Data sources:

[1] Virginia Health Information data published for 2006
[2] Virginia Department of Medical Assistance Services – 2006 cost report database

Key Virginia Nursing Facility Medicaid Statistics

- **Of the 250 nursing facilities reporting, 72 (29%) reported operating losses[1]**
- **While Virginia has made some headway in raising reimbursement for Medicaid nursing home care,** *our rates still significantly lag most surrounding states despite the fact that we have higher average acuity levels*.
  - **Maryland $202.92[2]**
  - **North Carolina $150.33[2]**
  - **Virginia $141.91[2]**
  - **West Virginia $174.36[3]**

Virginia's average Medicaid payment rate consists of three distinct components:

Patient pay:	$26.80 [4]
Federal share:	57.55 [4]
Virginia share:	57.55 [4]

Data sources:

[1] Virginia Health Information data published for 2006
[2] Reflects July 1, 2008 rate data from the *A Report on Shortfalls in Medicaid Funding for Nursing Home Care*, BDO Seidman 2008 to be released September 2008
[3] Reflects July 1, 2007 rate data from the *A Report on Shortfalls in Medicaid Funding for Nursing Home Care*, BDO Seidman 2007
[4] Estimated based upon actual components of the 2006 Medicaid payment rate

Timeline

- December 2008: Governor introduces Budget with no cuts or reductions to Payment Rates.
  - Funding embedded in the Budget includes $25.4 million for inflation and $10.7 million for cost ceiling rebasing.
- February 12, 2008: Governor recommends $25 million cut to Medicaid rates for nursing facilities.
- February 17, 2008: Money Committees report. House recommends removing funding for cost ceiling rebase adjustment and Senate recommends capping inflation update factor at 2% ($11.8M).

Timeline *continued*

- For ease of administration, VHCA works with Committee staff and DMAS to modify Senate language from a 2% cap on the inflation update (assumed by DMAS to be 3.3%) to a percent reduction from rates.
  - Estimated savings to the Commonwealth was $11.8 million in SFY 09.
- In April 2008, DMAS announces 2.8% nursing facility inflation update factor for cost reporting periods beginning in 2008.
  - Significantly lower than anticipated update factor produces additional $6.6 million reduction from expected Medicaid rates.

Timeline *continued*

- **In May 2008, VHCA requests information from DMAS related to development of 2.8% update factor by Global Insight (GI).**
- **GI fails to persuade providers that update factor was developed accurately.**
  - **Survey conducted in early May indicated provider costs for the 4th Quarter of 2007 were up 4.9% over the prior year.**
- **VHCA surveyed members again in late July.**
  - *Average facility cost per patient day for the six months ended June 30th reveals that costs are up 5.1% over the same period in 2007.*

We Believe Nursing Facilities Sustained Deeper Reductions Than the General Assembly Intended

Nursing Facilities Sustaning Deeper Cut Than General Assembly Intended

	GA Inflation Assumptions	April 08 Inflation Update	Inflation Factors Provider Fiscal Year 08	Provider Fiscal Year 09	State Fiscal Year 09
Medicaid Nursing Facility Operating (Direct and Indirect) Payment in State Fiscal Year 2009	$ 885,907,967	$ 879,267,275			
Total Medicaid Days	6,565,167	6,565,167			
Per Diem Payment	$ 134.94	$ 133.93			
Budget Reduction Factor	1.329%	1.329%			
Target Budget Savings (Cut)	**$ 11,773,717**	$ 11,685,462			
SFY09 REIMBURSEMENT WITH BUDGET CUT	$ 874,134,250	$ 867,581,813			
Additional reduction in payment due to lower inflation factors		**$ 6,552,437**			
Total SFY 09 Budget Impact		**$ 18,237,899**			

Medicaid inflation factors used for budgeting purposes	3.5%	3.3%	
Senate Amendment Capped Inflation			2.0%
Medicaid inflation factors - April 08 update	2.8%	3.0%	
Effective inflation factor after application of budget reduction factor (estimated)	1.4%		

Budget Reduction *Medicaid Nursing Facility Rates*

Item 306 #8s

Health And Human Resources	FY 08-09	FY 09-10	
Department Of Medical Assistance Services	($5,743,243)	($5,835,135)	GF
	($5,743,243)	($5,835,135)	NGF

Language:

Page 276, line 1, strike "$5,521,541,169" and insert "$5,510,054,683".
Page 276, line 1, strike "$5,818,036,403" and insert "$5,806,366,133".
Page 289, after line 18, insert:
"RR. The Department of Medical Assistance Services shall amend the State Plan to reduce the rate of inflation included in the 2007 Medicaid Forecast for nursing facilities to two percent in each year of the biennium. Effective July 1, 2008, and ending after June 30, 2010, each nursing facility's per diem direct and indirect operating rate shall be set equal to 98.3 percent of the rate which otherwise would have been set. The Department shall have the authority to implement these reimbursement changes effective July 1, 2008 and prior to the completion of any regulatory process undertaken in order to effect such change."

Explanation:

(This amendment reduces the appropriation by $5.7 million the first year and $5.8 million the second year from the general fund and an equal amount of federal Medicaid matching funds by reducing the rate increase included within the 2007 Medicaid Forecast to two percent each year. The forecast assumed an increase of 3.7 percent each year.)

VHCA Member Survey *Conducted July 2008*

As a result of ongoing concerns among our membership, in July we conducted a brief survey of member nursing homes asking them to compare their operating costs for the six months ended June 30th 2008 vs. the same period in 2007.

