A Briefing Chartbook on Shortfalls in Medicaid Funding for Nursing Home Care

Prepared for:

American Health Care Association

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Prepared By

BDO Seidman, LLP

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A Briefing Chartbook on Shortfalls in Medicaid Funding for Nursing Home Care

Purpose of Report

- To report the shortfall in 2000 between Medicaid reimbursement paid to nursing home providers and Medicaid allowable costs.
- To present the information on a national, regional and state-specific basis.
- To provide comparisons and commentary on these shortfalls in comparison to 1999.

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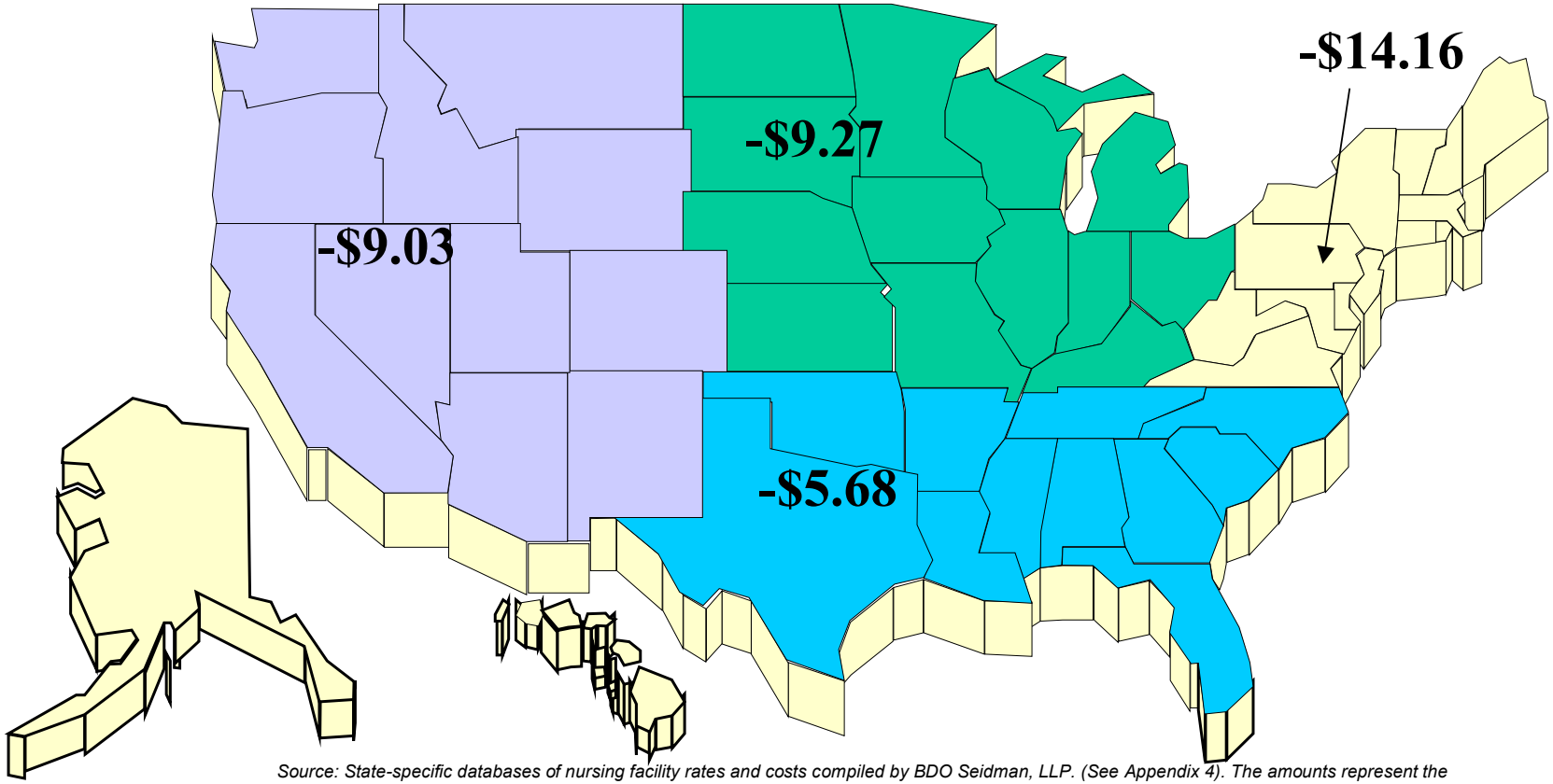
In 2000, on Average, the Shortfall in Medicaid Reimbursement Was Almost $10 Each Day on Every Medicaid Patient

2000 Average Unreimbursed Allowable Medicaid Cost Per Patient Day by Region



Source: State-specific databases of nursing facility rates and costs compiled by BDO Seidman, LLP. (See Appendix 4). The amounts represent the difference between Medicaid rates and allowable Medicaid costs for each facility weighted by the facility's annual Medicaid days. It is not the average disparity between Medicaid rates and costs for only those facilities experiencing shortfalls in Medicaid reimbursement. If this were the case, the shortfalls would be much higher.

