

# NURSING FACILITY PAYMENT SYSTEM

## EQUALIZATION OF RATES

The legislature implemented equalization of rates between Medicaid residents and self pay residents for nursing facilities in 1990. Equalization of rates requires all residents be charged the same rate for comparable services. Minnesota and North Dakota are the only states in the nation with equalization of rates. Nursing facilities are the only providers/private businesses subject to an equalized rate system in the State of North Dakota.

## MINIMUM DATA SET FOR PAYMENT

The state adopted the Minimum Data Set (MDS) for its payment system on January 1, 1999. The MDS provides a wide array of information regarding the health status and care needs of each resident. The payment system has forty-eight facility specific rates. Each resident is evaluated at least quarterly and the intensity of their needs determines their rate classification.

## RATE CALCULATIONS

The determination of rates is the sum of **six components**: direct care, other direct care, indirect care, property, operating margin and incentive. Each component has an established limit and if the nursing home rate for that component exceeds the limit, the excess is not allowed in the rate. Facilities need to find donations or other revenue streams to cover their expenses when rates have been limited. Current limits are calculated based on the **June 30, 2014 cost report**. The new limits were effective June 1, 2017. These limits will remain in effect until legislatively changed.

**Limits** - The **direct care, other direct care and indirect care** limits (the maximum that will be paid) are set by arraying the facilities from least expensive to most expensive, selecting the facility at the mid-point (median facility). The **direct care, and other direct care** limits are established by adding **20%** to the cost of that median facility. The **indirect care** limit is established by adding **10%** to the cost of that median facility. The limits use to be inflated annually by the legislative approved inflation factor until rebased. Since the 2017 legislative body did not fund a COLA, the June 1, 2017 limits will remain in place until legislatively updated.

**Occupancy Limitation** - In the June 30, 2017 cost reporting period, 19 nursing facilities reported twelve month occupancy averages at less than 90%. Together they incurred \$3,076,964 in penalty costs because they operate under 90% occupancy.

**Direct Care Rate** - Costs in the Direct Care Category include: Nursing and therapy salaries and benefits, OTC drugs, minor medical equipment and medical supplies. On January 1, 2018 the direct care limit is \$178.18 per day. Twelve nursing facilities exceed this limit. These nursing facilities spent \$4,974,127 in excess of the limit, costs which will never be recouped. The direct care limit of \$178.18 will remain in place until legislatively changed.

**Other Direct Care** - Costs in the Other Direct Care Category include: Laundry, social service, and activity salaries and benefits, food, and supplies. On January 1, 2018 the other direct care limit was \$28.15 per day. Ten nursing facilities exceed this limit. These facilities spent \$456,335 in excess of the limit, costs which will never be recouped. The other direct care limit of \$28.15 will remain in place until legislatively changed.

**Indirect Care** - Costs in the Indirect Care Category include: Administration, chaplain, housekeeping, dietary, and plant salaries and fringe benefits, housekeeping and dietary supplies, pharmacy, medical records, insurance, and plant operations. On January 1, 2018 the indirect limit was \$77.29 per day. Seventeen nursing facilities exceed this limit. These facilities spent \$3,423,428 in excess of the limit, costs which will never be recouped. The indirect care limit of \$77.29 will remain in place until legislatively changed.

**Property** - Costs in the Property Category include: Depreciation, interest expense, property taxes, lease and rental costs, start-up costs and reasonable and allowable legal expenses. The average property rate is \$21.08 per resident per day, with a range of \$4.47 to \$72.60.

**Efficiency Incentive** - A reward is provided to nursing facilities that are under the limit in indirect care. The efficiency incentive is calculated for each facility based upon their indirect costs compared to the indirect limit. Facilities are able to receive 70 cents for every dollar they are below the limit up to a maximum of \$2.60 per resident day. In 2018, the average per day incentive is \$2.44, with sixty-one nursing facilities receiving the efficiency incentive.

**Operating Margin** - Since 1990 nursing facilities receive an operating margin of three percent based on their historical direct care costs and other direct care costs. On January 1, 2018 the operating margin temporarily increased to 3.74%. The operating margin provides needed cash flow to cover up-front salary adjustments, rapidly rising costs, replacement of needed equipment, unforeseen expenses, and dollars to implement ever increasing regulations. In 2018, the average operating margin is \$6.15 per resident per day.

**Inflation** - Inflation is a rise in price levels that are generally beyond the control of long term care facilities. An example of a price level increase is a 20% increase in health insurance. To attract and retain adequate staff, nursing facilities need to offer salary and benefit packages that reward people. Approximately 75% - 80% of a nursing facility's budget is dedicated to personnel costs. Inflation adjustments are critical for salary and benefits so nursing facilities can compete in the market place. Turnover of certified nurse assistants, the largest pool of employees, was 62% in 2016. Annual inflationary adjustments are set every legislative session. 2016 was the last year an inflationary adjustment was given and it was 3%. Elimination of this key adjustment will remain until legislatively changed.

**Limits & Rebased** - A limit is establish on the maximum that will be paid in each cost category. Limits in the past were inflated annually by the legislatively approved inflation factor until rebasing occurs. The annual increase in limits was not funded in the 17-19 session. Limits were rebased on June 1, 2017 using the June 30, 2014 cost report. Limits will not change until legislatively approved.