Medicare covers up to 100 days of skilled nursing facility (SNF) care per spell of illness for beneficiaries with a hospital stay of at least three days. Beginning on the 21st day of a SNF stay, a Medicare beneficiary is responsible for a daily copayment ($157.50 per day in 2015). In instances where a person is not able to pay their copayment amount, the Medicare program allows SNFs to record these payments as bad debt and be reimbursed for a portion of this amount directly from the Centers for Medicare & Medicaid Services. This ensures that costs that are attributable to Medicare patients are not shifted to non-Medicare patients, and vice versa, and is part of the Medicare statute.

Although there is some thought that reducing the amount bad debt providers are able to be reimbursed for will create incentives for them to be more efficient in collecting copayments from Medicare beneficiaries, this logic does not work in practice for SNFs. This is because many of the people who receive care in this setting are covered by both Medicare and Medicaid, a group commonly referred to as dual eligibles. This population is, by law, excused from paying Medicare cost sharing, and providers are prohibited from charging them. Although states have the option of paying the full cost sharing amount on behalf of dual eligibles, this is not a requirement and many states choose policies that typically do not result in payment to providers that care for this vulnerable population.

In SNFs, dual eligibles account for 87 percent of the bad debt incurred. Prior to the passage of the Middle Class Tax Relief and Job Creation Act of 2012, SNFs were reimbursed 100 percent of bad debts for dual eligible beneficiaries and at 70 percent for non-dual Medicare beneficiaries. Starting in fiscal year 2013 this legislation reduced bad debt reimbursement to 65 percent for non-duals and phased down bad debt payments on behalf of dual eligibles over time until it was reimbursed at 65 percent in fiscal year 2015. These current reductions have resulted in the profession providing billions of dollars of uncompensated care without legal recourse. And now, the President is proposing another round of cuts, with the recent budget further reducing bad debt payments to only 25 percent.

Any additional reductions to bad debt reimbursement would add strain to a sector that has already faced rounds of government reductions and would threaten their ability to provide care to vulnerable seniors. Congress must look at other avenues to find government savings that do not jeopardize access to care for Medicare enrollees and protect the current bad debt reimbursement lifeline for SNFs.

Key Facts

- The federal government requires a beneficiary copay to start on the 21st day of a Medicare-qualified stay in a SNF.
- Bad debt payments only cover 65 percent of the cost sharing that Medicare beneficiaries are unable to pay.
- Dual eligibles account for 87 percent of the bad debt incurred by SNFs.
- Most states Medicaid program choose Medicare cost sharing policies that typically do not result in payment to providers who care for dual eligibles.
- Congress should maintain this lifeline to SNFs and protect access to care for seniors.