



Minnesota Department of **Human Services**

November 7, 2016

Legislative Health Care Workforce Commission

Representative Tara Mack, Senator Greg Clausen, Chairs

Chair Mack, Chair Clausen & Commission Members –

I'm writing to provide you with an update on the work to date to implement the nursing facility payment system enacted by the 2015 Legislature – the Value Based Reimbursement System or VBR. The main goal of this legislation was to improve the ability of Minnesota's 372 Medicaid-certified nursing facilities to hire, pay, and retain direct care staff and improve quality.

This law increased spending in Minnesota's Medicaid-certified nursing homes by \$138 million in the first two years of implementation by use of a cost-based reimbursement method. The new system is projected to increase spending by \$289 million over the FY2018-FY2019 biennium. The VBR system made many changes to the way nursing homes are paid for services in Minnesota. The main elements of this payment reform included:

- Reimbursing care-related costs based in part on quality;
- Reimbursing employer health insurance costs as a pass-through;
- Reimbursing non-care-related operating costs using a "pricing" method;
- A hold-harmless to protect nursing facilities from seeing a reduction to their rates;
- Reporting to the legislature on evaluation of the effects of VBR, including responding to several specific questions; and
- A study of the property rate-setting method (recommendations will be provided in early 2017).

Under VBR, there is a 27-month delay from when a facility incurs costs to when those costs are reflected in the facility's reimbursement rate paid by the State. Nursing facilities have to spend the money before Medical Assistance will reimburse them for their costs. Until spending is realized in rates, issued every January, it is difficult for facilities to increase their costs without adequate funding in the bank. However, based on historic costs from prior to enactment of VBR, the average facility received a rate increase on Jan. 1, 2016, of 22%. This enabled substantial wage, benefit and staffing level increases and we are collecting an interim cost report so we can see what the immediate actions were as a result of VBR. DHS is now in the process of reviewing cost reports from facilities to determine what their rates will be for January 1, 2017, based on the facility's spending from October 1, 2014-September 30, 2015.

Given this timeline of payments, it is difficult at this date to determine how this new system will help nursing homes attract, pay and retain qualified staff. January 1, 2018, will be the first rate notice that will encompass a full cycle of nursing facility spending under the higher rates. We will continue to examine data as rates are issued in the coming years to monitor how this funding has been utilized and the impacts it has on the quality of care, worker retention, and consumer satisfaction.

In the meantime, we do know that nursing facilities, like other direct care/support worker-reliant industries, are struggling to find and maintain the staffing necessary to care for the most vulnerable Minnesotans. As I presented to the Commission in October, DHS in partnership with many others, are convening a series of meetings with stakeholders across the continuum of care to continue to look at



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innovative solutions to address the workforce shortage. A stable workforce is critical to providing quality care to Minnesota's seniors and people with disabilities.

We are currently working on a report to the legislature for release in early 2017 related to what we've discovered thus far in implementing the new VBR system. We want to continue examining the effects of this investment on the quality of the services in nursing facilities. I welcome the opportunity to continue conversations with the Commission on ways we can continue to improve services for the most vulnerable Minnesotans.

Loren Colman
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