



University of California  
San Francisco

## **SNAPSHOT**

### **Impact of California's Medi-Cal Long Term Care Reimbursement Act of 2004 On Access, Quality and Costs**

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## Introduction

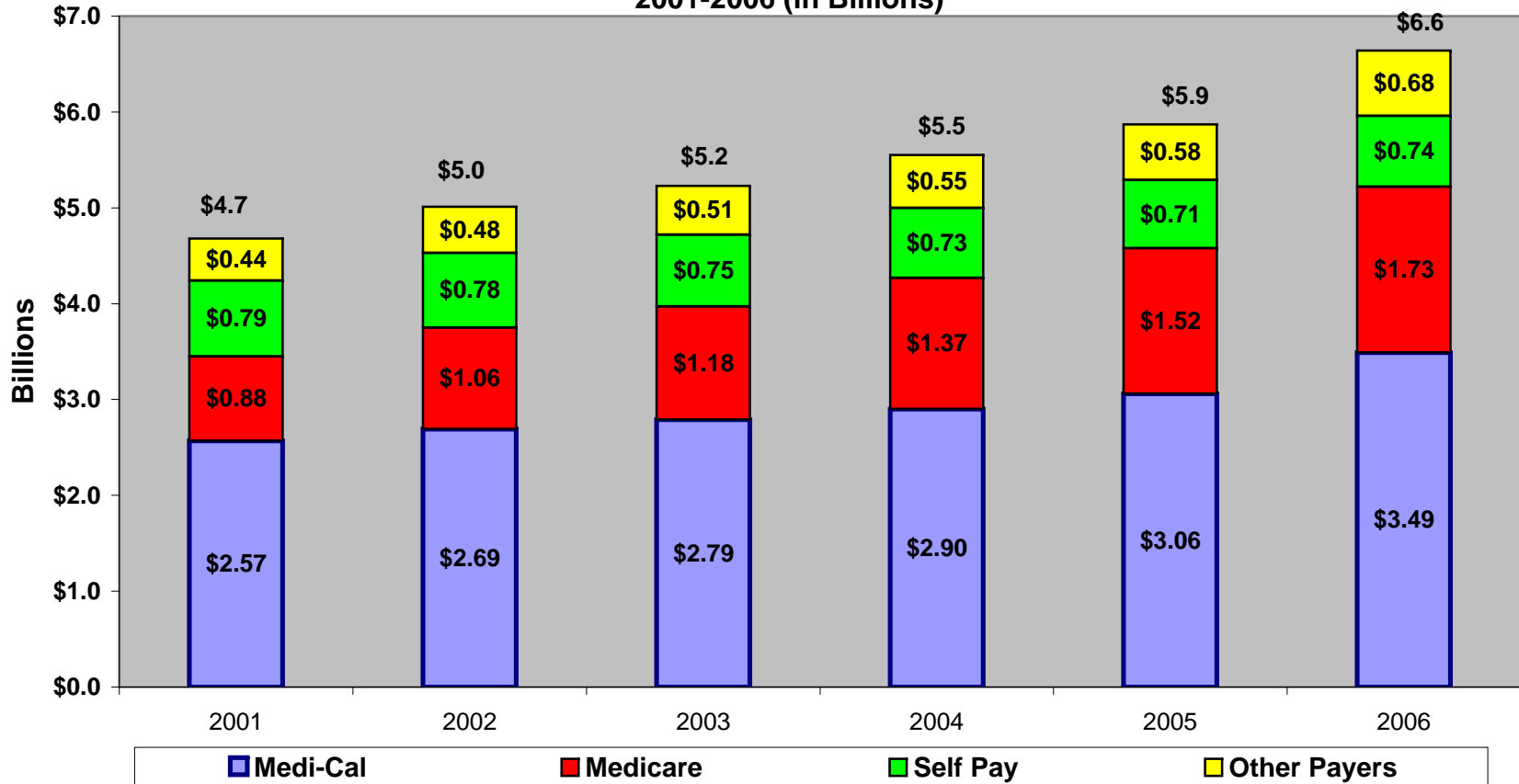
Serious quality of care problems in nursing homes across the nation have been a persistent concern which has been linked, in part, to low Medicaid (Medi-Cal in California) reimbursement rates. To address nursing home problems in California, the legislature passed and the Governor signed the Medi-Cal Long Term Care Reimbursement Act of 2004 (AB 1629), which changed the state's nursing home reimbursement methodology to a facility-specific, cost-based system. The new system was financed by a combination of quality assurance fees paid by nursing homes and by federal and state Medicaid funds. Medi-Cal reimbursement rates to nursing facilities were increased in 2005 and 2006.

Using federal and state data from public sources, this evaluation examined the initial impact of the Reimbursement Act on freestanding nursing facilities by comparing outcomes in 2004 with those in 2006. To assess the impact of the new rate system, three types of outcomes were evaluated:

- (1) access to nursing home services;
- (2) quality of nursing home care; and
- (3) nursing home revenues, expenditures, and profits

The initial findings show large increases in revenues but little positive impact in terms of improving access and quality of care between 2004 and 2006.

**Chart 1: Total Health Care Revenues by Payer Source in California Nursing Facilities, 2001-2006 (in Billions)**

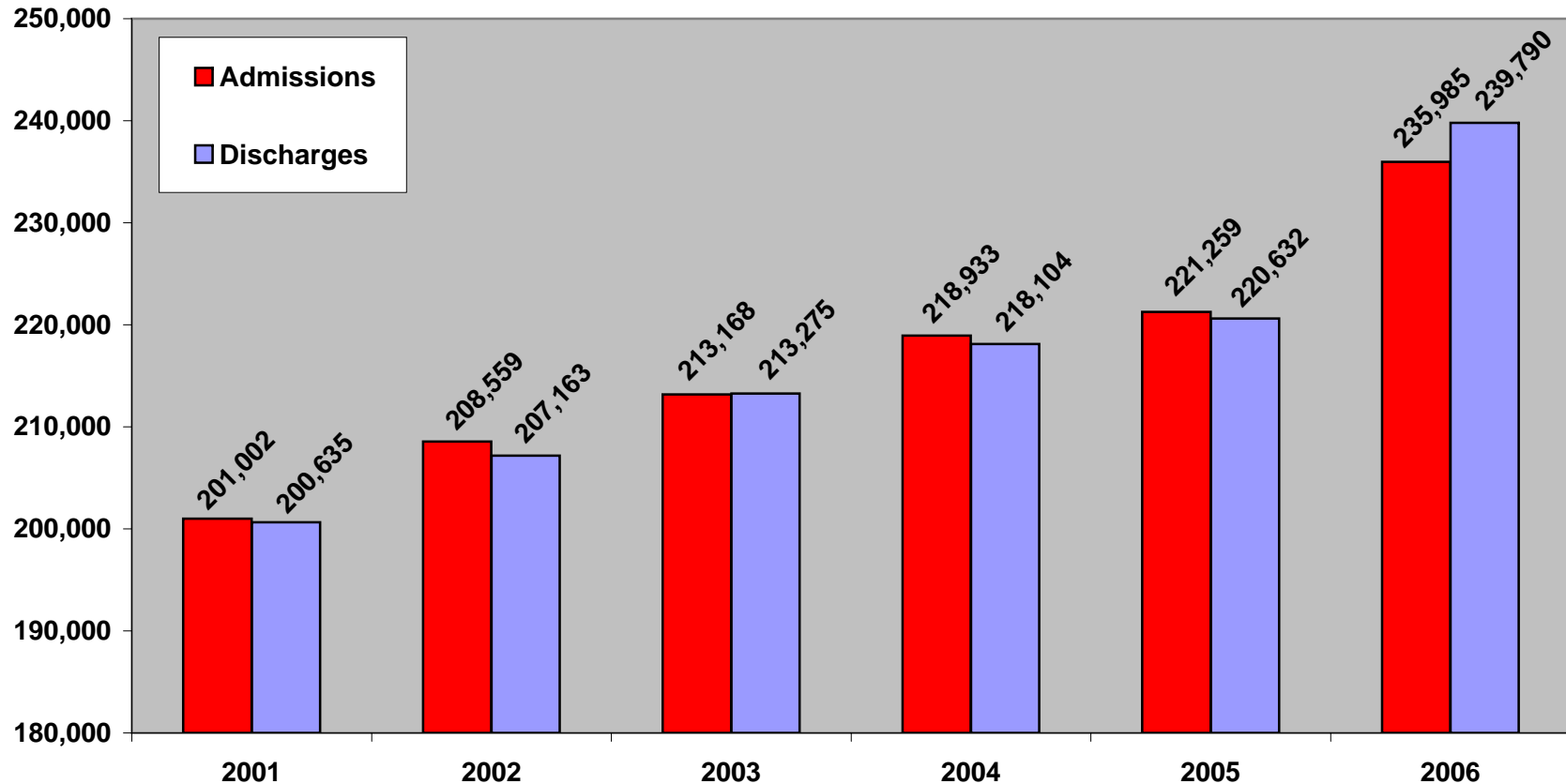


Total health care revenues for all types of nursing homes increased 20 percent from \$5.55 billion in 2004 to \$6.6 billion in 2006 (a 1.1 billion increase). Medi-Cal revenues increased 21 percent, from \$2.9 billion in 2004 to \$3.5 billion in 2006 - a \$590 million increase. Average Medi-Cal revenues increased from \$124 per day in 2004 to \$152 per day in 2006 for nursing facilities.

