

# Low Medicaid Rates Cause Skilled Nursing Crisis in Washington State

By Maggie Flynn | September 18, 2018

It's unlikely that the state of Washington intended to put its skilled nursing facilities on the brink of disaster when it overhauled its Medicaid system in 2016, but leaders of both LeadingAge Washington and the Washington Health Care Association (WHCA) said that's exactly what has occurred as providers across the state try to keep their doors open.

"At this point I can't even tell you how they're coping. That's how bad it is," WHCA president and CEO Robin Dale told Skilled Nursing News.

Some facilities are planning to exit the skilled nursing space entirely as a result. Others are taking a hard look at their spectrum of operations to add services and creativity to their business plans.

## An overhaul's unintended consequences

The environment wasn't always so difficult in the state. In fact, Washington's Medicaid reimbursements were among the highest in the country in 2000, Dale said. But ever since, the rates have been falling. The setup that the state implemented around 1995 or 1996 was a good system, "but terribly, terribly complex," and it was difficult to implement change when that was necessary, according to Dale, who took the role of CEO at the WHCA — which represents for-profit providers — in 2014.

"We had not gotten any significant rate increase for years," he said. "There were actually a couple of cuts. There was a hole that had been dug that was very hard to get out of it. It seemed to me and to some people that I worked with that it was time for a simplified system."

That process began in 2015, and the new system was finalized the next year. The first new rates took effect on July 1, 2016.

Before then, SNFs were paid based on the cost of providing care or services to residents, with the payment rates adjusted based on the acuity of clients served, LeadingAge Washington CEO Deb Murphy told SNN; her organization represents non-profit long-term care providers in the state.

"Come 2016, we have shifted the way in which we are paying for nursing facility care, and the new payment system basically establishes a price so all SNFs are now largely paid the same ... essentially set at the median," she said. "So with 210 or so facilities in the state that means half of those facilities have costs that are above the median and half of the facilities have costs that are below the median. But the median is used to set the price the state is willing to pay for the cost of care."

The rate is still adjusted based on acuity, so the higher the acuity of a patient, the more dollars the SNF will receive, and vice versa, Murphy added. Geographic area and the resulting cost of living is also factored in, but the core of the Medicaid reimbursement is still based upon the median cost of providing care.

"It's a median, and then it's adjusted for location and case mix," Christopher Wielga, financial policy analyst at LeadingAge Washington, said. "The average rate is about \$215 a day."

Though there are different estimates of how big the gap is between that rate and the cost of providing care to a Medicaid resident, providers agree that that reimbursement isn't sufficient by itself, Wielga told SNN.

Another problem: The Medicaid rate is set using data that's out of date. The 2016 rate was calculated based on data from 2014, and the 2018 rate will reflect costs from 2016. In theory, that lag should be two years, but the reality isn't quite so simple. The rate changes on July 1, so on June 30, 2018, the Medicaid rates were still based on four-year-old data from the initial updated set.

This is the biggest issue with the new system — which Dale said he thinks is otherwise good. Because the legislators would not allow extra money to be spent on the budget, the stakeholders seeking to change the Medicaid reimbursement system for SNFs were unable to put in an escalator to deal with inflation, according to Dale.

“When we created the new system, we were in a budget box,” he said.

To ease the transition to the new system, there is a phase-in period, where facility rates could not drop too far from where they were under the old model, Wielga said. But that ends when the new system takes full effect on July 1, 2019.

### **‘A perfect storm’**

Tekoa Care Center, in Tekoa, Wash., is a SNF in the process of converting to an assisted living facility. The behavioral health-focused facility isn't making the transition solely because of the low Medicaid rates, co-owner Josh Wester told SNN. But they certainly haven't made operating a SNF easier.

“It's sort of a perfect storm of: the Medicaid rate's gotten so far behind, and the survey environment has gotten very difficult, and then labor's really tough right now too,” he said. “You throw all those things together and it becomes really tough to operate.”

In the state of Washington, Medicaid residents generally account for about 60% of skilled nursing residents, and providers could be losing anywhere from \$35 to \$47 a day on those patients, Dale told SNN.

That's especially true if a SNF has a high population of patients that aren't high-acuity.

“If you have residents in your SNF that are low-acuity, whom you are essentially being penalized to care for ... it's very difficult for you to discharge them,” Murphy said. “One: There aren't any appropriate places to discharge them to, or two: They have no place to go. Residents don't want to leave the SNF. It's a comfortable place. It's home, and they don't want to leave.”

As non-profit providers try to cope, they're also battling the high costs of labor and the difficulties of retaining workers, Murphy noted. As a result, many of LeadingAge Washington's members are taking a hard look at what their mission will be going forward, she said.

The pinch isn't confined to not-for-profits, with Dale describing the state of long-term care providers in the state as “a crisis right now.”

“Almost every building in the state of Washington is upside down,” he said. “The cost of care exceeds the Medicaid rate.”

**Written by Maggie Flynn**