



**HEALTHCARE MORTGAGEE ADVISORY COUNCIL**

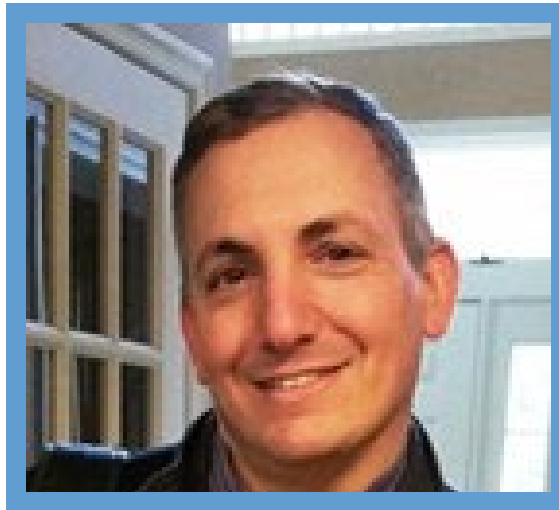
Financing Seniors Housing for America

# Welcome to the Reimbursement Jungle

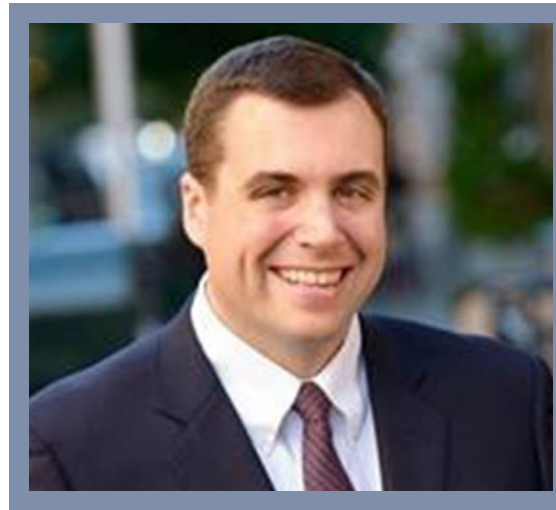
# Welcome to the Reimbursement Jungle



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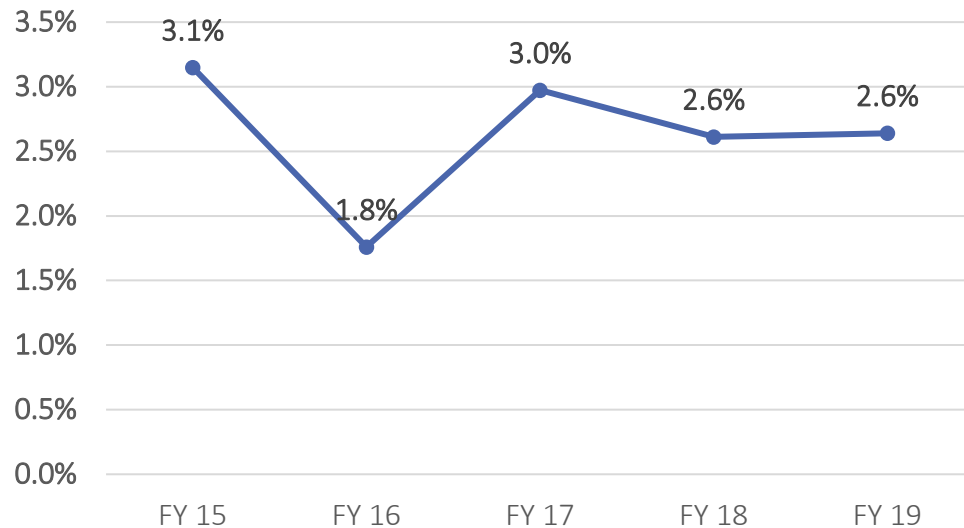


# HUD Hot Topics

- State by State – what’s the story?
  - Recent rate increases? Are they enough?
- Minimum Staffing Requirements
  - Federal & State rollouts of minimum staffing
  - Staffing add-on rate incentives
  - Penalties for not meeting minimum requirements
  - Do not simply send increased rates to the bottom line while not accounting for increased staffing expenses
- Are Expenses Done Increasing?
  - Labor costs
  - Insurance premiums
  - Inflation

