SENIOR CARE POLICY BRIEFING

December 28, 2023

NEWSFLASH

- The Medicare Payment Advisory Commission (MedPAC) recommends a 3% reduction in Medicare-based payment rates for skilled nursing facilities for fiscal year 2025. MedPAC cites strong margin projections, occupancy growth, and the need to align payments with costs.
  - ⇒ In a recent meeting, Kathryn Linehan, principal policy analyst for MedPAC, stated, "We project the SNF margins in 2024 to remain high even with the downward adjustment, to account for excess payment resulting from the new case mix system."
  - ⇒ Speaking to profit margins, Dr. R. Tamara Konetzka, health economist, said during the meeting, "It's sort of a well-known problem now that if you sell the real estate to a REIT or to some other entity, and you pay sort of inflated rent back to make your profit margins look lower, and then you recoup that profit because it's a related party, we're not going to find that in the cost reports. So the profit margins also should be taken with a grain of salt in the cost reports."

LTC BY THE NUMBERS

- The American Health Care Association – the nation's biggest nursing home and assisted living lobby association – boasts that its leaders were recognized as "The Hill's Top Lobbyists 2023." AHCA rewards its CEO with a salary of $1.5 million per year. Meanwhile, a nurse aide with over 30 years of experience makes only $17 an hour in a nursing home.

GET THE FACTS

- A lawsuit alleges that the nation's largest insurer is unlawfully using artificial intelligence programs to override medical professionals' decisions and improperly evict nursing home residents. The case involves Medicare Advantage beneficiaries whose skilled nursing care coverage was abruptly terminated, leading to out-of-pocket expenses for the patients.
  - ⇒ According to McKnight's, residents rarely formally challenge or appeal healthcare services claims. The reluctance could be attributed to the potential consequences of losing the appeal, which may result in the resident being financially responsible for an extended period of care.

Percent of Net Expenditures	% of Adjusted Operating Expenses	% of Net Inpatient Revenues	% of Total Net Revenues
Inpatient services and nursing	29.89%	29.23%	27.25%
Ancillary services	10.57%	10.33%	9.63%
Support services	23.45%	22.93%	21.38%
Employee benefits	8.19%	8.01%	7.47%
Administrative expenses	15.56%	15.22%	14.19%
Capital expenses	10.91%	10.67%	9.95%
Other expenses and non-reimbursable costs	1.42%	1.39%	1.30%
Subtotal	100%	97.78%	91.16%
Total net margin[a]		2.22%	8.84%
Total		100%	100%

[a] Difference between net expenditures (without disallowances and depreciation) and the net revenues.

A **new national study of nursing home profits and finances** found that, when disallowed costs and non-cash depreciation expenses are excluded, **the average nursing home profit margin is close to 9%**. The study, co-authored by LTCCC's Executive Director Richard Mollot, with support from FJC – A Foundation of Philanthropic Funds, assessed facility cost reports for the year 2019. Its findings underscore the importance of improving accountability for the use of the public funds which pay for the majority of nursing home care.

Other **key findings** from the study include:

- Not counting profits from disallowed costs and non-cash depreciation, nursing homes reported total net revenues of $126 billion and a profit of $730 million (0.58%) in 2019.
- Approximately 77% of nursing homes reported making over $11 billion in payments to related parties.
- Overall spending for direct care was 66% of net revenues, including 27% on nursing, in contrast to 34% spent on administration, capital, other, and profits.