Data Source: Office of Statewide Health Planning & Development (OSHPD)

Includes all nursing facilities (N=892), subacute facilities (N=47), and multi-level retirement communities (N=55).

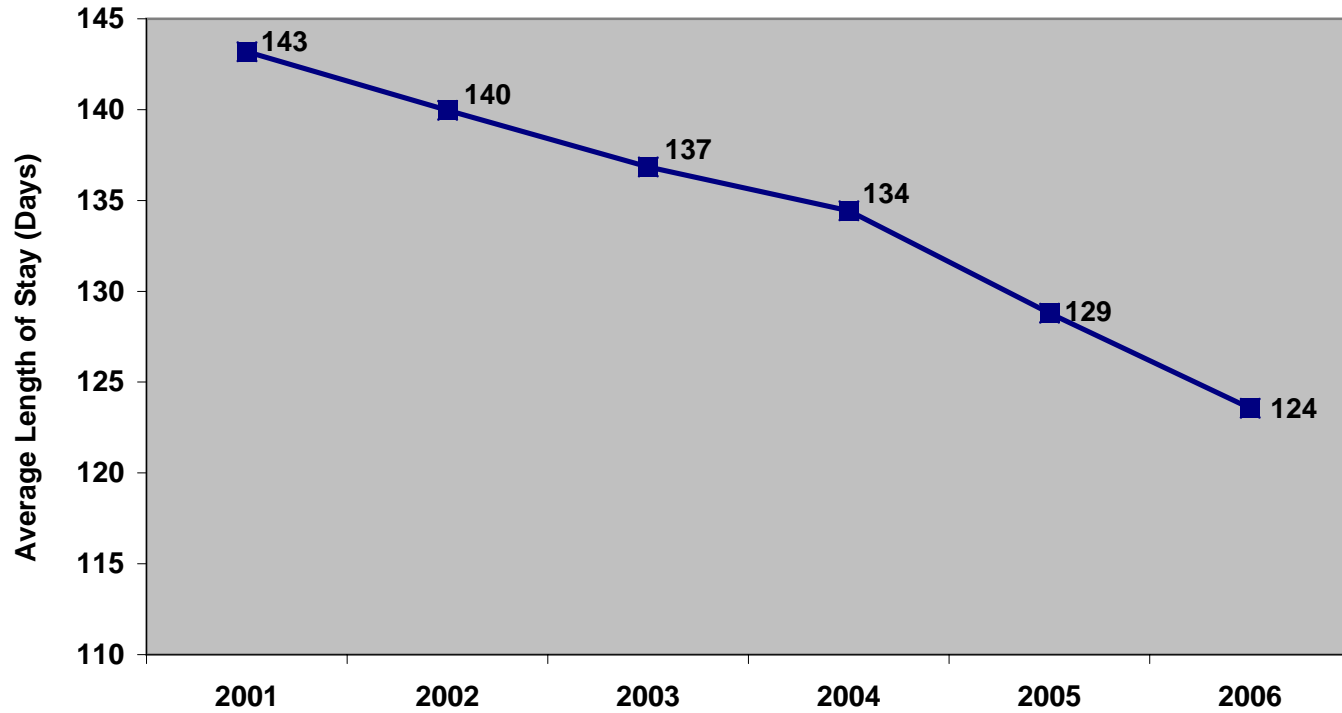
**Chart 2: Total Admissions & Discharges in California Nursing Facilities, 2001-2006**



Total admissions in nursing homes increased by 17 percent between 2001 and 2006, and by 7.8 percent between 2004 and 2006. Total discharges increased by 19.5 percent between 2001 and 2006, and increased by 9.9 percent between 2004 and 2006. The discharges were greater than the admissions in 2006 because the length of stay and days of care declined slightly between 2004 and 2006.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

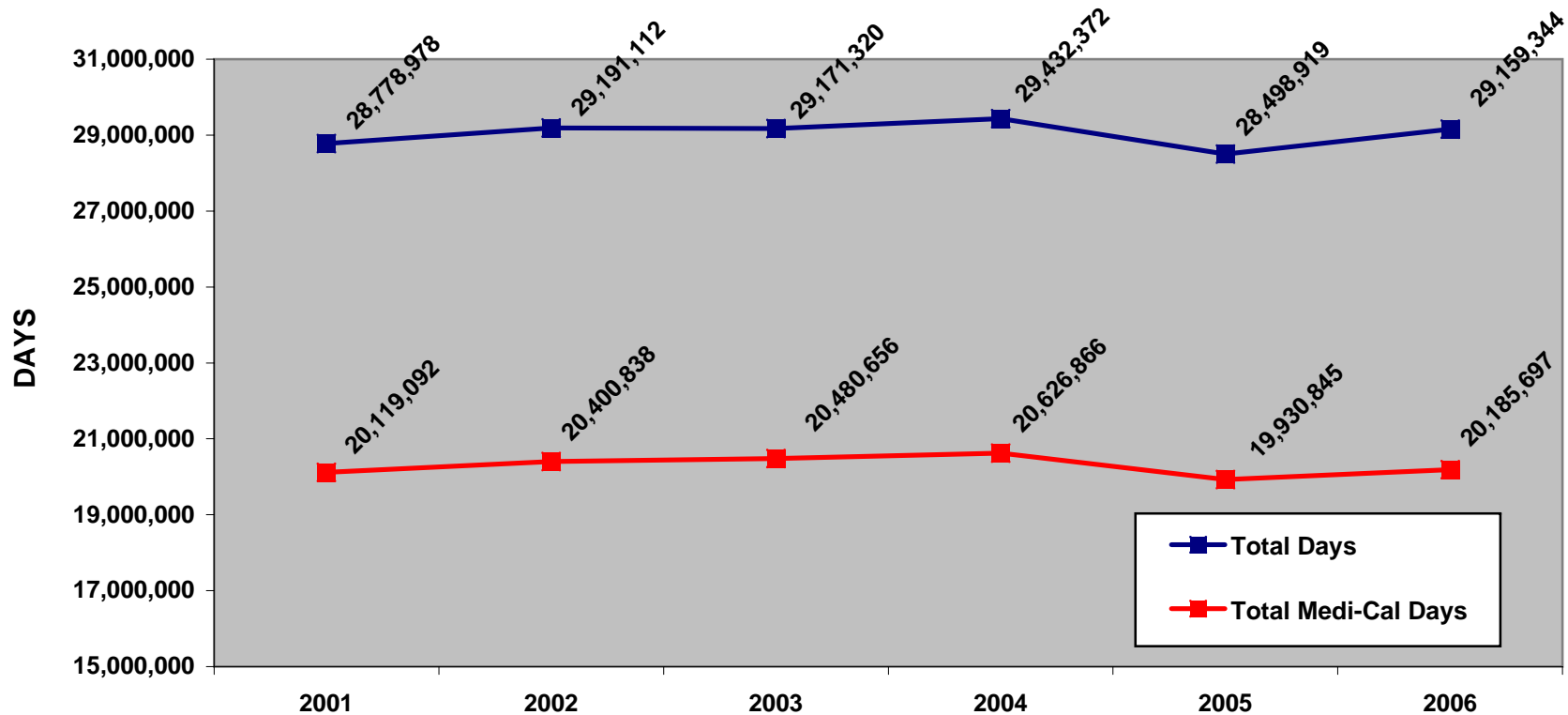
**Chart 3: Average Length of Stay (Days) in California Nursing Facilities, 2001-2006**



**The length of stay in California nursing facilities declined from 134 days in 2004 to 124 days in 2006, an 8 percent decrease. Lower length of stay is related to more short-stay residents and fewer long-stay residents.**

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892)

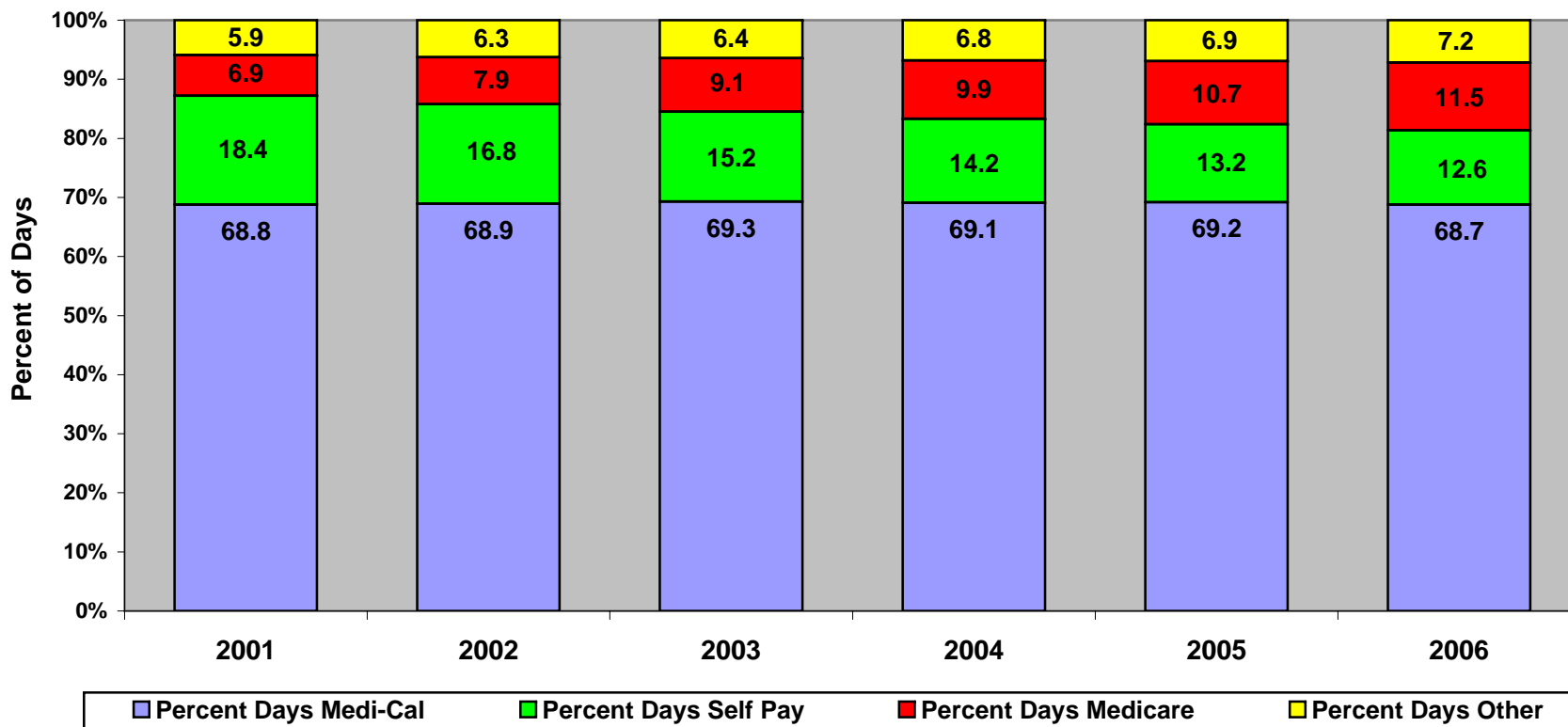
**Chart 4: Total Days of Care and Total Medi-Cal Days of Care in California Nursing Facilities 2001-2006**