# Medicaid Reimbursement 2015 to 2019

Average Medicaid Rate Growth  
FY 15 -FY 19



## Period of Moderate Rate Growth

- Small inflation increases
- Rates based more on budget than calculation methodology
- Many states did not rebase rates using current cost report data
- Medicaid was chronically under-funded
  - Estimated that Medicaid covers approximately 70% to 80% of actual cost
- Cost shifting to Medicare and Private Pay/Commercial Insurance residents
- 550 nursing homes (including 440 rural nursing homes) closed from 2015 to 2019

# COVID-19 Years – 2020 – 2023

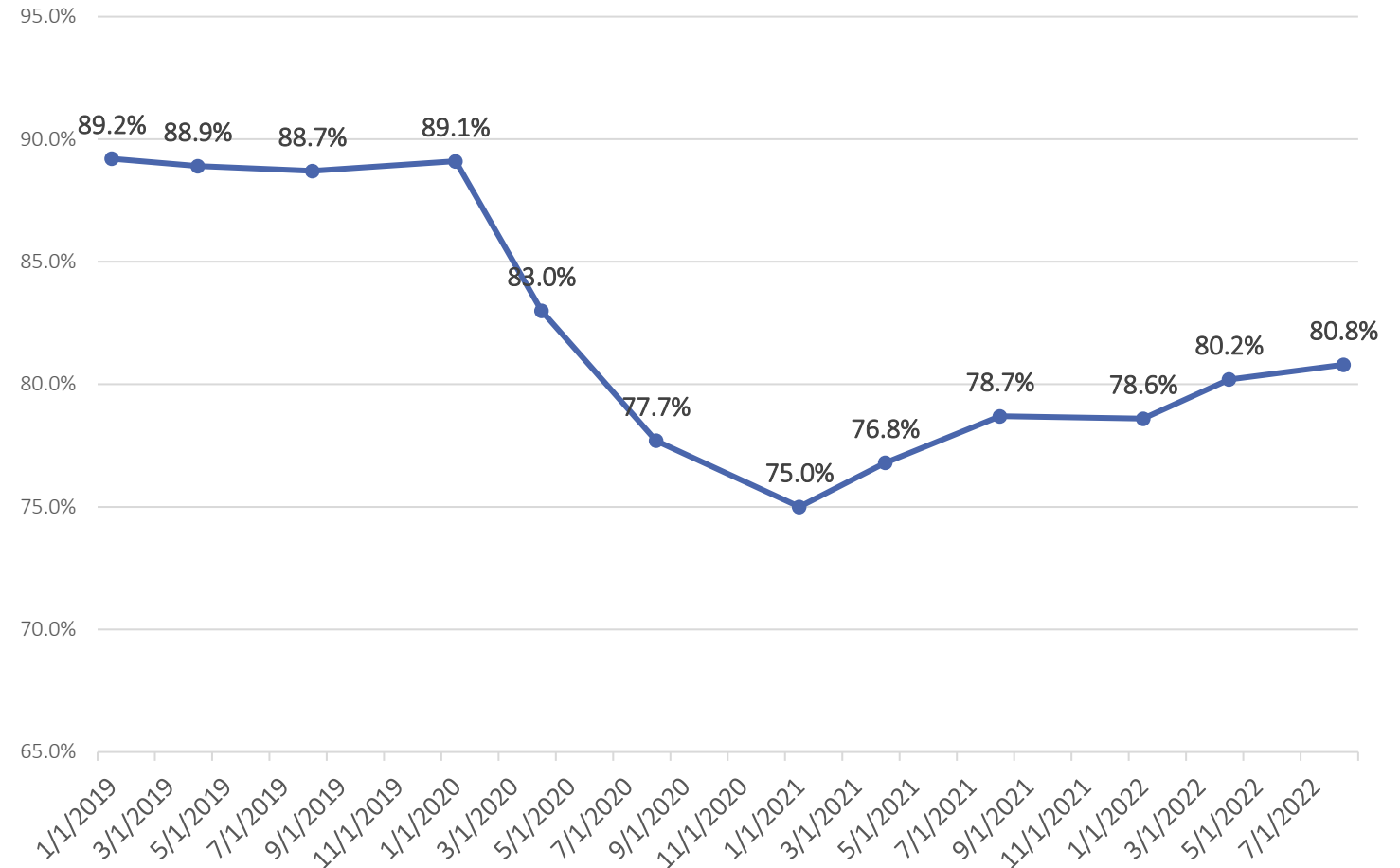
- Start of the pandemic – First case in the US in Washington State on January 24, 2020
- First nursing home resident diagnosed with COVID-19 in Connecticut on March 15, 2020
  - Consequences
    - Approximately 1.8 million inflected nursing homes residents
    - Approximately 1.7 million inflected nursing home staff
    - More Than a Thousand Nursing Homes Reached Infection Rates of 75 Percent or More in the First Year of the COVID-19 Pandemic
    - 168,579 COVID-19 related nursing home deaths