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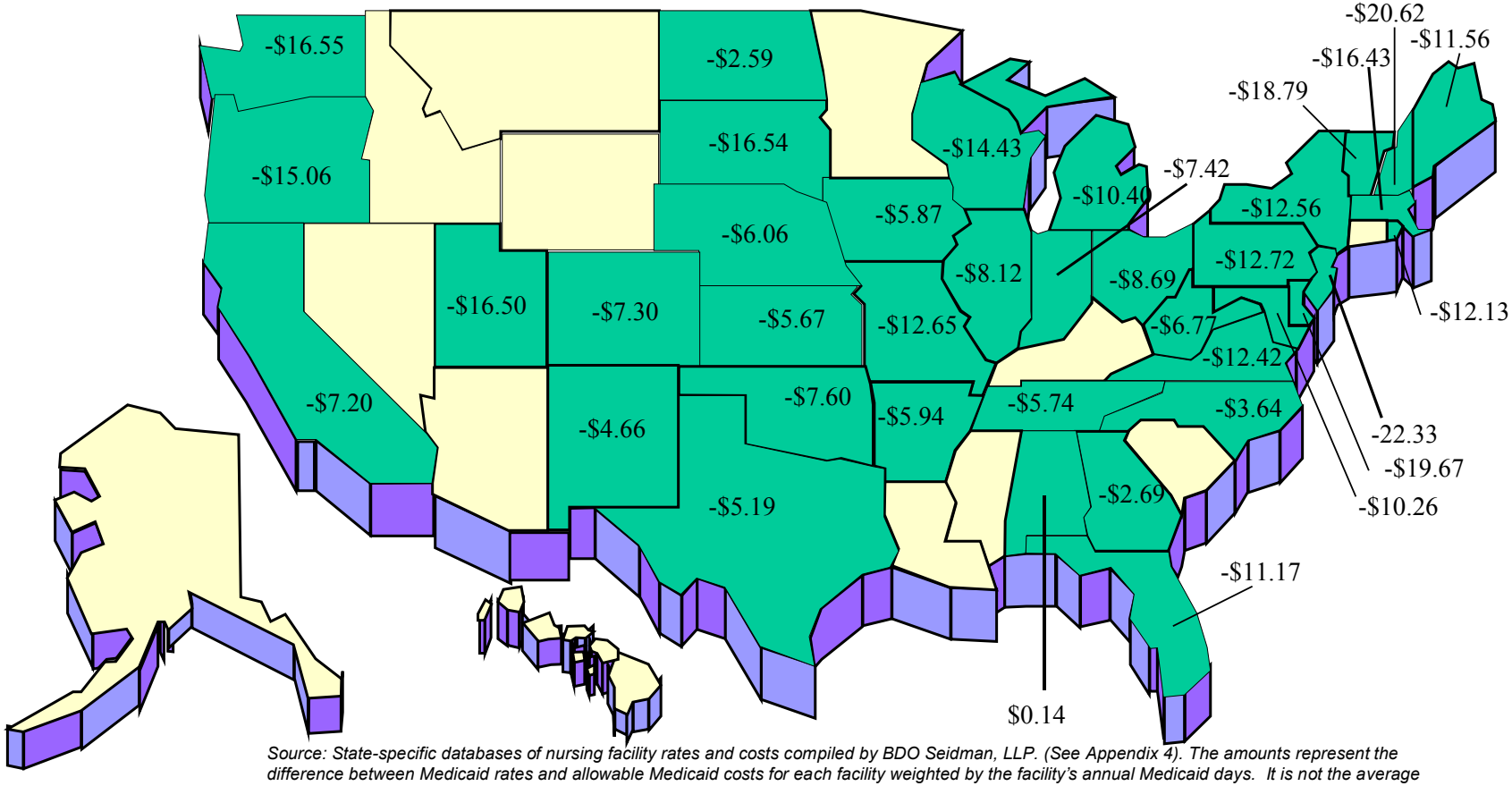
Average Disparity By State Between Medicaid Rates and Allowable Medicaid Per Patient Day Costs



Source: State-specific databases of nursing facility rates and costs compiled by BDO Seidman, LLP. (See Appendix 4). The amounts represent the difference between Medicaid rates and allowable Medicaid costs for each facility weighted by the facility's annual Medicaid days. It is not the average disparity between Medicaid rates and costs for only those facilities experiencing shortfalls in Medicaid reimbursement. If this were the case, the shortfalls would be much higher.

