

## ISSUE BRIEF

### Establish a Price-Based System (PBS) for Medicaid Nursing Home Reimbursement

*Action for the Indiana General Assembly:* Establish consistency, transparency and equity in Medicaid reimbursement for nursing homes by adopting a price-based reimbursement system (PBS) and eliminating the current cost-based system. The expansion of home-and-community-based services (HCBS) such as assisted living and adult foster care is a common goal of all who serve our Senior Hoosiers. Currently, nursing homes are the only long term care service not reimbursed at a fixed daily rate, which is limiting the flexibility that nursing homes have in adapting to this paradigm shift in the long term care industry.

A fair and adequate reimbursement system is a key element in creating a quality long term care program. The current, cost-based reimbursement system utilized by the Indiana Family and Social Services Administration (FSSA) for nursing home reimbursement falls short in both the “fair” and “adequate” categories. It also wastes taxpayer money by utilizing a myriad of consulting contracts that add complexity to the process without improving care. Specifically, cost-based reimbursement falls short because it:

- fails to address current period issues and challenges by focusing on past data
- is complex and beyond the understanding of most administrators
- does not give administrators the flexibility to make necessary changes in the current period to maintain census
- contributes to staff turnover and poor retention rates by limiting the ability of administrators to make needed salary adjustments

FSSA currently spends approximately **\$2,000,000** annually to simply administer the cost-based system. The federal government matches these types of Medicaid administrative costs at a **50 percent** rate, which creates a taxpayer cost of **\$1,000,000**. However, direct care costs are reimbursed at **62 percent**, which would mean that approximately **\$1,240,000** of federal funds would be generated if the state funds were used for direct care. This **\$240,000** difference in federal funds could be used to help fund the conversion from a cost-based to a price-based system.

The conversion from a cost-based to a price-based reimbursement system for nursing homes would include the following components:

- A fixed price component for administrative costs that creates an incentive for administrators for achieve cost efficiencies in core functions such as dietary services, housekeeping, etc.
- Adjustments for geographic location and patient acuity
- A two-year implementation period that gradually converts providers from cost-based to price-based reimbursement. The system could be implemented by July 1, 2011 when the current system expires.

#### **A Price-Based Reimbursement System benefits Indiana because it:**

- *Reduces cost* to taxpayers for reimbursement rate determination
- *Matches reimbursement more accurately* to current facility costs
- Allows administrators to creatively address the staff recruitment and retention issue. This is the number 1 issue for many facilities, with most reporting over 100 percent turn-over per year.
- *Creates consistency* in reimbursement approach among all long term care services: skilled nursing, assisted living, adult foster care, home care, etc.