# COVID-19 Years 2020 - 2023

## Impact on Nursing Homes

- Reduced occupancy levels
  - Admission freezes/isolations
  - Family concerns
  - Staffing issues
- Significant increase in nursing home operating costs
  - Supplies required to prevent COVID-19 increased by cost by 109% in 2020
  - Labor costs increased on average 18.0% in 2020
  - Wage increases for all levels of direct care staff more than doubled from 2020 to 2021
  - Significant increase in the use of contracted/agency labor

Nursing Home Occupancy Trends



# COVID-19 Years 2020 – 2023

## Federal Response:

- Unprecedented level of Federal Assistance for nursing homes
  - The Cares Act
    - The Provider Relief Fund - \$21 billion for nursing homes
  - American Rescue Plan Act of 2021
    - \$8.5 billion in FY 2021 for provider relief fund payments to rural Medicaid, CHIP, and Medicare providers.
    - \$450 million for nursing homes - dedicated to preventive measures and the handling of outbreaks
  - The Families First Coronavirus Response Act
    - Increased Federal Medicaid Assistance Percentages (FMAPs) effective January 1, 2020

# COVID-19 Years 2020 to 2023 State Responses

- States tapped into federal relief funds to provide aid to nursing homes
  - Supplemental payments based on need and/or Medicaid volume
- Forwarded increased federal matching funds to nursing homes
  - States increase provider taxes/quality assessment fees to take advantage of increased FMAP rates