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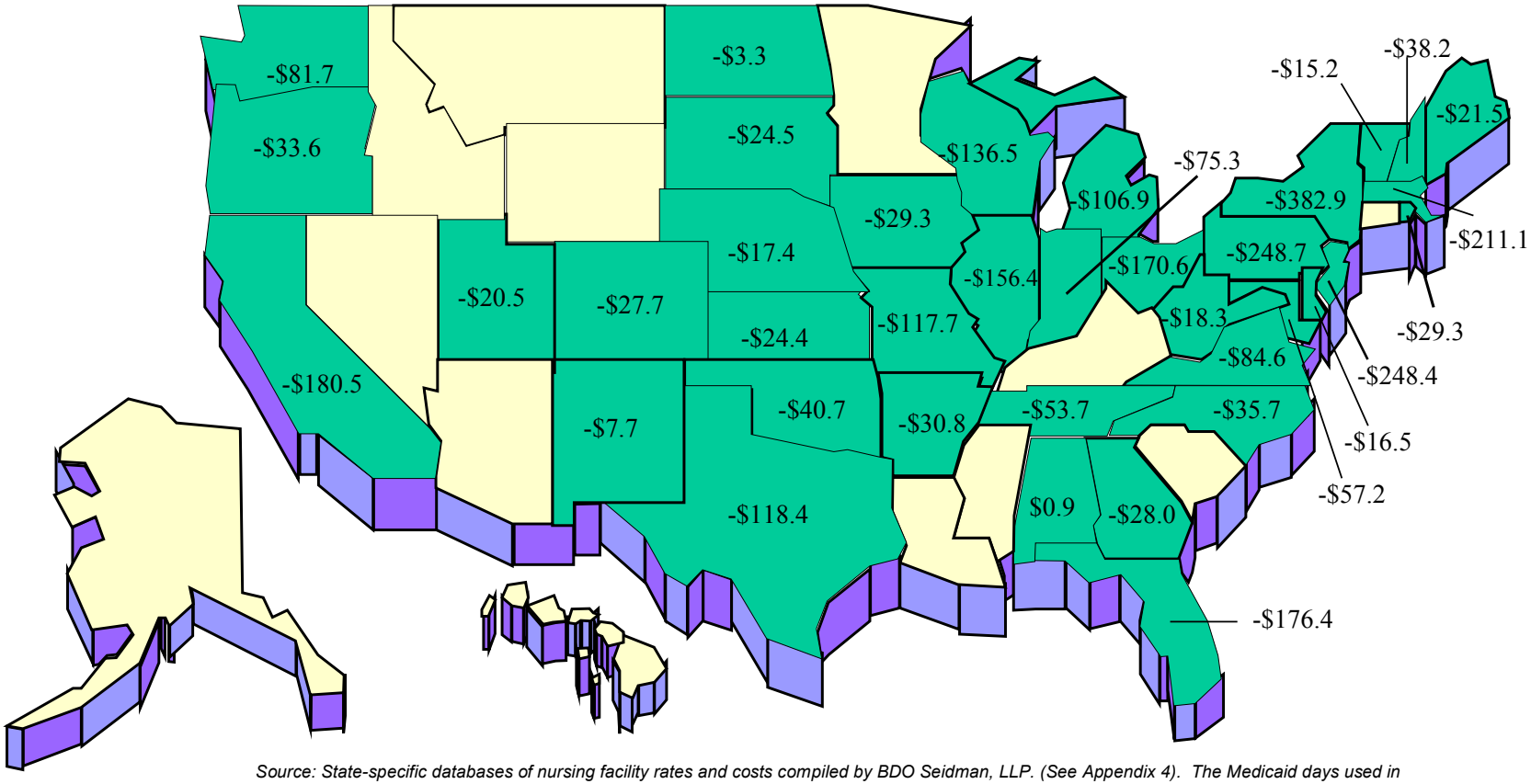
Disparity By State Between Total Medicaid Revenue and Total Allowable Medicaid Costs (In Millions)

$3.5 Billion Medicaid Funding Shortfall Nationwide



Source: State-specific databases of nursing facility rates and costs compiled by BDO Seidman, LLP. (See Appendix 4). The Medicaid days used in deriving state-specific shortfalls were derived from CMS-OSCAR Form 671: F 75-78, current surveys as of March, 2001. The weighted average shortfall for the 37 states reporting exceeded $3.0 billion dollars, based upon 313.8 million Medicaid days. Extrapolating this shortfall to 362.9 million Medicaid days nationwide (per CMS-OSCAR Data) results in a $3.5 billion national shortfall.