Total days of care and total Medi-Cal days of care declined slightly between 2004 and 2006, but the percent of Medi-Cal days (as a proportion of total days) remained stable at 69 percent. Thus, the new Medi-Cal reimbursement rate did not encourage facilities to accept more Medi-Cal residents.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

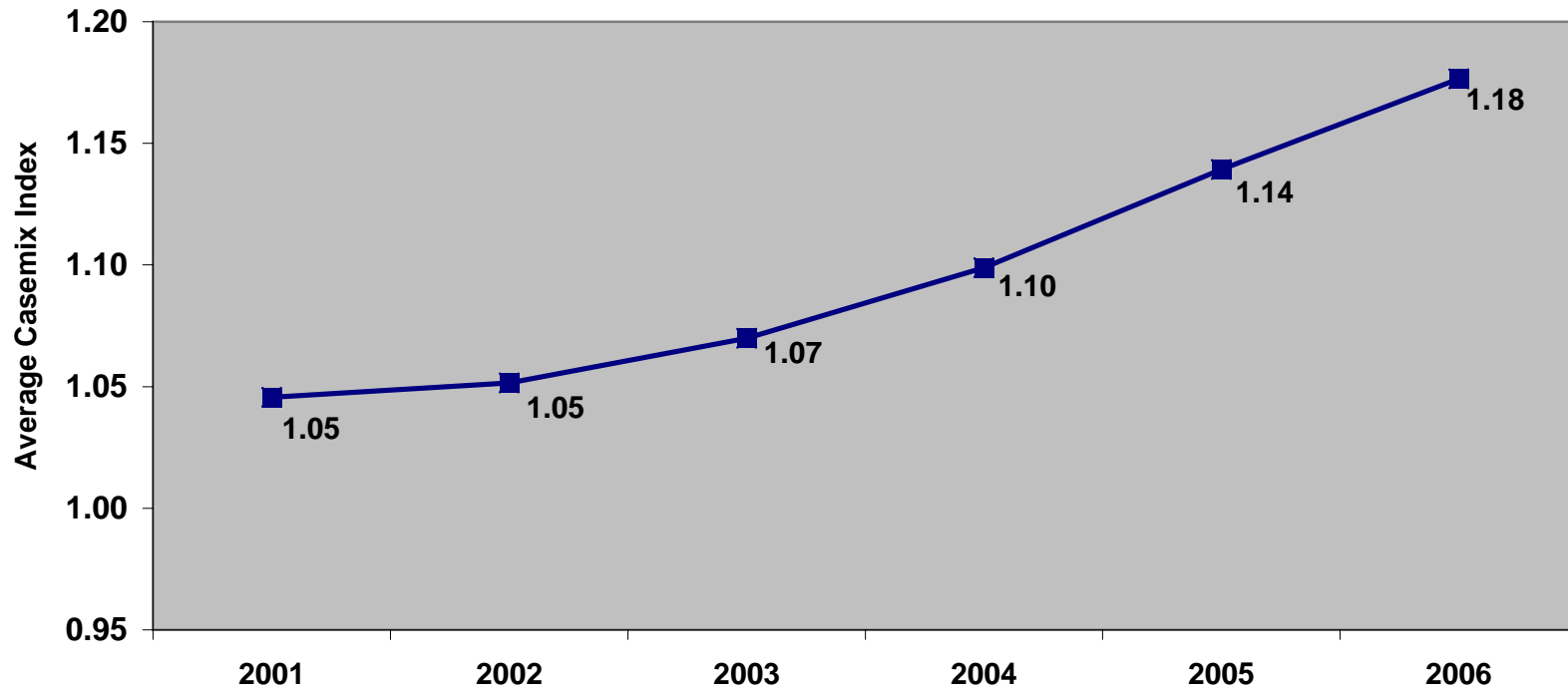
**Chart 5: Percent of Resident Days in California Nursing Facilities by Payer Source, 2001-2006**



Resident days covered by Medicare grew from 9.9 percent of total resident days in 2004 to 11.5 percent in 2006. The percent of self-pay resident days declined by 11.4 percent between 2004 and 2006. The percentage of Medi-Cal days, as a proportion of total days, remained stable at about 69 percent. The new Medi-Cal reimbursement rate did not encourage nursing facilities to accept more Medi-Cal residents.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

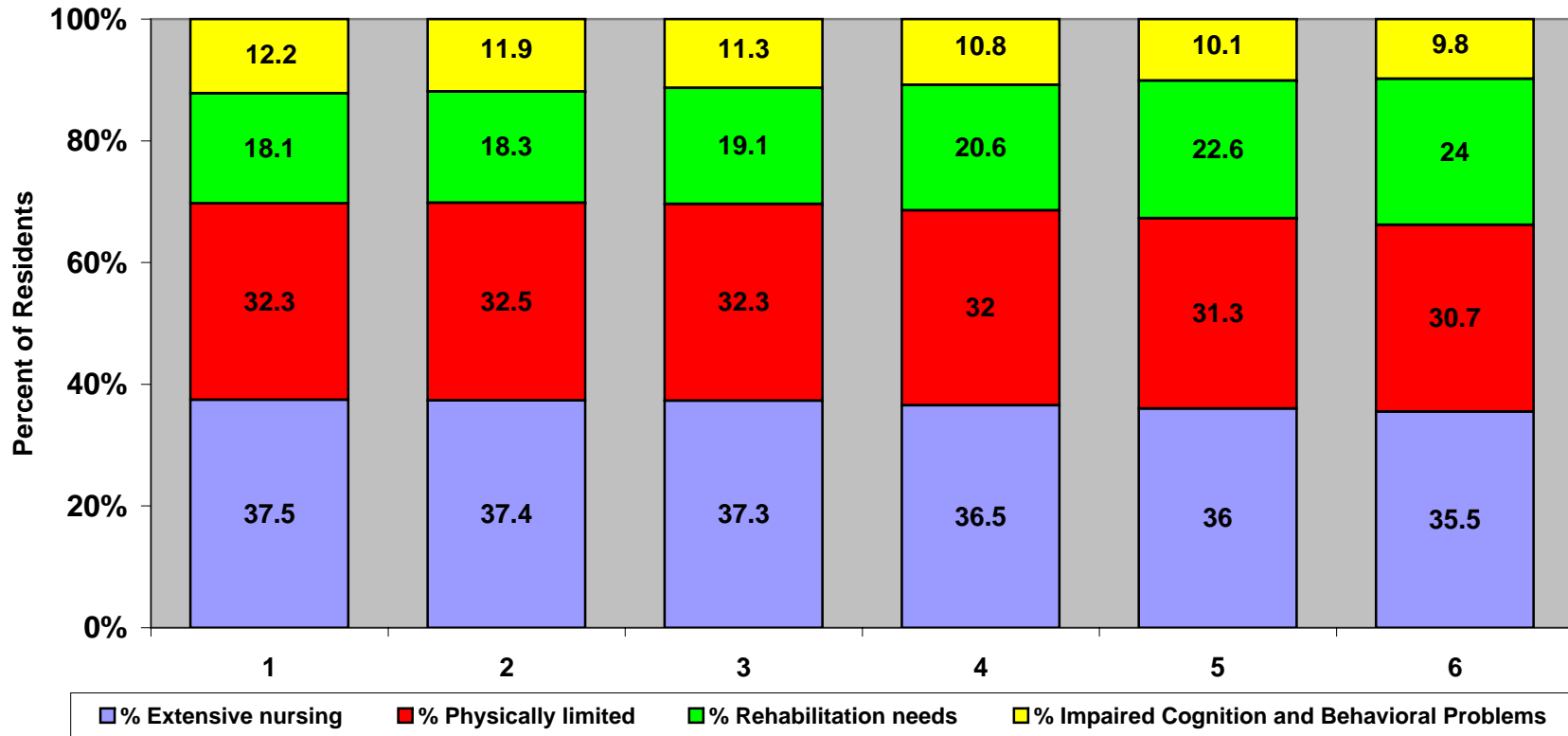
**Chart 6: Average Casemix Index in California Nursing Facilities 2001-2006**



The average casemix of residents (a composite measure of the amount of care needed) in nursing facilities increased by 7% between 2004 and 2006. The increase is consistent with the increase in Medicare short-stay residents during the period. It is unclear if the new Medi-Cal reimbursement rates encouraged the admission of Medi-Cal residents with higher casemix/acuity.