## Notable Provider Tax/Quality Assessment Fee Increases

Alabama - FY 23 - 19.5%

Arizona - FY 23 - 33.1%

California - FY 22 - 10.6%

Iowa - FY 23 - 165.9%

Maryland - FY 22 - 6.3% & FY 23 - 6.9%

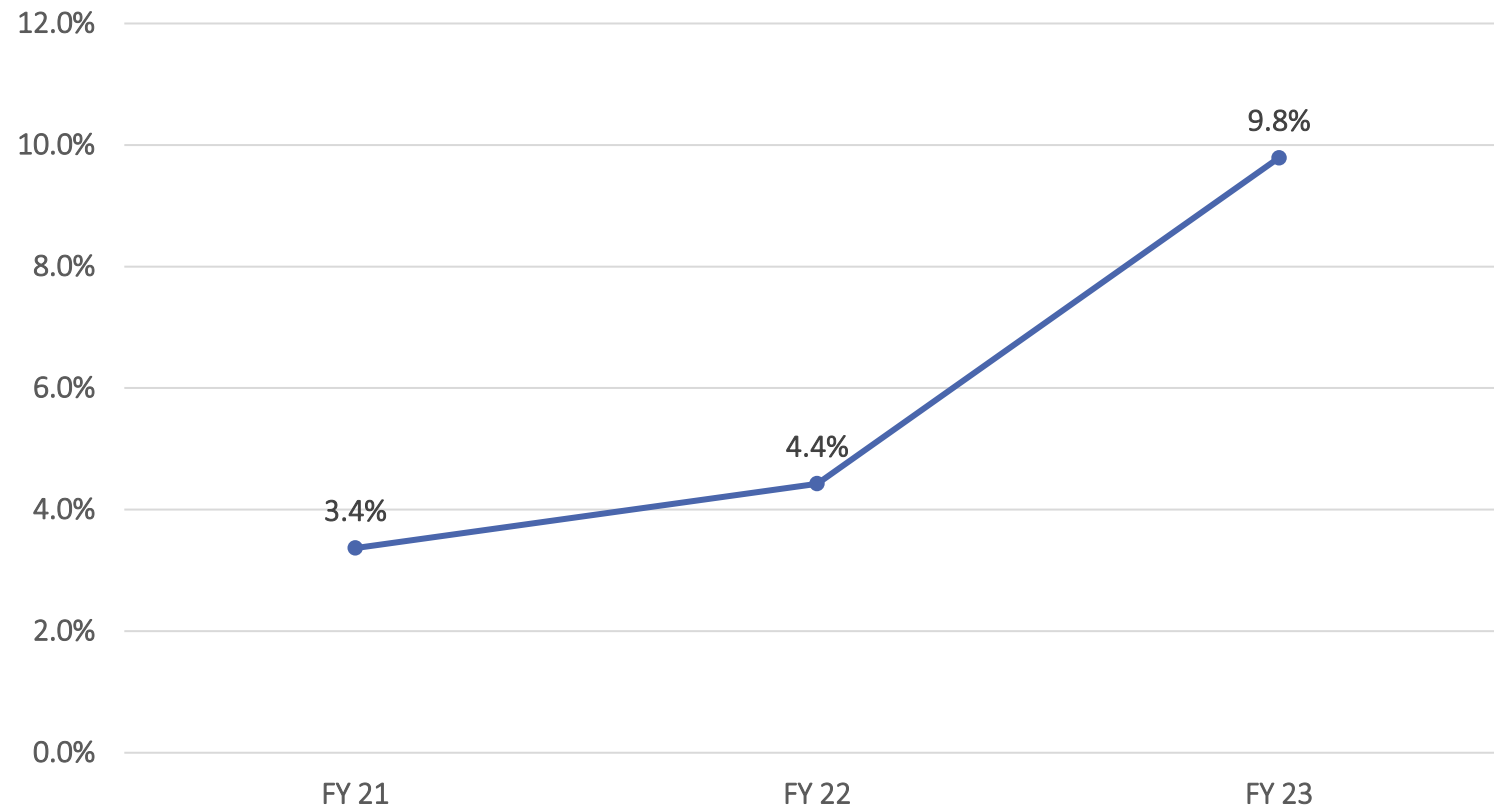
Michigan - FY 23 - 34.8%

Oregon - FY 23 - 19.9%



# COVID-19 Years – 2020 – 2023

Average Rate Increases FY 21 to FY 23



# COVID-19 Years 2020 to 2023

## COVID-19 Supplemental Payments

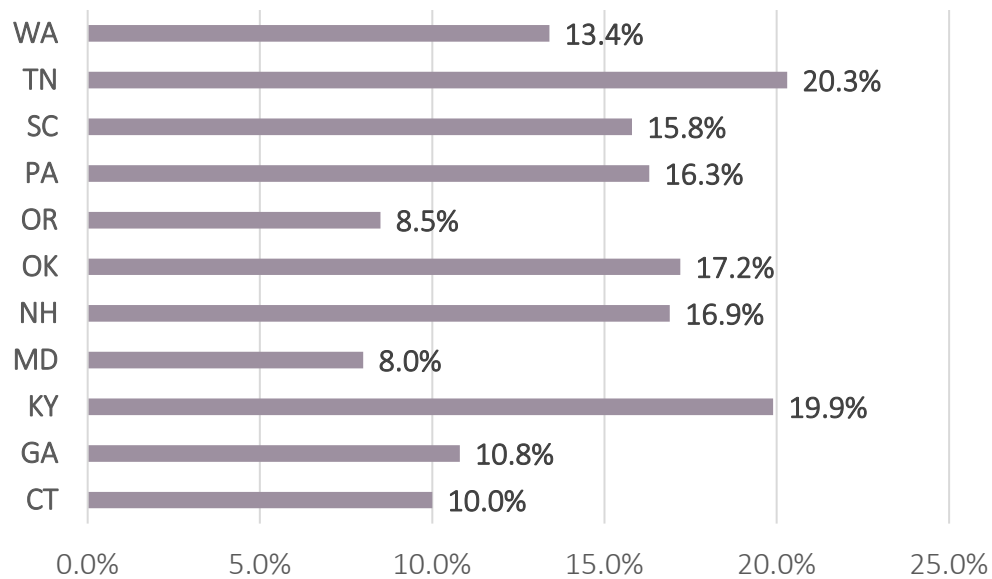
- Alabama – A combined \$150 million in supplemental payments in FY 22 & FY 23 – paid based on need – staffing expenses, supplies, etc.
- Massachusetts - \$108 million in supplemental payments paid in FY 23 for testing, workforce development, prevention measures.
- Ohio - \$300 million in FY 22 & \$350 million in supplemental payments in FY 23 to pay for overtime pay, bonuses and incentives to recruit and retain direct care staff
- Pennsylvania - \$245 million in FY 21 & \$125 million in FY 23 to reimburse nursing facilities for lost revenue and increased cost due to COVID-19.
- Tennessee – A combined \$220 Million in FY 21 & FY 22 to assist with increased costs related to COVID-19.