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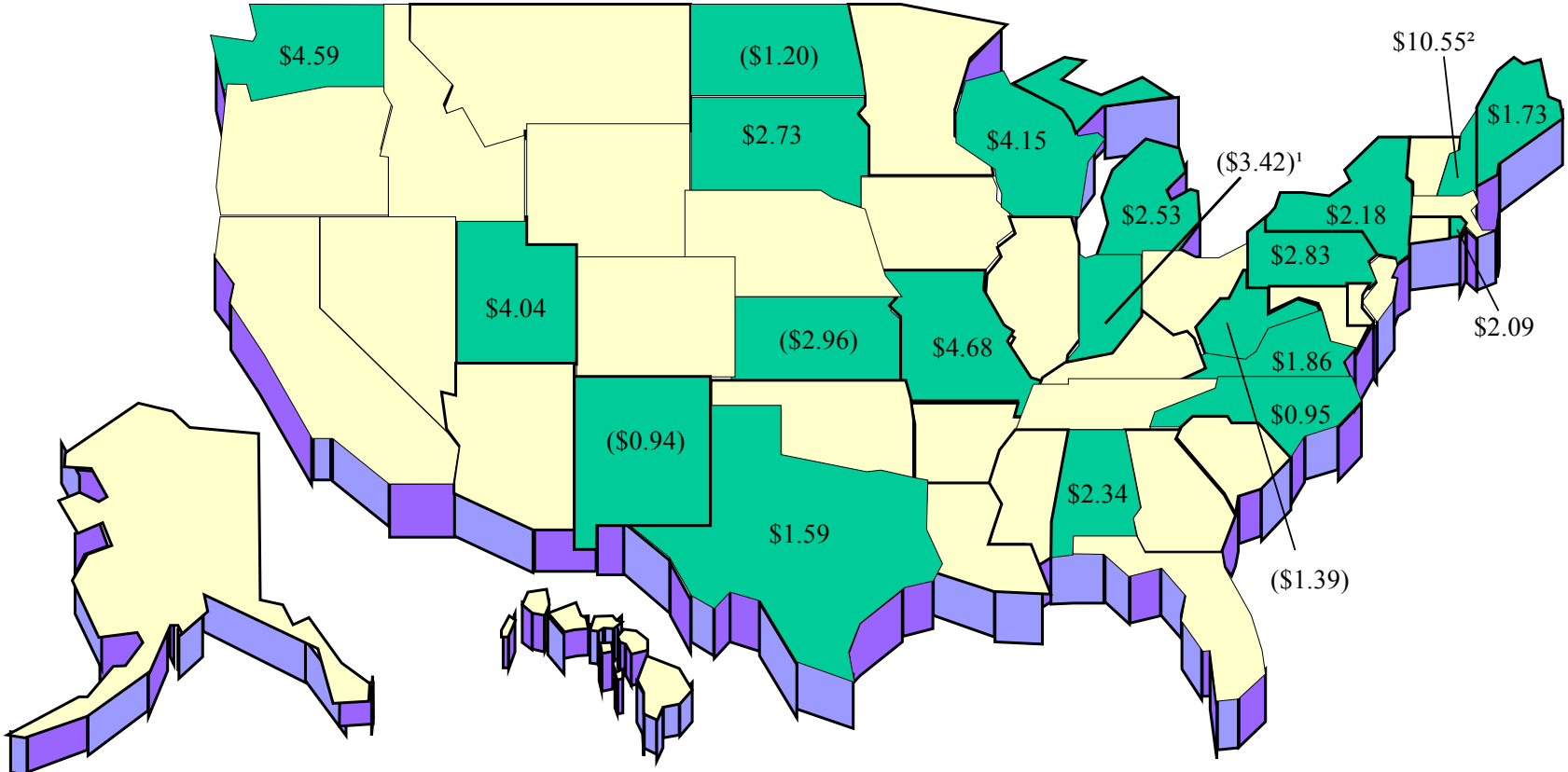
States with Increases (Decreases) in Shortfalls of at Least 15% Over Last Year Expressed as an Amount Per Medicaid Patient Day



(1) The decrease in the shortfall in Indiana is due to an error in the Medicaid rates reported last year. The average Medicaid rate reported last year was $92.80. It should have been $96.07, resulting in an overstatement of last year's shortfall by $3.27 per patient day.

(2) The significant increase in the shortfall in New Hampshire resulted from using more current cost reports in the 2000 data base. The 1999 shortfall utilized older cost reports that were trended forward by the state's inflation estimate which understated actual nursing home inflation.