- **148 nursing facilities responded (over half of Virginia's Medicaid providers)**
- **The composite *percentage increase in operating costs from 2007 to 2008 was 5.1%* -- an amount significantly higher than the Medicaid update factor of 2.8%**

		Medicaid Allowable Operating Costs	Total Patient Days	Adjusted Cost PPD
Six months ended 6/30/07	$	504,658,799	3,194,677	157.97
Six months ended 6/30/08	$	534,631,607	3,219,941	166.04
Dollar increase / decrease	$	29,972,807.67		8.07
Percent change	**5.9%**			**5.1%**
Month of June 2007	$	83,769,728	527,025	158.95
Month of June 2008	$	88,188,003	525,384	167.85
Dollar increase / decrease	$	4,418,275.56		8.91
Percent change	5.3%			**5.6%**

Key Medicaid Payment Statistics

Cost, payment, shortfall, margins and update factors

	Actual						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Medicaid cost per day	114.66	118.43	124.11	133.73	137.74		
Medicaid payment per day	103.58	109.23	114.07	123.94	132.52		
Medicaid Payment Shortfall	(11.08)	(9.20)	(10.04)	(9.79)	(5.22)		
Medicaid Margin	-10.7%	-8.4%	-8.8%	-7.9%	-3.9%		
DMAS Inflation Update Factor	6.2%	5.8%	3.0%	4.4%	4.3%	3.4%	**2.8% (1.4%)**
Increase in Medicaid cost per day	7.0%	3.3%	4.8%	7.7%	3.0%		

Virginia nursing facilities are reporting increases in operating costs that are nearly twice what the Medicaid update factor indicates. ***The challenge for providers will be to weather the storm – somehow making do on a $1.83 PPD Medicaid increase when operating costs are rising $6.68 PPD.***

Real World Implications

Difficulties Associated with Living with a 1.4% Increase in a 5.1% World

- **The cost of operations is impacted by dramatically rising costs**
  - **Fuel and energy**
  - **Food**
  - **Medical supplies**
  - **Staffing**
- **Increases in cost of living for low-wage staff**
  - **Fuel cost – putting gas in the tank**
  - **Food – putting meals on the table**

To provide the highest quality of care possible, nursing facilities are working hard to foster a stable working environment for staff.

Paying sufficient wages is a critical component in this initiative.

Surveyed facilities indicate they plan to grant increases ranging from 3.5% to 5.0%.

Medicare Margins
The Other Side of the Delicate Balance

Year	Medicare Margin	Virginia Medicaid Margin
2001	17.6%	-10.0%
2002	17.4%	-10.7%
2003	10.8%	-8.4%
2004	13.7%	-8.8%
2005	12.9%	-7.9%
2006	13.1%	-3.9%
2008		-7.0% (Projected)

Average national margin on SNF care which typically represents 10% - 15% of a nursing facility's residents

Average Virginia margin on Medicaid care which typically represents 50% - 75% of a nursing facility's residents

Source:

MedPAC analysis of freestanding skilled nursing facility cost reports.

Note: Virginia's nursing facilities reported an overall operating margin (all payor categories) of 2.3% for 2006

Virginia Medicaid Policies
Implications for One Community

Community Memorial Healthcenter

- **Service Area**
  - **South Hill Virginia, with primary service area of 80,000**
  - **Counties of Mecklenburg, Brunswick, Lunenburg & Warren County, N.C.**
  - **17% of residents at or below the poverty level**
  - **Economy primarily agricultural**
- **Facility Services**
  - **99 acute, 161 nursing home and 24 psychiatric beds**
  - **outpatient services (home health, hospice, dialysis, etc)**
- **Plus several physician practices***
  - **2 Rural Health Centers (Clarksville, Chase City)**
  - **OB/GYN, Surgery, Orthopedics, etc.**

*** In 2008, CMH supplemented the practices more than $2 million, resulting in an overall loss from operations of $800,000. No supplements = no MDs.**

Virginia Medicaid Policies
Implications for CMH/South Hill

- **Medicare and Medicaid represent 75% of the patients served by CMH (and growing)**
- **Medicaid alone is 15% of inpatients, 89% of nursing home residents and 22% of ED visits**
  - **For most Medicaid ED patients payment is only $30 for "screening", no payments for lab, x-ray or CT if retroactive review decides ED visit was not "necessary".**
- **OB deliveries are 68% Medicaid (related practice subsidy last year was $776,000)**
  - **Medicaid pays hospital $1,765 for deliveries vs. private plan average of $3,750**
  - **Medicaid refuses to pay for CRNA anesthesia services, unless anesthesiologist is on site – contrary to Medicare or private payers.**
- **Demand for services are growing – ED on diversion 54 full days last year**

Virginia Medicaid Policies
Implications for CMH/South Hill

- **Staffing**
  - **Lost 12 LPNs from long term care last year to better pay/benefits in NC and state prisons**
  - **Medicaid rates already challenging ability to retain adequate staff**
- **Services**
  - **In last economic downturn (2003/4) Medicaid reductions forced a closure of a mobile clinic**
  - **Subsidizing access to MD services already driving health system operations into the red**

Consequences of Cuts

Consequences of Cuts

Conclusions

- **Medicaid needs and spending grow in times of economic stress when state revenues shrink**
- **Virginia Medicaid is already extraordinarily lean**
- **Does it make sense to cut this essential element of the safety net when it is needed most?**
- **Recommendations**
  - Pursue administrative efficiencies (e.g., modern enrollment and uniform assessment systems to save state and provider time)
  - Continue prudent investment in care management and care coordination systems
    - but with emphasis on quality improvement, strong linkages to local systems and transparency of funding/results
  - Partner with other employers and payers on system performance improvement (e.g., chronic disease)