ahca
American Health Care Association

Statement of
Bruce Yarwood

On behalf of the
American Health Care Association
for the
U.S. House of Representatives Committee on Ways & Means
Subcommittee on Health

Hearing on MedPAC's Annual March Report with MedPAC Chairman Glenn M. Hackbarth

March 1, 2007

Chairman Stark, Ranking Member Camp, and Members of this Committee, thank you for allowing us the opportunity to outline our views – based on our direct experience – that the federal government's approach to funding Medicare and Medicaid all too often conflicts directly with our shared goal of sustaining and improving the quality of patient care for America's seniors and people with disabilities.

The matter at hand is relatively simple. When Medicare funding for skilled nursing services is stable, quality of care and services improves. When Medicare funding is inconsistent and unstable, our nation's long term care infrastructure deteriorates, to the detriment of every senior today and every retiree tomorrow.

We are appreciative of comments voiced in the past by Members of this Committee that considering Medicare and Medicaid funding policies in isolation is short-sighted. We agree, and believe the Medicare Payment Advisory Commission's (MedPAC's) recommendation that there should be no annual inflation update is ill-advised, fails to accurately assess long term care funding necessities, and will contribute to the deterioration of our nation's long term care system at a time when every stakeholder can least afford it. Federal Reserve Board Chairman Ben Bernanke testified on Capitol Hill just yesterday that Congress "must budget for the rising costs of retirement and medical benefits or face a 'fiscal crisis' in coming decades."

Unfortunately, the Administration's proposed FY 2008 Budget incorporates MedPAC's most recent recommendation regarding the market basket adjustments for skilled nursing facilities. As a result, the proposed overall budget would cut Medicare funding for skilled nursing care by $10 billion over five years. Cutbacks of this magnitude will not only threaten the progress we have achieved working with the federal government to improve care quality, but could impact seniors' access to much-needed quality long term care.

In addition, the Congressional Budget Office's (CBO's) new "Budget Options" report to Congress also warns that reducing update factors "might lead to certain patients having difficultly obtaining post-acute care." The report also states, "To the extent that patients faced limited access to post-acute care, they might either remain longer in a short-stay hospital, return home without receiving post-acute care, or be discharged to receive long-term care not covered by Medicare. By reducing the revenue of providers, this option might also limit their ability to provide high-quality care."

It is noteworthy, Mr. Chairman, that America's nursing home providers have led the quality movement. Our sector's leadership – which is reflected in the Quality First Initiative and our partnership with the federal government's successful Nursing Home Quality Initiative (NHQI) and recently launched *Advancing Excellence in America's Nursing Homes* campaign, has helped to improve the overall quality of care in our nation's nursing homes. We remain committed to sustaining these quality improvements for the future.

MedPAC's Recommendations Would Jeopardize Quality of Care

We fear implementation of MedPAC's recommendations would seriously jeopardize ongoing quality improvement because, among other negative variables, operating margins would be driven to dangerously low levels. Skilled nursing facilities already have the lowest operating margins of all major health care provider providers.

Given the dramatic cost increases we face in key areas including labor, energy, liability and capital, not providing an annual update is wholly inadequate to maintaining our gains in care quality, especially as these cost increases stem from factors beyond providers' control. For example, the shortage of nurses and other direct care workers coupled with the fact that long term care must compete with other employers both within and outside the health care sector for these employees, contributes significantly to increasing labor costs. In addition, we must adjust to the ripple effect that the minimum wage increase will surely have throughout our profession. So, when operating margins are further reduced, we are far less able to recruit and retain qualified care givers, modernize and refurbish aging physical plants and equipment, acquire and implement new technologies to accommodate advances in medical practices, and meet the increasingly complex care needs of an aging population.

MedPAC Must Also Consider Medicaid

MedPAC's exclusive focus on Medicare margins in the long term care sector does a disservice to those poor frail, elderly and vulnerable individuals who receive care and services in America's nursing homes. By ignoring Medicaid operating margins, MedPAC's analysis and recommendations do not present an accurate picture of the long term care marketplace. Medicaid is responsible for funding the care for 66% of patients in America's nursing homes, and those nursing homes lose an average of $13 per Medicaid patient, per day.

MedPAC's continuing and exclusive focus on Medicare ignores the real and growing interdependence between Medicare and Medicaid. While 66% of skilled nursing facility patients receive Medicaid benefits, those benefits account for only half of nursing facility revenues. Given that the prevalence of Medicaid patients in our nation's nursing facilities is four times that of the acute care sector, special consideration of the relationship between Medicare and Medicaid seems particularly relevant to nursing facility care. While MedPAC does not include Medicaid as a determinant in recommending government funding policy, the millions of Medicaid patients who rely upon the care we provide do not have the luxury of ignoring the broken funding relationship between both programs.

MedPAC's Recommendations for Skilled Nursing Facilities Should Be Rejected

It is a public policy error for MedPAC to dismiss the Medicare-Medicaid "cross subsidization" issue as irrelevant to the debate at hand – despite the fact it has specifically acknowledged this phenomenon in the past – which is certainly noteworthy. On that basis, MedPac's recommendations should be rejected, and we make the following recommendations:

- Congress should reject MedPAC's recommendations for skilled nursing providers, and should maintain the full market basket for FY 2008.
- Congress should amend MedPAC's charter to require the Commission to consider operating margins of all government payers and the adequacy of all government funding in making its recommendations. This approach will enhance economic stability and quality improvements.
- Congress should require that MedPAC factor into its recommendations long term care's progress in improving quality. Funding volatility undermines providers' ability to remain focused on continuous quality improvement.

Mr. Chairman, America's seniors cannot afford another setback generated by the continuing failure in Washington to recognize the tangible, growing relationship between payment policies and quality objectives. Our recommendations concerning MedPAC offer an approach that avoids such a negative scenario, and properly prepares the nation's long term care infrastructure for the challenging task ahead.

Thank you for the opportunity to offer these comments on behalf of millions of professional, compassionate long term care givers and the millions of frail, elderly, and disabled Americans they serve each day.

###

The American Health Care Association
1201 L Street NW, Washington DC 20005
(202) 842-4444 www.ahca.org