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Appendix 1

BDO Observations

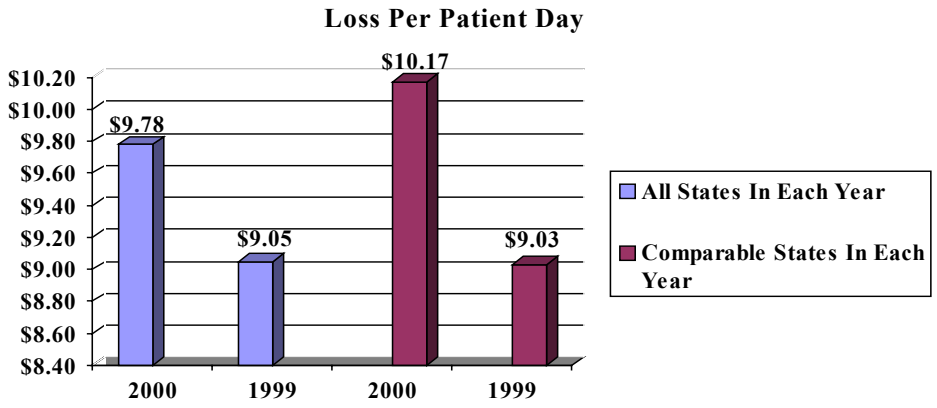
and Comments

BDO Observations and Comments

For the second consecutive year, BDO Seidman LLP, (BDO) was engaged by the American Health Care Association (AHCA) to work with their state affiliates and other sources to compile information on the shortfall between Medicaid reimbursement and allowable Medicaid costs in as many states as feasibly possible. The compilation was derived from 2000 rate and cost data; the latest year in which state audited or state desk-reviewed cost report information was available for most states.

The results, based upon data from 37 states, indicate that nationwide, the average shortfall in Medicaid reimbursement was almost $10 each day on every Medicaid patient. In 2000, unreimbursed Medicaid allowable costs exceeded $3.0 billion for these 37 states and exceeded $3.5 billion when the results were extrapolated to all 50 states. If all costs of operations were considered, not just Medicaid allowable costs (see Appendix 2), the $3.5 billion shortfall would be significantly greater. BDO's experience is that Medicaid cost disallowances typically represent 2-4% of total reported costs.

The average shortfall of $9.78 on each Medicaid patient is 8.1% higher than last year's average shortfall of just over $9 per Medicaid patient day. However, not all the states in last year's analysis were able to provide comparable data this year and some states provided data this year for the first time. When comparing the shortfall in those states providing data for both years, the average shortfall climbed 12.6%, from $9.03 to $10.17. The graphic below illustrates this comparison and the chart on page 4 reflects those states with the greatest percentage changes over last year.



BDO Observations and Comments

The report clearly indicates that the Medicaid shortfall is increasing in a program that is the payor source for 60-70% of residents in the average nursing home. While historically, Medicaid programs have always cost-shifted to other payors, the problem is compounded by the potential reductions in Medicare revenue due to elimination of certain payment add-ons effective October 1, 2002 and current budget deficits facing most states.

According to a March 1, 2002 report published by the Lewin Group[1], the Medicaid losses identified in this report are being substantially subsidized by the Medicare program. Their report indicates that the loss of the add-on would amount to a Medicare revenue decrease of approximately 18%, or $56 per Medicare patient day, and reduce total margins from 3% to <1.54%>.

To simply retain a margin of 3%, assuming the Medicare cuts are implemented, would require the Medicaid program to increase their daily rates by $10 per patient day over and above annual inflationary increases. This is a highly unlikely scenario especially given the current economic climate.

Based upon our experience in consulting on payment issues in over 25 states, and having been involved in the redesign or modification of payment systems in 10 states over the past three years, we anticipate that the Medicaid shortfalls will continue to significantly increase for a number of reasons.

State Budget Deficits

The Medicaid shortfall increased over 8% in 2000 when the economy was considered robust. With the current economic downturn, nearly every state is facing revenues that have fallen far below original estimates, resulting in over 40 states facing net budget shortfalls estimated to be as high as $40 to $50 billion in fiscal 2002.[2]

These budget shortfalls are placing significant pressure on states to curtail the growth of Medicaid expenditures. Though much of the strategy has been aimed at controlling caseload and spending on prescription drugs, nursing home budgets are being targeted as well.

Some states are budgeting long-term care expenditure freezes; others are forecasting rate reductions. Many are exercising their option not to pay Medicare coinsurance on dually eligible nursing home residents, while others are considering implementation or expansion of provider tax programs. Finally, some states are facing significant reductions in federal funds due to the phase out of Intergovernmental Transfer Funds, putting added pressure on them to reduce nursing home expenditures, cut programs and services, or raise revenues through provider tax programs.

(1) Payor-Specific Financial Analysis of Nursing Facilities, March 1, 2002.

(2) The Fiscal Survey of States: May 2002.

BDO Observations and Comments

Long-term care facilities currently have no federal statutory protections from budget cuts nor inadequate reimbursement rates. Providers have little assurance that the rates paid to them by the Medicaid program will adequately cover their costs. The Balanced Budget Act of 1997 repealed the "Boren Amendment", which required states to make findings and assurances that rates were "reasonable and adequate to meet the costs that must be incurred by efficiently and economically-operated facilities". In its place is a public notice and comment process affording providers and beneficiaries opportunities to only comment on proposed rates and methodologies. States no longer have to conduct findings or prepare any reasoned analysis to demonstrate the adequacy of their rates.

