What’s Happening in Washington

Mark Parkinson, AHCA/NCAL President & CEO
Clifton Porter, AHCA/NCAL, Senior Vice President
Jim McCrery, Partner, Capitol Counsel
AHCA Overview
Growing Membership

AHCA/NCAL Member Facilities


11,448 | 11,567 | 11,634 | 11,731 | 11,738 | 12,011 | 12,074 | 12,112 | 12,258 | 12,199 | 12,238 | 12,305 | 12,397 | 12,504

10,800 | 11,000 | 11,200 | 11,400 | 11,600 | 11,800 | 12,000 | 12,200 | 12,400 | 12,600
Growing Membership

Total SNF Beds
## Growing Membership

### Total AL Beds

<table>
<thead>
<tr>
<th>Month</th>
<th>Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-13</td>
<td>156,039</td>
</tr>
<tr>
<td>Sep-13</td>
<td>155,640</td>
</tr>
<tr>
<td>Oct-13</td>
<td>156,052</td>
</tr>
<tr>
<td>Nov-13</td>
<td>157,919</td>
</tr>
<tr>
<td>Dec-13</td>
<td>158,882</td>
</tr>
<tr>
<td>Jan-14</td>
<td>157,581</td>
</tr>
<tr>
<td>Feb-14</td>
<td>157,405</td>
</tr>
<tr>
<td>Mar-14</td>
<td>161,040</td>
</tr>
<tr>
<td>Apr-14</td>
<td>161,376</td>
</tr>
<tr>
<td>May-14</td>
<td>161,032</td>
</tr>
<tr>
<td>Jun-14</td>
<td>162,440</td>
</tr>
<tr>
<td>Jul-14</td>
<td>162,480</td>
</tr>
<tr>
<td>Aug-14</td>
<td>164,742</td>
</tr>
<tr>
<td>Sep-14</td>
<td>164,742</td>
</tr>
<tr>
<td>Oct-14</td>
<td>168,200</td>
</tr>
</tbody>
</table>

Total AL Beds in October 2014: 168,200
What We’ve Done with the Funds

✓ Who’s Who of Outside Lobbyists
  ▪ BGR Group – Gov. Haley Barbour
  ▪ Podesta Group – Tony Podesta
  ▪ Alston-Bird – Dan Elling
  ▪ Lincoln Policy Group – Sen. Blanche Lincoln

✓ Seasoned Internal Government Affairs Team

✓ Creation of Quality Department
How Are We Doing?

MODEST WINS

- Not a pay-for in the 2013, 2014 short-term doc fix
- Shaped pay-for in 2015 short-term doc fix
- Clean increase in the FY 2013 & 2014 SNF PPS final rule, and the FY 2015 proposed rule
- Our major concerns addressed in final HCBS rule
Current Risks
1. Changing Payment Models
2. CMS
3. Legislative
Why I Believe Payment Reform is the Number One Risk
Changing Payment Models

Current Approximate SNF Payer Mix

- Fee for service (FFS)
- Managed Care

Potential Future SNF Payer Mix

- Managed Care
- FFS
- ACOs, bundle holders

Next 10 Years…

Graphic courtesy of Avalere
Demographics are in Our Favor

Total Medicare Enrollment Will Grow Substantially, Resulting in Increased Volume

YEARLY MEDICARE SNF VOLUME (MILLIONS OF DAYS)

TOTAL MEDICARE ENROLLMENT (MILLIONS OF BENEFICIARIES)

Conservative | Moderate | Aggressive

2009: 81.53 | 83.50 | 84.47
2014: 84.96 | 83.76 | 78.8
2019: 105.71 | 93.94 | 84.47

AVERAGE AGE FOR MEDICARE ADMISSIONS

2009: 75.46
2014: 78.8
2019: 80.28

Graphic courtesy of Avalere
Average Length of Stay

- Fee For Service – 38 days
- Medicare Advantage (anecdotal) – 11 to 14 days
- ACOs (anecdotal) – 7 to 10 days

Medicare FFS data from MedPAC
Conservative Scenario

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A Fee For Service</td>
<td>59,464,129</td>
<td>85,152,083</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>14,056,984</td>
<td>13,128,236</td>
</tr>
<tr>
<td>ACOs</td>
<td>8,331,755</td>
<td>7,430,005</td>
</tr>
<tr>
<td>Duals</td>
<td>3,109,249</td>
<td>---</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>84,962,116</strong></td>
<td><strong>105,710,325</strong></td>
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</tbody>
</table>