Data Source: Resource Utilization Groups [RUGS], USCMS, calculated by the Centers for Medicare and Medicaid Services. Includes nursing facilities only (N=892).

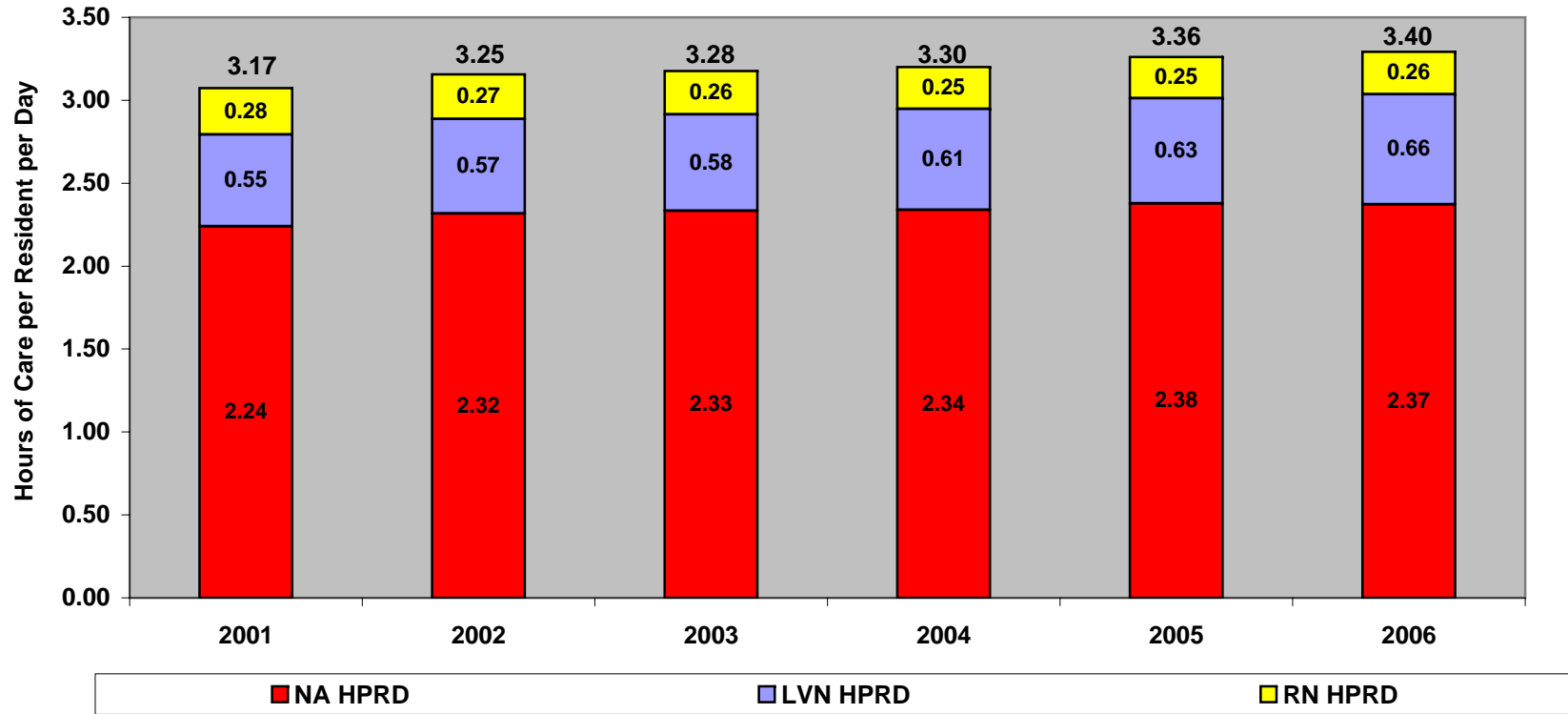
**Chart 7: Percent Casemix in California Nursing Facilities 2001-2006**



**Between 2004 and 2006, the percent of residents with limited physical function, extensive nursing needs, impaired cognition and behavioral problems decreased. The percentage of residents with rehabilitation needs increased by about 17 percent. The increase in rehabilitation needs is consistent with an increase in Medicare short-stay residents.**

Data Source: Resource Utilization Groups [RUGS], USCMS, calculated by the Centers for Medicare and Medicaid Services. Includes nursing facilities only (N=892).

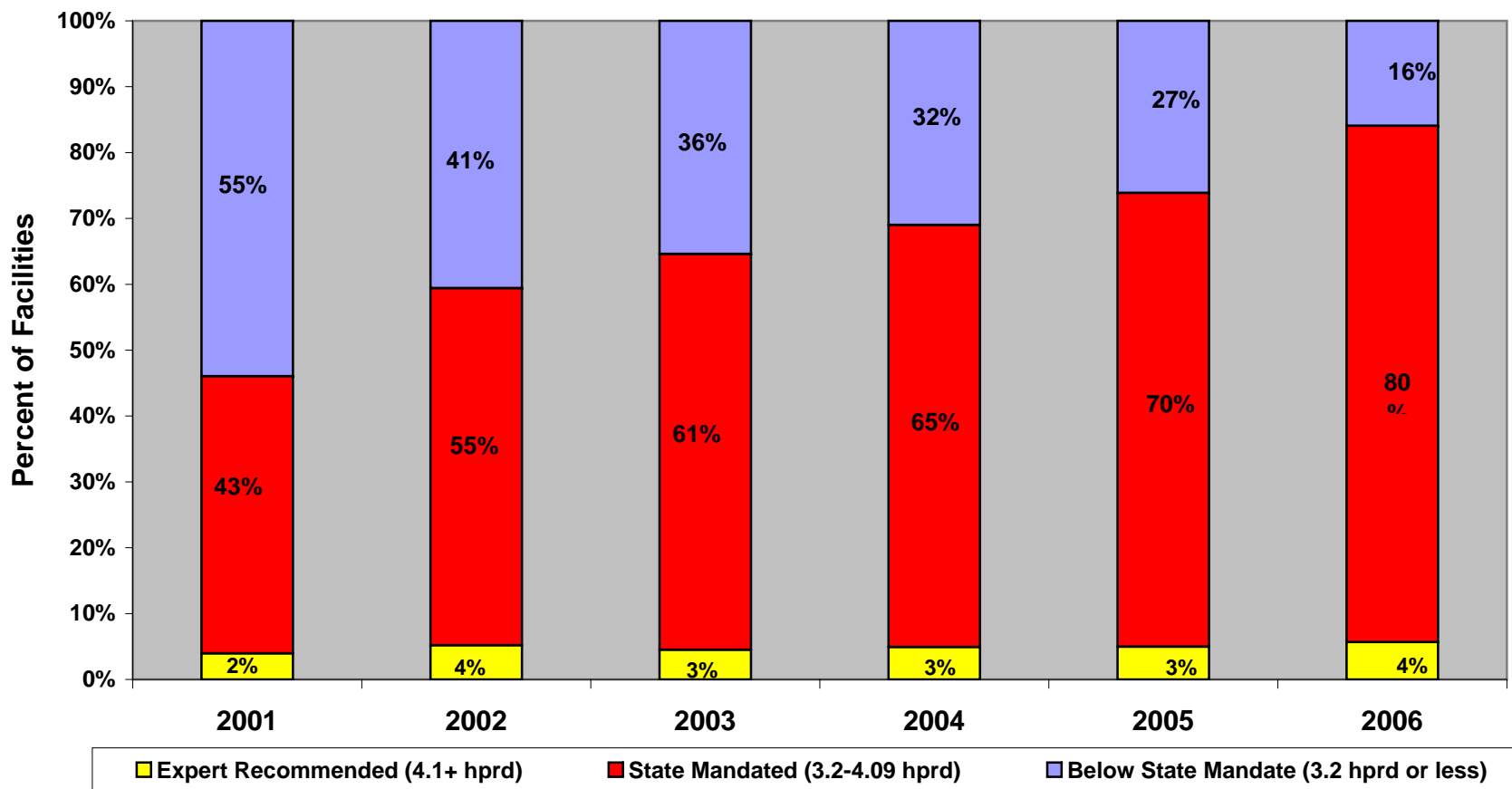
**Chart 8: Nursing Hours per Resident per Day (hprd) in California Nursing Facilities by Type of Nurse, 2001-2006**



After the introduction of the new Medi-Cal rate system, RN and total nurse staffing levels only modestly increased (1.4 percent and 3 percent respectively) between 2004 and 2006. Licensed vocational nurse (LVN) hours increased by 9 percent between 2004 and 2006. Nurse staffing levels remained well below the level recommended by experts of 0.75 hprd for RNs and 4.1 hprd for total nursing hours.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