While nursing home providers in some states may ultimately be able to avoid rate freezes or rate cuts, rate increases in most states will not be enough to cover the cost of inflation, let alone reduce the Medicaid shortfall indicated in this report. As reported last year and restated below, nursing home cost increases are still substantially exceeding the general rate of inflation. This is due to a number of factors:

1. A shift of "lower care" Medicaid residents from nursing home environments to other settings, leaving the more frail and debilitated residents who require greater staffing and services;
2. An extreme labor shortage requiring salary and benefit increases beyond normal price inflation as well as increased use of more expensive temporary nursing agency help;
3. Increasing pressure from consumers, other advocates and regulators to increase staffing and improve patient outcomes;
4. Skyrocketing costs in certain non-labor areas such as liability insurance and utility costs;
5. Lower occupancy due to other elderly service delivery options resulting in higher "fixed costs" per diem; and
6. A higher "cost of capital" due to a lack of confidence and uncertainty by both lenders and the capital markets relative to long-term care.

As a result, future Medicaid shortfalls will continue to rise, putting the nursing home profession in severe financial jeopardy when these escalating shortfalls are combined with substantial reductions in Medicare reimbursement.

Appendix 2

Project Approach and Methodology

Project Approach and Methodology

The American Health Care Association initially surveyed their state affiliates as to the availability of a database of state-specific Medicaid rate and allowable cost information. Those that responded in the affirmative were asked to complete "data collection speadsheets" reflecting the Medicaid rates and allowable costs for each provider based upon their fiscal or calendar year ending in 2000. Sample data collection spreadsheets are included as Appendix 3.

BDO Seidman, LLP, (BDO) was engaged to assist in this process by:

1. Developing the data collection spreadsheets;
2. Instructing and guiding state affiliates through the process;
3. Reviewing the results for reasonableness and compliance with document instructions;
4. Contacting other sources such as state agencies, their consultants and independent accounting firms to obtain the data in those states where the data was readily available, but the state affiliate did not have it; and
5. Compiling the results into a report.

In almost all cases, the state affiliates indicated that the data was derived from a database of Medicaid rates and allowable costs obtained from their state agency. Allowable costs include only those costs recognized by the state agency as directly or indirectly related to patient care and typically exclude necessary operating costs including, but not limited to, marketing and public relations, bad debts, income taxes, stockholder servicing costs, contributions, certain legal and professional fees, property costs related to purchases of facilities, and out-of-state travel. In a substantial majority of states, the cost database reflected costs that have been audited or desk-reviewed by the Medicaid state agency. BDO did not replicate the calculations nor trace individual facility cost or rate data to Medicaid cost reports, rate worksheets, or state agency databases.

Comparisons of Medicaid rates and allowable costs for 2000 were derived for 37[1] states representing over 86% of the Medicaid patient days in the country. The remaining states not reflected in the comparisons indicated that the data was not readily available. However, as can be seen by the chart on page 3, these 37 states reflect all regions of the country and are a fair representation of Medicaid shortfalls nationwide. The comparisons include most of the states representing the largest Medicaid populations including New York, California, Texas, Ohio, Pennsylvania, and Illinois. Based upon the high percentage of nationwide Medicaid patient days represented by the 37 states, it is likely that the overall results would not materially change had all states been represented.

(1) The Minnesota and Kentucky state affiliates were excluded from the computations. In Minnesota, only a minority of providers still file cost reports. The majority of providers are paid a percentage increase on their prior year rate and are not required to file cost reports. In Kentucky, cost reports exclude non-labor costs thereby making it impossible to provide a meaningful comparison of costs and rates.

Appendix 3

Data Collection Document

Data Collection Document

AHCA DATA COLLECTION INSTRUCTIONS FOR 2000 DATA

General Instructions:

Please provide excel spreadsheets similar to those attached, identifying the difference between Medicaid allowable costs and Medicaid rates for each facility based upon 2000 cost report data. The rates must match the cost report period; not vice versa. We've attached sample spreadsheets that reflect the format and documentation that is required for this project. In essence, we need the average Medicaid rate and Medicaid allowable cost for each facility for their fiscal year that ends in 2000 and the supporting documentation reflecting the computation for each facility.

On your spreadsheets, please indicate whether the data is "as reported" or "audited/desk-reviewed" and the data source. (State agency database, etc.)

If your state utilizes a provider tax program, the tax should be included as an allowable cost, unless the Medicaid rates are net of the reimbursement for provider taxes.

Summary Tab:

This tab summarizes the weighted average Medicaid rate and allowable cost for each facility. The rate and allowable cost for each facility are brought forward from the "Rates" and "Costs" tabs.

Rate Tab:

The rate tab provides an example of the supporting documentation that is needed for each facility. The Medicaid rate(s) for each facility are weighted by the days or months that they were in effect during the cost report period.

Cost Tab:

The cost tab provides an example of supporting documentation that is needed for each facility. Your worksheet will reflect the cost categories utilized in your state in determining Medicaid allowable costs.

Note:

We have included a sample calculation for one facility so you can better understand the information needed and the required format.

Data Collection Document
Summary Tab

AHCA DATA COLLECTION

Is the data "as reported" or "audited/desk-reviewed"	
Data Source (please write in)	

FACILITY	PROVIDER NUMBER	FACILITY YEAR END	AVERAGE MEDICAID RATE	AVERAGE MEDICAID COST	DIFFERENCE	TOTAL MEDICAID DAYS	TOTAL MEDICAID PROFIT / SHORTFALL
Facility 1			*100.96*	*110.49*	*(9.54)*	*32,676*	*(311,570)*

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Data Collection Document
Rate Tab

MEDICAID RATE FOR COST REPORTING PERIOD *

* In most cases, the rate period will not correspond with the cost report period. This will require a computation averaging two or more Medicaid rates for the applicable time frame that each were in effect for the cost report period.

** In determining weighted average Medicaid rates, rates can be weighted by Medicaid days for the applicable time period or calendar days or months, depending upon the information available.

FACILITY	MEDICAID RATE (1)	DAYS APPLICABLE **	SUBTOTAL	MEDICAID RATE (2)	DAYS APPLICABLE **	SUBTOTAL
Facility 1	*100.45*	*10,849*	*1,089,782*	*101.19*	*10,939*	*1,106,917*

MEDICAID RATE (3)	DAYS APPLICABLE **	SUBTOTAL	TOTAL MEDICAID REVENUE	TOTAL DAYS	WEIGHTED AVERAGE MEDICAID RATE PER DAY
101.23	*10,888*	*1,102,192*	*3,298,892*	*32,676*	*100.96*

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Data Collection Document (Continued)
Cost Tab

MEDICAID ALLOWABLE COST FOR COST REPORTING PERIOD

FACILITY	PROVIDER YEAR END	RN SALARIES	LPN SALARIES	AIDE SALARIES	TOTAL NURSING SALARIES	NURSING OTHER	DIETARY SALARIES	DIETARY OTHER
Facility 1	12/31/2000	*486,391*	*552,251*	*886,396*	*1,925,038*	*524,424*	*202,997*	*284,484*

LAUNDRY SALARIES	LAUNDRY OTHER	HOUSEKEEPING SALARIES	HOUSEKEEPING OTHER	SOCIAL SERVICES SALARIES	SOCIAL SERVICES OTHER	ACTIVITIES SALARIES	ACTIVITIES OTHER
43,742	*21,869*	*124,122*	*47,699*	*52,609*	*11,384*	*63,970*	*25,879*

A&G SALARIES	A&G OTHER	MAINTENANCE SALARIES	MAINTENANCE OTHER	UTILITIES	FRINGE BENEFITS	PROPERTY	PROPERTY TAXES
129,899	*288,154*	*25,255*	*64,931*	*73,964*	*528,437*	*346,453*	*28,639*

TOTAL EXPENSE ($)	TOTAL DAYS	TOTAL EXPENSE PPD	TOTAL MEDICAID DAYS
4,813,949	43,568	110.49	32,676

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Appendix 4

Calculation of 2000 Weighted Average Medicaid Shortfall

State by State Comparison

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Calculation of 2000 Weighted Average Medicaid Shortfall

State	Rate (1)	Cost (1)	Difference	Annual Medicaid Days	Gross Revenue	Gross Cost	Difference x Medicaid Days
Alabama	$ 107.13	$ 106.99	$ 0.14	6,220,330	666,383,953	665,513,107	870,846
Arkansas	$ 69.40	$ 75.34	$ (5.94)	5,184,460	359,801,524	390,597,216	(30,795,692)
California	$ 97.54	$ 104.74	$ (7.20)	25,076,230	2,445,935,474	2,626,484,330	(180,548,856)
Colorado	$ 113.57	$ 120.87	$ (7.30)	3,796,365	431,153,173	458,866,638	(27,713,465)
Delaware	$ 118.89	$ 138.56	$ (19.67)	839,135	99,764,760	116,270,546	(16,505,785)
Florida	$ 112.82	$ 123.99	$ (11.17)	15,791,360	1,781,581,235	1,957,970,726	(176,389,491)
Georgia	$ 90.11	$ 92.80	$ (2.69)	10,401,405	937,270,605	965,250,384	(27,979,779)
Illinois	$ 87.44	$ 95.56	$ (8.12)	19,259,590	1,684,058,550	1,840,446,420	(156,387,871)
Indiana	$ 105.14	$ 112.56	$ (7.42)	10,151,015	1,067,277,717	1,142,598,248	(75,320,531)
Iowa	$ 83.21	$ 89.08	$ (5.87)	4,997,215	415,818,260	445,151,912	(29,333,652)
Kansas	$ 91.34	$ 97.01	$ (5.67)	4,308,825	393,568,076	417,999,113	(24,431,038)
Maine	$ 119.12	$ 130.68	$ (11.56)	1,862,230	221,828,838	243,356,216	(21,527,379)
Maryland	$ 127.96	$ 138.22	$ (10.26)	5,572,455	713,051,342	770,224,730	(57,173,388)
Massachusetts	$ 128.59	$ 145.02	$ (16.43)	12,850,920	1,652,499,803	1,863,640,418	(211,140,616)
Michigan	$ 109.24	$ 119.64	$ (10.40)	10,276,940	1,122,652,926	1,229,533,102	(106,880,176)
Missouri	$ 97.26	$ 109.91	$ (12.65)	9,307,865	905,282,950	1,023,027,442	(117,744,492)
Nebraska	$ 105.01	$ 111.07	$ (6.06)	2,872,185	301,608,147	319,013,588	(17,405,441)
New Hampshire	$ 119.25	$ 139.87	$ (20.62)	1,850,915	220,721,614	258,887,481	(38,165,867)
New Jersey	$ 131.78	$ 154.11	$ (22.33)	11,125,200	1,466,078,856	1,714,504,572	(248,425,716)
New Mexico	$ 101.23	$ 105.89	$ (4.66)	1,660,385	168,080,774	175,818,168	(7,737,394)
New York	$ 161.18	$ 173.74	$ (12.56)	30,481,880	4,913,069,418	5,295,921,831	(382,852,413)
North Carolina	$ 97.72	$ 101.36	$ (3.64)	9,818,500	959,463,820	995,203,160	(35,739,340)
North Dakota	$ 102.74	$ 105.33	$ (2.59)	1,263,630	129,825,346	133,098,148	(3,272,802)
Ohio	$ 122.64	$ 131.33	$ (8.69)	19,627,510	2,407,117,826	2,577,680,888	(170,563,062)
Oklahoma	$ 66.57	$ 74.17	$ (7.60)	5,354,185	356,428,095	397,119,901	(40,691,806)
Oregon	$ 94.97	$ 110.03	$ (15.06)	2,231,610	211,936,002	245,544,048	(33,608,047)
Pennsylvania	$ 131.13	$ 143.85	$ (12.72)	19,555,605	2,564,326,484	2,813,073,779	(248,747,296)
Rhode Island	$ 117.46	$ 129.59	$ (12.13)	2,417,760	283,990,090	313,317,518	(29,327,429)
South Dakota	$ 83.21	$ 99.75	$ (16.54)	1,478,250	123,005,183	147,455,438	(24,450,255)
Tennessee	$ 88.39	$ 94.13	$ (5.74)	9,363,345	827,626,065	881,371,665	(53,745,600)
Texas	$ 83.06	$ 88.25	$ (5.19)	22,813,960	1,894,927,518	2,013,331,970	(118,404,452)
Utah	$ 90.24	$ 106.74	$ (16.50)	1,241,000	111,987,840	132,464,340	(20,476,500)
Vermont	$ 108.24	$ 127.03	$ (18.79)	807,745	87,430,319	102,607,847	(15,177,529)
Virginia	$ 87.51	$ 99.93	$ (12.42)	6,813,455	596,245,447	680,868,558	(84,623,111)
Washington (2)	$ 109.68	$ 126.23	$ (16.55)	4,936,990	541,489,063	623,196,248	(81,707,185)
West Virginia	$ 110.97	$ 117.74	$ (6.77)	2,707,935	300,499,547	318,832,267	(18,332,720)
Wisconsin	$ 104.05	$ 118.48	$ (14.43)	9,462,260	984,548,153	1,121,088,565	(136,540,412)
				313,780,645	34,348,334,789	37,417,330,530	(3,068,995,741)
						Weighted Average Shortfall	(9.78)
						Shortfall extrapolated to all 50 states (3)	(3,549,162,000)

(1) The rates and costs are weighted averages calculated by multiplying the per diem rates and costs of each facility by their respective Medicaid days and dividing the result by total Medicaid days of the facilities in the statewide database.

(2) In this state only, rates and costs are exclusive of property costs and property rates which were not included in the available database.

(3) Based upon 362.9 million estimated annual Medicaid payment days derived from CMS-OSCAR Form 671: F75-78 current surveys as of March 2001.

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