

85% NURSING HOME OCCUPANCY CEILING

(FY2009 Appropriation Bill - Public Act 246 of 2008)

April 1, 2009

Section 1789: The Department shall study whether the current nursing home occupancy ceiling is adequate and shall recommend whether to retain the ceiling at 85% or to lower it. The department shall report its findings and recommendations to the state budget director, senate and house appropriations subcommittees on community health, and senate and house fiscal agencies by April 1, 2009.

*Michigan Department
of Community Health*



**Jennifer M. Granholm, Governor
Janet Olszewski, Director**

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH Boilerplate Report 1789

Recommendation: Currently the 85% occupancy is a standard that has existed over fifteen years as a measure of an efficiently run nursing facility. Lowering this standard will effectively increase the per diem on facilities unable to fill those beds through normal market forces. It is the recommendation that this standard not be altered at this time. Facilities unable to reach this occupancy standard have a variety of means to “right size” the facility in question to their current market. The additional cost associated with lowering this standard is unwarranted in a time of budget restraint and rate containment.

Changing the Minimum Occupancy requirement in calculating the Nursing Home Variable Cost Component

The cost estimate to the state of Michigan of altering the rate setting methodology to accommodate a minimum level of 80th percent occupancy as opposed to the current 85th percent occupancy is approximately \$11.5 million. This analysis was conducted using the following three step method.

Michigan Department of Community Health enforces the 85th percent occupancy requirement through imputing days into the rate calculation of any facility not reaching the occupancy standard. Imputed days were removed from the rate calculation of the variable rate calculation and this resulted in an increase to the variable rate by approximately \$8.3 million. This increase accrues largely to Class I facilities.

A second step in the cost calculation is to measure the rate increase associated with calculating the 80th percentile limit on nursing facility rates. MDCH controls costs by only paying up to the 80th percentile of Medicaid days, thereby limiting rates to Michigan’s highest cost facilities. This cost control mechanism utilizes the imputed days in step one. Removing these days increases the rates for facilities affected by this limitation. The resulting increased cost is approximately \$3.0 million.

Other Cost Implications not born by the State Of Michigan

MDCH policy pays nursing homes a Quality Assurance Supplement (QAS) based on the variable cost component of the nursing home per diem rate. Increasing the variable component increases the QAS payment by \$228,000. These costs are born by the nursing home industry through increased Quality Assurance Assessment Program (QAAP) fees. MDCH would adjust the Quality Assurance Assessment Program (QAAP) to fund this increase in the QAS payment and hold the State of Michigan harmless from this affect.