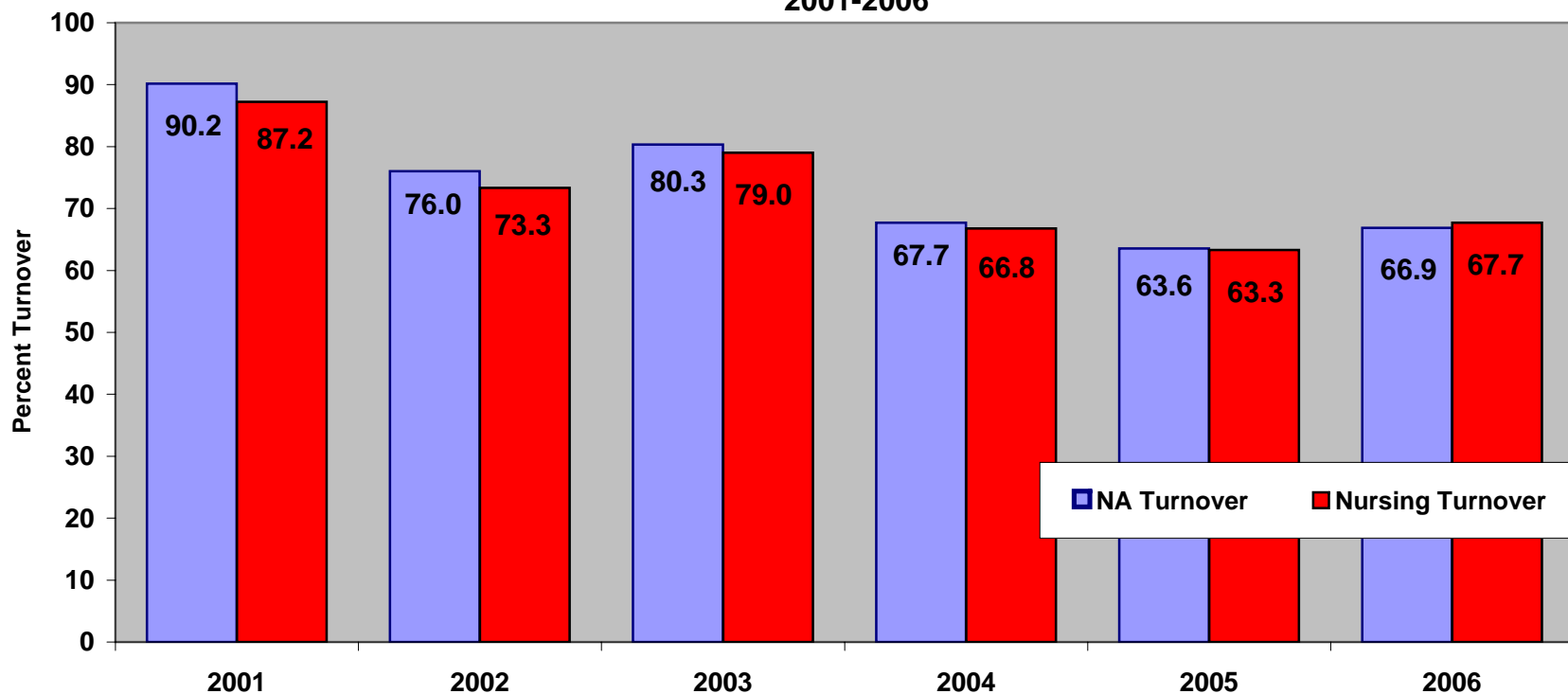
**Chart 9: Percent of California Nursing Facilities That Meet or Do Not Meet the State Recommended Standards, 2001-2006**



The percent of nursing facilities that met (or exceeded) the state-mandated minimum level of 3.2 hprd increased from 65 to 80 percent between 2004 to 2006. About one-sixth (144) of facilities did not meet the minimum state staffing requirements in 2006, and only 4 percent met the staffing levels recommended by experts.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

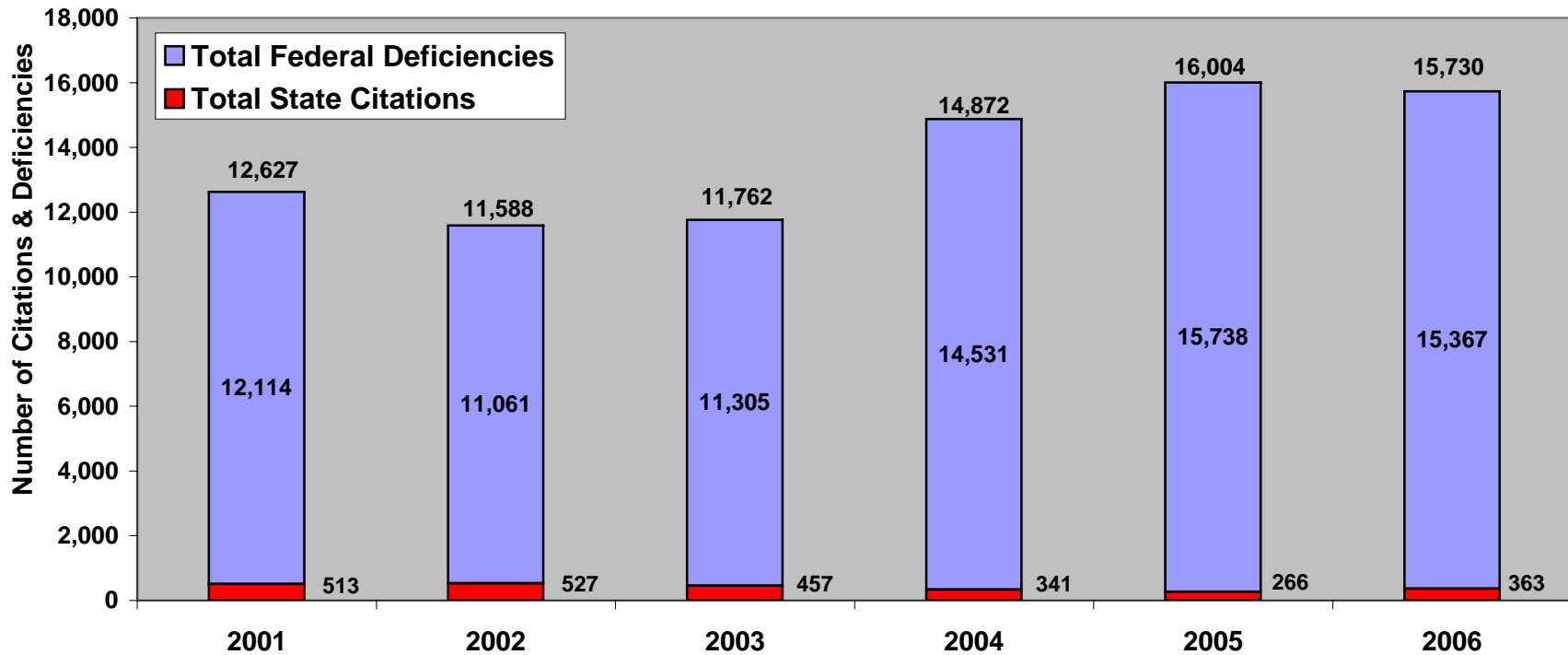
**Chart 10: Nurse Staffing Turnover in California Nursing Facilities in California, 2001-2006**



Turnover rates for all types of nursing staff (RNs, LVNs, NAs) increased by 1.4 percent between 2004 and 2006, while the average rate for nursing assistants decreased by 1.3 percent. The new Medi-Cal reimbursement rates did not improve turnover as almost 3 out of 4 nurse staff left employment in 2004-2006.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

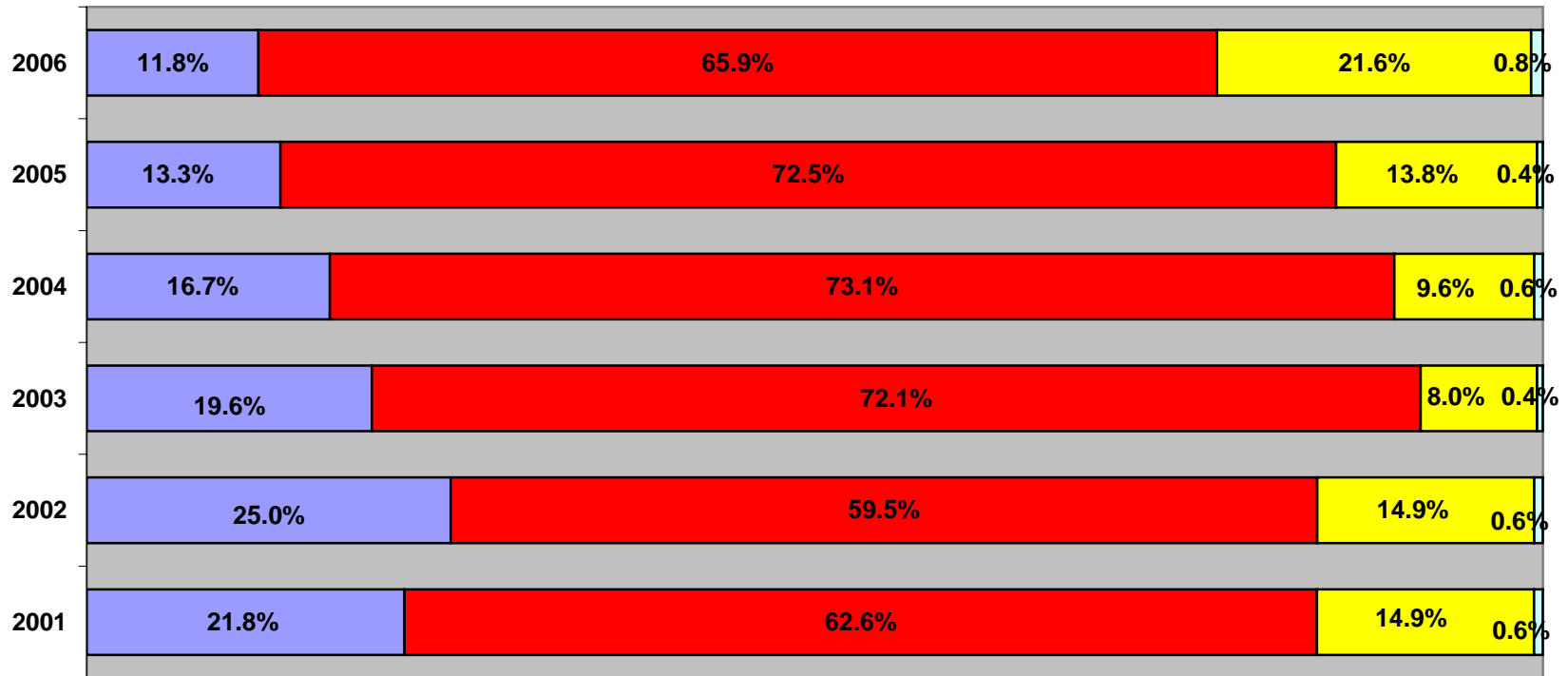
**Chart 11: Total Deficiencies and Citations in California Nursing Facilities 2001-2006**



Although increased Medi-Cal reimbursement rates were expected to improve quality of care, this was not the case. Nursing facilities in California received a total of 15,730 state citations and federal deficiencies in 2006, an increase of 5.8 percent from 2004.

Data Sources: State Citations: California Department of Health, Licensing and Certification Program (L&C); Electronic Licensing Management System (ELMS) data, Sacramento, CA; Federal Deficiencies: California Department of Health, Licensing and Certification Program (L&C); Automated Survey Processing Environment (ASPEN) data, Sacramento, CA. Includes nursing facilities only (N=892).

**Chart 12: Percent of California Nursing Facilities in Federal Compliance, 2001-2006**

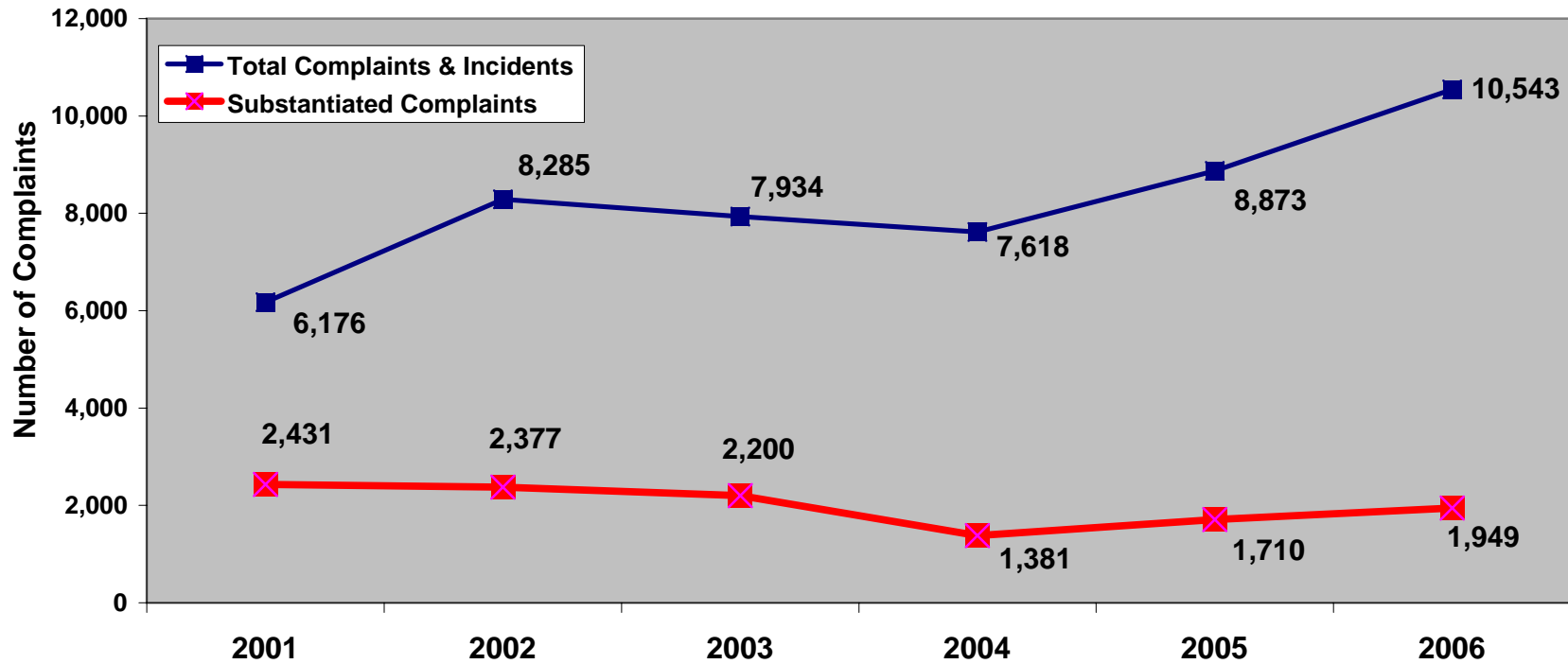


■ % Federal Compliance/Substantial Compliance    
 ■ % Federal Noncompliance    
 ■ % Fed Serious Noncompliance    
 ■ % Substandard Care

The new Medi-Cal reimbursement rates did not result in improved quality of care. Between 2004-2006, the percent of nursing facilities in federal compliance during the annual inspections declined by 29.3 percent and facilities with serious federal noncompliance problems (i.e., those with deficiencies that caused harm or jeopardy) increased by 125 percent. The number of facilities with substandard care (i.e., those that had been given notice of decertification from Medicare and Medi-Cal unless problems were corrected) increased by 33 percent.

Data Sources: California Department of Health, Licensing & Certification Program (L&C) Automated Survey Processing Environment (ASPEN) data, Sacramento, CA. Includes nursing facilities only (N=892).

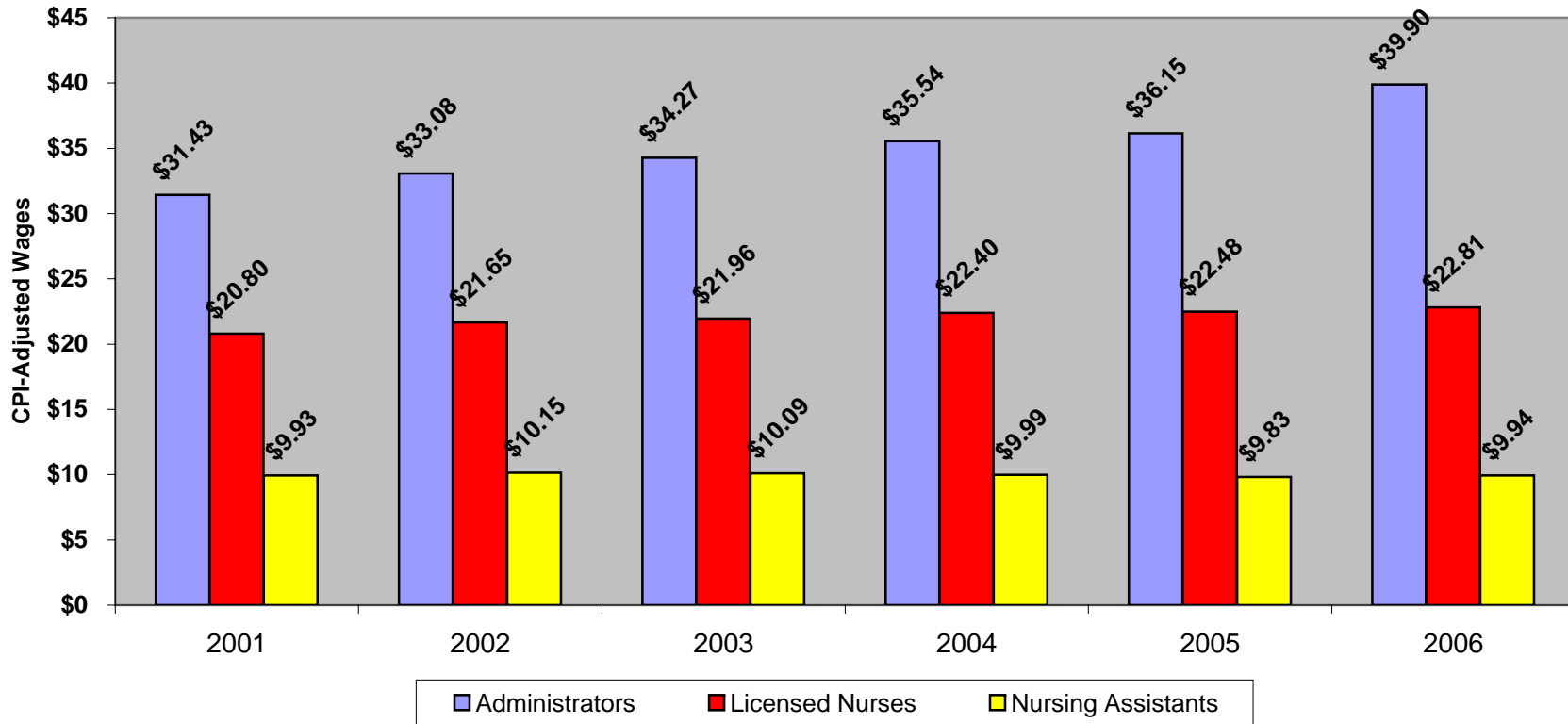
**Chart 13: Total and Substantiated Complaints in California Nursing Facilities, 2001-2006**



The total number of complaints about nursing facilities increased by 38 percent between 2004 and 2006 and complaints substantiated by the California Licensing and Certification Program increased by 41 percent. The increased Medi-Cal reimbursement rates did not reduce the numbers of complaints.