Data courtesy of Avalere
## Moderate Scenario

<table>
<thead>
<tr>
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<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A Fee For Service</td>
<td>55,152,901</td>
<td>58,304,843</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>14,698,474</td>
<td>16,530,228</td>
</tr>
<tr>
<td>ACOs</td>
<td>10,800,222</td>
<td>15,401,664</td>
</tr>
<tr>
<td>Duals</td>
<td>3,109,249</td>
<td>3,701,896</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>83,760,846</strong></td>
<td><strong>93,938,630</strong></td>
</tr>
</tbody>
</table>
## Total Days – Now & 2019

**Aggressive Scenario**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A Fee For Service</td>
<td>54,654,049</td>
<td>27,496,303</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>15,028,427</td>
<td>20,353,012</td>
</tr>
<tr>
<td>ACOs</td>
<td>10,708,424</td>
<td>23,892,131</td>
</tr>
<tr>
<td>Duals</td>
<td>3,109,249</td>
<td>12,724,903</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>83,500,149</strong></td>
<td><strong>84,466,349</strong></td>
</tr>
</tbody>
</table>

Data courtesy of Avalere
What You Can Do

✓ Understand the changed payment model for your market
✓ Get great at metrics that matter to your payers
✓ Explore risk shifting opportunities
CMS Risks

- Annual Payment Rule – SNF PPS released on May 1
  - CMS projects that aggregate payments to SNFs will increase by $750 million from payments in FY 2014

- Five Star Quality Rating System
Trends

✓ Percentage of billed days of service being classified in the Ultra-High RUG Groups increased
  ▪ 2011 – 44.8%
  ▪ FY 2012 – 48.6%
  ▪ 2013 – 50%

✓ The cases of RU and RV taken together comprise more than 75% of the total billed days in FY 2013
What We Are Doing

✓ CMS contracts with Acumen – Therapy report and database

✓ AHCA contracts with Moran therapy component report including:
  ▪ Outcome measures addressing the therapy component issue
    o Develop value based purchasing interim therapy model (Value)
    o Performance Improvement
  ▪ Analysis of industry data
  ▪ Creating an understanding and a platform needed to move to characteristic-based therapy model

✓ Continuous briefing/collaboration of CMS on AHCA outcomes measure development

✓ Timely and critical meetings with CMS on issues

✓ CMS called the latest meeting a “Reverse TEP”
What We Are Doing

✓ Strong support of Improving Medicare Post-Acute Transformation (IMPACT) legislation:
  - Promote adoption of CARE items
  - Promote the progress of homogenizing post-acute assessment tools

✓ SNF Value-Based Legislation
  - AHCA development of rehospitalizations, risk adjusted, all-cause outcome measure
  - Recommendations to CMS on the SNF value based purchasing rehospitalization legislation
Five Star: Changes in 2015
History of Five Star

✓ Started in 2008
  - Three components (Survey Score, Staffing & Quality Measures)
  - Suspended QM component during change from MDS 2.0 to 3.0
  - CMS changed scoring methodology July 2012
    o Froze cut-points for QM component for 2 years
      • AHCA advocated for performance improvement model for QMs or freeze cut-points
Overall Scoring Methodology

Step 1 Initial star rating based on Survey Score

Step 2 Add or subtract a 1 Star based on Staffing component rating relative to survey rating

Step 3 Add or subtract 1 additional Star based on QM component rating
Trend in OVERALL ratings
Survey Component Rating
Methodology

Step 1 Calculated weighted 3 year average survey score

Step 2 Rank all Centers based on their score in each state

Step 3 Assign Five star based on ranking (see next slide) in each state

Implications:
- No matter changes in survey citations; the same percentage SNFs will receive 1, 2, 3, 4 and 5 stars
Survey Component Star Rating

Percent of Facilities Survey Star Rating Ranked within each State

- Top 10 percent (facilities with lowest survey score) within a State
- Bottom 20 percent within a State

Percentiles:
- <20
- ≥20 and <43.33
- >43.33 and ≤66.67
- >66.67 and <90
- ≥90

Top 10 percent (facilities with lowest survey score) within a State
Trends in Health Inspection Ratings

[Bar graph showing the percentage of nursing homes rated in different categories from Jan 2009 to Jul 2014.]
Staffing Component Rating
Methodology

Step 1 Calculate risk adjusted staffing RN and Total Staff levels

Step 2 Compare risk adjusted to cut-points to assign stars, in theory 100% SNFs can achieve 5 Star or 1 Star

<table>
<thead>
<tr>
<th>RN rating and hours</th>
<th>Total staffing rating and hours (RN, LPN and aide)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>&lt;0.283</td>
</tr>
<tr>
<td>2</td>
<td>0.283 – 0.378</td>
</tr>
<tr>
<td>3</td>
<td>0.379 – 0.512</td>
</tr>
<tr>
<td>4</td>
<td>0.513 – 0.709</td>
</tr>
<tr>
<td>5</td>
<td>≥0.710</td>
</tr>
</tbody>
</table>

Note: Adjusted staffing values are rounded to three decimal places before the cut points are applied.
Trends in Staffing Ratings
Quality Measures Component
Rating Methodology

✓ Based on 9 quality measures

✓ Facility receives 0 - 100 points for each measure
  - Overall scores can range from 0 to 900
  - Stars assigned based on cut-points set in July 2012, in theory 100% SNFs can achieve 5 Star or 1 Star

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Star Cutpoints for MDS Quality Measure Summary Score (updated July 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 star</td>
<td>2 stars lower</td>
</tr>
<tr>
<td>≤355</td>
<td>356</td>
</tr>
</tbody>
</table>
During switch from MDS 2.0 to 3.0; QM rating did not change

Cut Points “frozen” July 2012 to current

Now 77% SNFs achieve a 4 or 5 Star rating
President’s Executive Order
Five Star Directs CMS

✓ Quality Measures
  ▪ Add additional quality measures to Five-Star (claims based suggested)
    o Rehospitalizations
    o Discharge back to community
    o Antipsychotic use.
  ▪ Expand auditing of MDS data from five states to all states effective 01/01/15

✓ Implications Regarding Changes for Quality Measures
  ▪ Antipsychotics nursing home compare (AHCA Focus)
  ▪ Rehospitalization (AHCA OnPoint 30 vs CMS Claims vs MedPAC)
  ▪ Discharge to community (AHCA vs MedPac Claims)
  ▪ Revise scoring QM component, CMS establish new cut points (rebasing)
President’s Executive Order
Five Star Directs CMS

✓ Staffing Data
  ▪ Use payroll data, as mandated in ACA, reported quarterly
  ▪ Add turnover and retention
  ▪ Validate staffing information
  ▪ Phase in use of electronic data to begin 01/15/15

✓ Implications:
  ▪ AHCA has supported electronic collection of staffing data
  ▪ Design of methodology by CMS, has proven difficult
  ▪ AHCA will need to work closely with CMS to support design and implementation.
President’s Executive Order
Five Star Directs CMS

- Continue and expand giving higher weight to quality and staffing measures that independent sources have verified;
- Improve linkages to state-based websites for improved access to information that is uniquely reported by states;
- Ensure the survey inspections in each state are completed as required by statute (12-15 months, more timely manner)
AHCA Recommendations

 ✓ Request CMS use AHCA MDS based measure(s)
   - OnPoint 30 risk adjusted rehospitalization
   - AHCA risk adjusted discharge back to community
   - Will require a validation method for MDS data

 ✓ Request CMS phase in any rebasing of QM cut points
   - Develop a phase in model and present to CMS
   - CMS has ask for meeting next two weeks.
What You Can Do

✓ Focus on new quality measures
  ▪ Rehospitalizations
  ▪ Discharge back to community
  ▪ Antipsychotic use

✓ Use LTC Trend Tracker to figure out where you are relative to the new measures and to the cut point.
Legislative Risks
Clifton Porter, AHCA/NCAL SVP of Government Relations
Democrats: 199
Republicans: 233
Vacancies: 3

Democrats: 175
Republicans: 243
Undecided: 17

Analysis

- Republicans won a total of at least 243 seats in the House, their largest majority since 1928
- An expanded GOP majority in the House means that Speaker Boehner will have an easier time passing legislation in the House without Democratic support, and Republicans will also have an easier time holding on to their majority in future elections

* Races not called as of 6am 11/5/2014; includes runoff elections to be held in LA-5 and LA-6
House Leadership – Status Quo

- John Boehner, Speaker
- Kevin McCarthy, Majority Leader
- Paul Ryan, Ways and Means Chair
- Fred Upton, Energy and Commerce Chair
- Nancy Pelosi, Minority Leader
- Sander Levin, Ways and Means Ranking Member
- Frank Pallone, potential E & C Ranking Member
- