



Highlights of [GAO-04-143](#), a report to congressional requesters

## Why GAO Did This Study

Almost half of all Americans over the age of 65 will rely on nursing home care at some point in their lives, and two in three nursing home residents have their care covered at least in part by Medicaid. Under Medicaid, states set nursing home payment rates and the federal government reimburses a share of state spending. According to the most recently available data, Medicaid nursing home expenditures exceed \$43 billion, and total Medicaid spending for fiscal year 2003 is expected to double by 2012. Such projections of increased Medicaid spending come as most states are confronting their third consecutive year of fiscal pressure. According to the National Association of State Budget Officers (NASBO), in fiscal year 2003, 30 states collected less revenue than they budgeted for, and 37 states reduced enacted budgets by almost \$14.5 billion.

In light of concerns about the adequacy of nursing home resources, GAO was asked to examine how state Medicaid programs determine nursing home payment rates and whether these payment methods or rates have changed given recent state fiscal pressures. GAO interviewed state and nursing home industry officials in 19 states and obtained documentation about nursing home payment rates and methods, including state methods to determine nursing home per diem rates for fiscal years 1998 through 2004.

[www.gao.gov/cgi-bin/getrpt?GAO-04-143](http://www.gao.gov/cgi-bin/getrpt?GAO-04-143).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

# MEDICAID NURSING HOME PAYMENTS

## States' Payment Rates Largely Unaffected by Recent Fiscal Pressures

### What GAO Found

Recognizing the large share of Medicaid spending that is allocated to nursing homes and the importance of spending their Medicaid dollars effectively, the 19 states GAO reviewed have designed multifaceted approaches to setting nursing home payment rates. All of these states base payment rates on homes' actual costs and most develop rates specific to each home. These payment methods also generally incorporate incentives to achieve certain goals, such as promoting efficiency or encouraging homes to target spending toward resident care. States typically update payment rates regularly to reflect changes in nursing homes' costs due to factors such as inflation or residents' changing care needs.

Although each of the 19 states experienced recent fiscal pressure, states' nursing home payment rates have remained largely unaffected. Any future changes, however, remain uncertain. During fiscal years 1998 through 2004, only 4 of these states—Illinois, Massachusetts, Michigan, and Texas—cut the per diem rates paid to all nursing homes at some point, and in 2 of these states, the rate reduction was for less than 1 year. Two other states—Connecticut and Oregon—also froze nursing home per diem rates for a portion of this period. In addition, all 19 states modified the methods they use to determine nursing home payment rates during this time, such as changing ceilings on payment rates; however, irrespective of shifting fiscal pressure, the extent to which states changed specific features of their payment methods generally remained constant, with varying effects on payment rates to individual homes within states. Further, in over three-quarters of these states, nursing home per diem rates grew, on average, by an amount that exceeded the skilled nursing facility market basket index, the index used by the Centers for Medicare & Medicaid Services to measure changes in the price of nursing home goods and services for Medicare, from fiscal years 1998 through 2003. Many states were able to avoid making significant changes to nursing home payment rates by relying on existing resources, such as tobacco settlement and budget stabilization funds, and increasing revenue by imposing cigarette or nursing home provider taxes. Even with these alternative funding sources and recent temporary federal fiscal relief, however, officials in some states suggest that nursing home payment reductions are possible in the future.

GAO received comments on a draft of this report from Medicaid officials in the 19 states reviewed, who generally agreed with the characterization of their respective nursing home payment methods. GAO also received technical comments from representatives of two organizations that represent the nursing home industry.