Data Sources: California Department of Health, Licensing and Certification Program (L&C) Automated Survey Processing Environment (ASPEN) data, Sacramento, CA.  
Includes nursing facilities only (N=892).

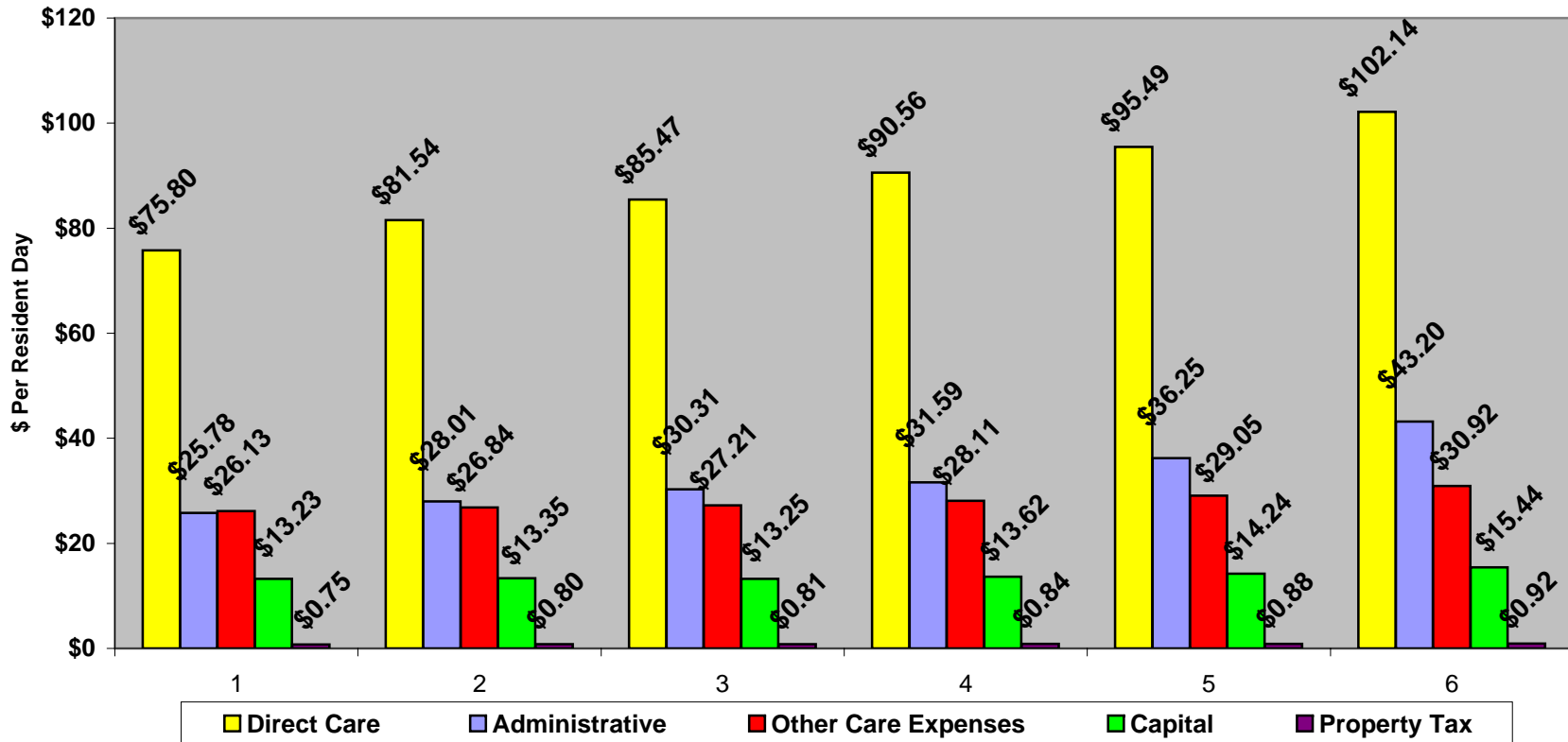
**Chart 14: CPI Adjusted Hourly Wages in California Nursing Facilities, 2001-2006  
(in 2001 Dollars)**



**CPI-adjusted administrative wages increased by 12.3 percent, licensed nurse wages increased by 1.8 percent, and nursing assistant wages declined by 0.5 percent between 2004 and 2006. The new MediCal reimbursement rates were beneficial for administrators but not for nursing assistants who provide 70 percent of care to residents.**

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

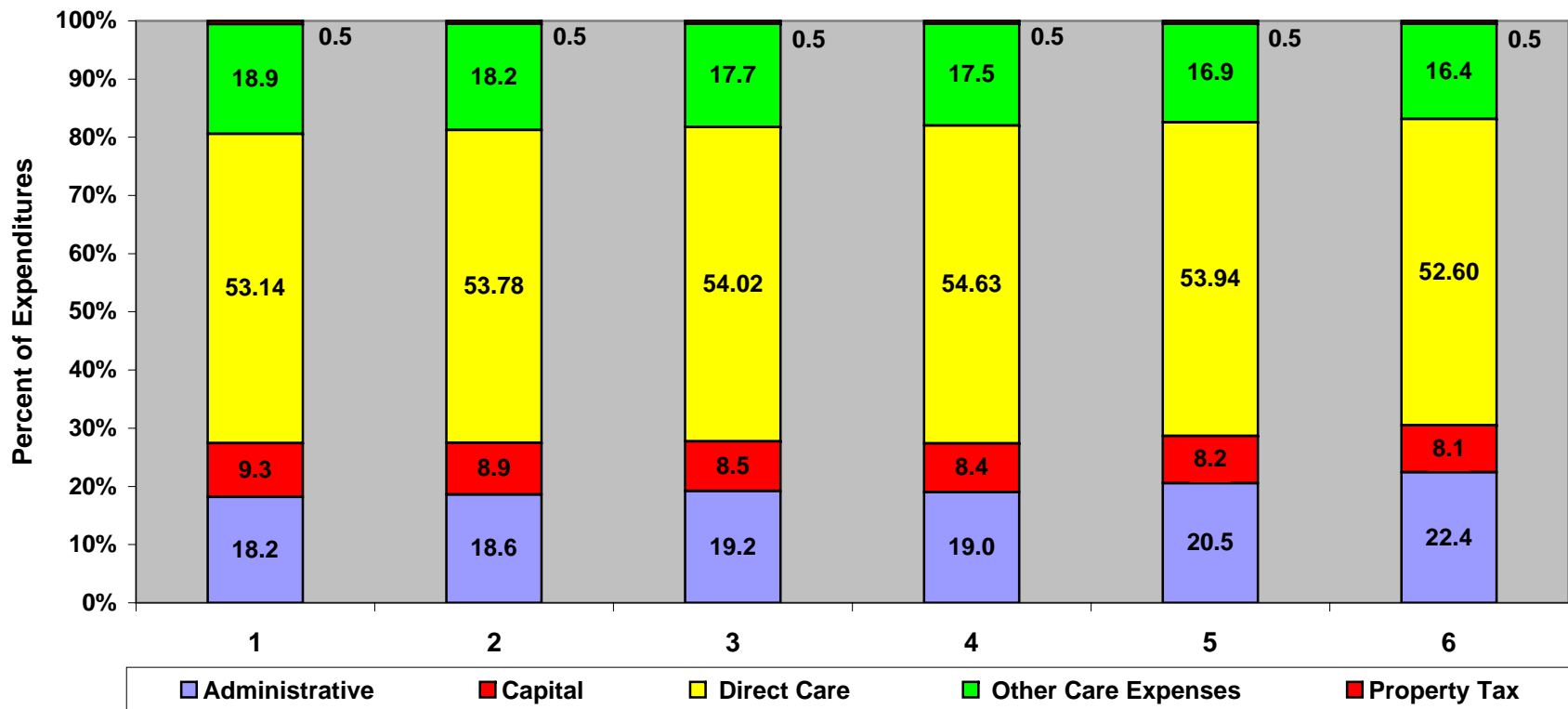
**Chart 15: Average California Nursing Facility Expenditures per Resident Day by Cost Center in 2001-2006**



Administrative expenditures per day increased from \$31.59 in 2004 to \$43.20 in 2006, a 37 percent increase. These included quality assurance fees, licensing fees, training costs, and liability insurance. Capital expenditures per day increased by 13 percent, direct care costs increased by 13 percent, other care expenditures per day increased by 10 percent, and property taxes by 9 percent. Total expenditures per day increased from \$164.73 per day in 2004 to \$192.62 in 2006 (17 percent or 9 percent when CPI adjusted).

Data Source: Office of Statewide Health Planning & Development (OSHPD). Includes nursing facilities only (N=892).

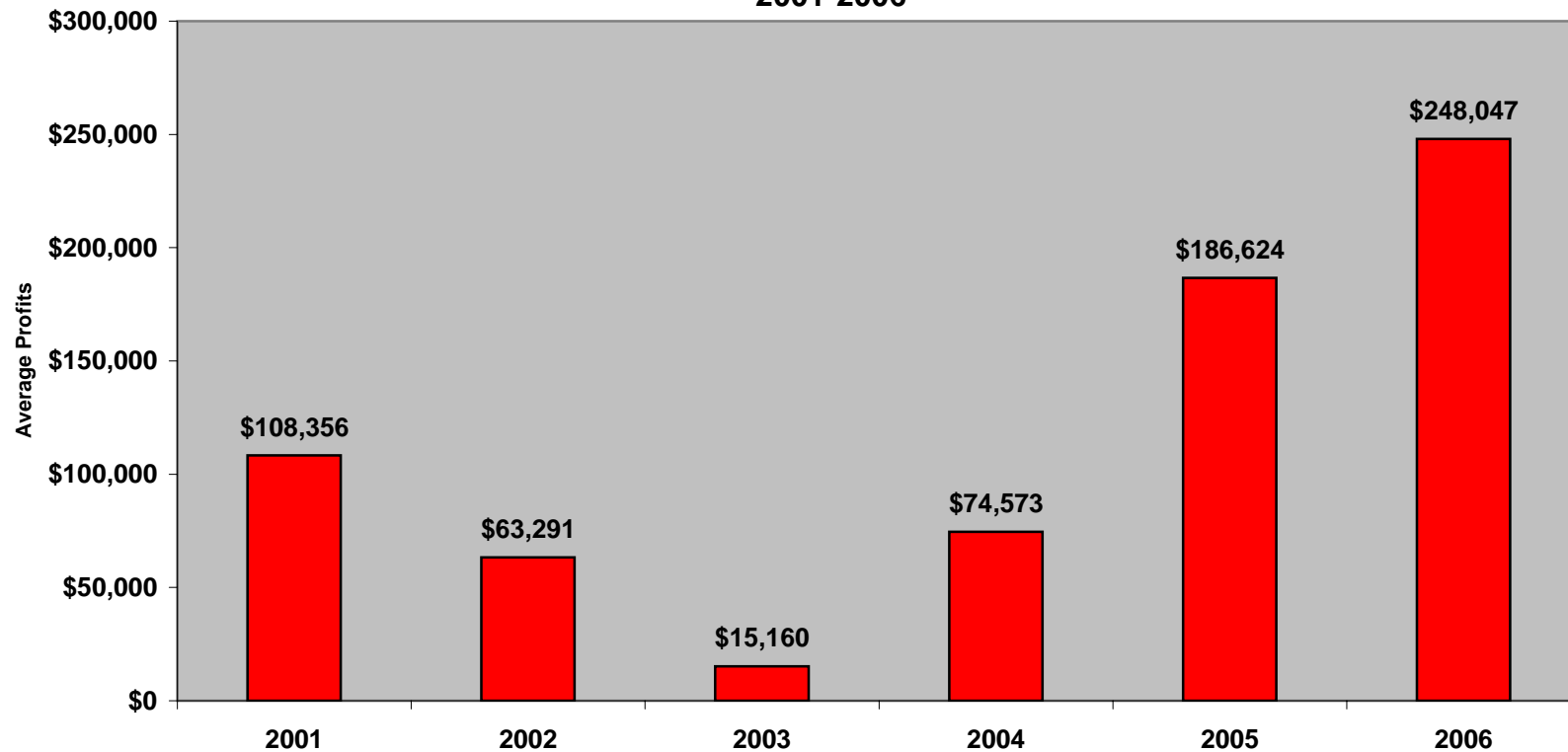
**Chart 16: Percent of Total Expenditures by Cost Center  
in California Nursing Facilities, 2001-2006**



Administrative expenditures (including the quality assurance fees, licensing fees, training costs, and liability costs) increased from 19 percent of total expenditures in 2004 to 22 percent in 2006. Capital, direct care, other care, and property tax expenditures declined as a percent of total expenditures between 2004 and 2006.

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

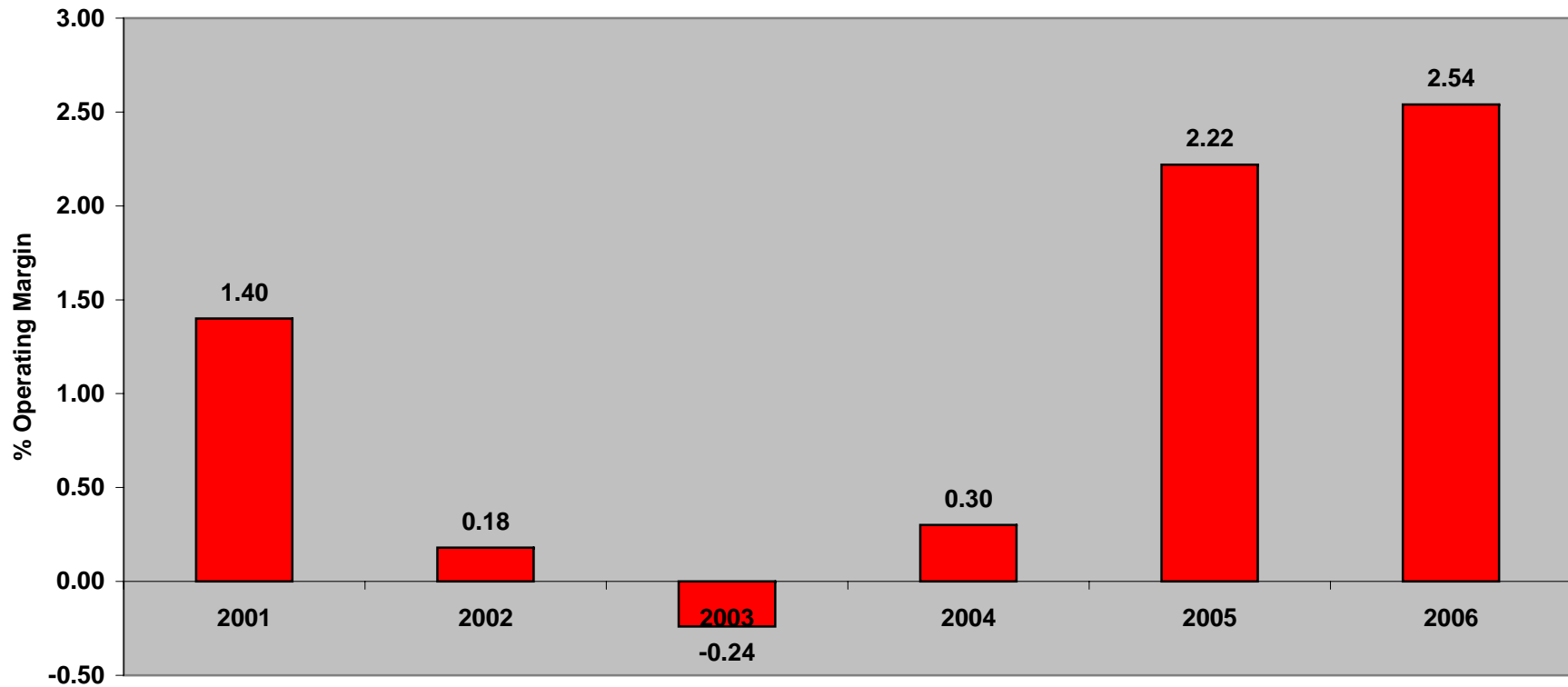
**Chart 17: Average Profits in California Nursing Facilities,  
2001-2006**



**Average profits on health care revenues increased by more than 200 percent, from \$74,573 in 2004 to \$248,047 in 2006. Nursing facilities became more profitable after the new Medi-Cal reimbursement rates were implemented.**

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

**Chart 18: Average Health Care Operating Margin in California Nursing Facilities, 2001-2006**



**The average net income margin increased by 747 percent between 2004 and 2006, after the new Medi-Cal reimbursement system was implemented. The new funds primarily resulted in new profits for nursing facilities.**

Data Source: Office of Statewide Health Planning & Development (OSHPD)  
Includes nursing facilities only (N=892).

## Conclusions

- Medi-Cal and total revenues in all types of facilities increased by \$590 million and \$1.1 billion respectively between 2004 and 2006.
- Nursing facilities in California did not show significant improvements in access to nursing home services because Medi-Cal days of care declined slightly between 2004 and 2006.
- Although there was a small increase in staffing levels, nurse staffing levels were significantly lower than those recommended by experts.
- Many nursing homes failed to comply with the minimum state staffing standard.
- Nursing staff turnover rates grew worse in nursing facilities and rates were unacceptably high in all types of facilities.
- Quality of care after the implementation of the new reimbursement rate system actually declined because the number of deficiencies and citations, including those that caused harm and jeopardy, and complaints about poor quality of care increased between 2004 and 2006.
- Expenditures for direct care increased somewhat but administrative expenditures increased at a higher rate.
- Nursing assistant wages failed to keep pace with inflation and licensed nursing inflation-adjusted wage increases were minimal between 2004 and 2006.
- Overall, the new reimbursement rate increased the net income margins in nursing facilities.

The full report is available from the authors at the University of California, San Francisco.