ISSUE BRIEF

Oppose Additional Cuts to SNF Market Basket: Further Erosion of Medicare Funding Would Undermine Already Fragile SNF Economics

Background: Skilled nursing facilities (SNFs) are uniquely dependent on Medicare for financial stability because they rely on a combination of Medicare and Medicaid for roughly 70% of their patients, and because Medicaid pays far less than the reasonable cost of care. For years, however, policy makers have viewed the Medicare program in a vacuum, thereby forcing SNFs into increasingly untenable financial positions, to the detriment of providers, their employees and, most important, their patients.

CMS and Congress have imposed a series of Medicare payment cuts for SNFs since FY 2010, which will reduce funding by a total of $65 billion from FY 2012 to FY 2021:

Table 1: 10-year Impact of Recent Reductions in SNF Medicare Payments

Reduction	10-Year Impact FY 2012- FY 2021
Productivity Adjustment (ACA-mandated)	$34 billion
Forecast Error (Case-Mix) Adjustment in FY 2010 Rule	$16 billion
Forecast Error (Market Basket) Adjustment in FY 2011 Rule	$3 billion
Bad Debt (Middle Class Tax Relief & Job Creation Act of 2012)	$3 billion
Sequestration	$9 billion
Total	**$65 billion**

A number of proposals are under consideration that would further reduce or eliminate cost of living increases for SNFs (annual market basket increases). Such cuts would be detrimental to patients, their caregivers, and facilities.

Impact: Blunt Cuts Threaten Quality Care

Jeopardizes patient care. Past payment cuts have led to fewer nursing staff and lower quality of care. For example, the substantial Medicare cuts adopted in the Balanced Budget Act of 1997 reduced nursing hours per resident per day by as much as 33%.[i] Academic researchers have documented related declines in quality of care, including for long-stay patients.[ii]

Risks SNFs' financial solvency. SNFs already have the lowest overall margins of all health care companies, due primarily to inadequate Medicaid payments. Additional market basket cuts would materially worsen an already deteriorating SNF sector financial condition – driven largely by substantial Medicare cuts over the past three years. For example, in its most recent report, MedPAC determined that overall margins in 2010 were 3.6%. Were Congress to adopt the President's budget proposal, these already alarming low margins would drop 2.4 percentage points in 2020.

Alliance Position

Congress should not implement further market basket reductions or freezes. Rather than using such a blunt instrument, policy makers should use systemic post-acute payment reform to reap more substantial Medicare savings while also incentivizing providers to improve efficiency and quality in the post-acute sector – to the benefit of all SNF patients regardless of payer.

The Alliance For Quality Nursing Home Care

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i. Konetzka et al., "Effects of Medicare Payment Changes on Nursing Home Staffing and Deficiencies," Health Services Research (39:3). June 2004.

ii. Konetzka et al., "Medicare Prospective Payment and Quality of Care for Long-Stay Nursing Facility Residents," Medical Care (44:3). March 2006.