# Current Period 2023-2024

- National Health Emergency Declared over on May 11, 2023
- Ending of federal assistance on December 31, 2023 (Fiscal Responsibility Act of 2023)
  - Last period of increased FMAP (1.5%) 10/1/23 to 12/31/23
  - The majority of COVID-19 rate add-ons and supplemental payments have been discontinued.
- What happens when the federal faucet is turned off?
  - Will the states maintain current funding levels and reimbursement?
    - Preliminary answer is “Yes”

# Current Period 2023-2024

## Medicaid Rate Growth FY 24



- Funding for increases in Medicaid rates are offsetting the loss of additional revenue through COVID-19 relief funds
- Rebasing – several states are rebasing in FY 24 and/or will rebase in FY 25
- Medicaid was chronically under-funded
  - Rebasing results in Medicaid rates that effectively offset the loss of any COVID-19 add-ons or supplemental payments
- What Happens next?



# Future Challenges

- It is getting more difficult to shift cost to Medicare
- Increase Medicaid enrollment
  - Total Medicaid enrollment national has increased 35.4% from February 2020 to March 2023 (22,709,822 new enrollees)
  - Total seniors enrolled in Medicaid has increased from 12.5% from 6.2 million to 7.2 million.
- Declining State Revenue (Per the Urban Institute)
  - Trend that started in the 3<sup>rd</sup> quarter of 2022 and has continued
  - State and local government tax revenues in the 1<sup>st</sup> quarter of 2023 were 8.9% lower the estimate for the 1<sup>st</sup> quarter of 2022.
  - State government tax revenues declined 18.9% over the same period
  - State corporate income tax revenues declined 29.2% over the same period
  - Similar trends were projected for the 2<sup>nd</sup> quarter of 2023.
- Costs are still increasing - the recent Bureau of Labor Statistics indicated that the costs for nursing homes and adult care increased by 2.4% in July from the previous month, the biggest gain on records dating back to 1997.
  - Increased staffing costs and challenges in recruiting adequate staffing levels
- Ending of the increased FMAP
  - Enhanced matching percentages are gone by 12/31/23
- Recession?
  - In September 2023, New York Fed indicates that there is a 56% chance of a recession in the next 12 months

# Trends in Medicaid

- Conversion to PDPM
  - Effective October 1, 2019, CMS converts from the Resource Utilization Group (RUG) system to the Patient Driven Payment Model (PDPM).
  - Currently 41 states adjust the direct care portion of nursing home rates for acuity – The majority of these states still utilize the RUG IV 48-RUG Grouper.
  - All states will eventually have to convert to PDPM by 10/1/25
    - States slowly converting to PDPM
      - Initial conversions appear to be budget neutral
        - Use a hold harmless for the conversion rate year (and potentially future rate years)
          - The overall rate calculation remains the same. Still adjusting rates at the same frequency for acuity
            - Conversion from a facility-specific rate to resident-specific rates

# Trends in Medicaid

- Staffing requirements
  - Rate increases linked to new minimum staffing requirements (CA, NJ, NJ, RI, etc.)
  - A percentage of reimbursement is required to be spent on direct care
- Quality Incentive Programs (QIPs)
  - These programs vary from rate add-ons to supplemental payments
  - There has been an increase in QIPs in recent years as state attempt to link rate increases to quality of care
- Minimum wage incentives or payments
  - Several states are in the process of increasing their minimum wages. State Medicaid agencies are assisting nursing homes with this transition via rate add-ons and/or inflation adjustments to offset the additional staffing cost required to the wage increase.

# New York – Dazed and Confused

- Minimum Spending 70/40/5
- Minimum Staffing Requirement 3.5 Hrs
- Nursing Home Quality Initiative (NHQI)
- Advanced Training Initiative (ATI)
- Supplemental Payments



- 2024 Medicaid Rate increase
  - 6.5% ATB
  - 1.0 ATB (Pending CMS Approval)
- CMI changes
  - Picture dates to Rolling CMI averages
  - PDPM Conversion Expectation
- Capital Component - Residual Equity



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**Thank You!!**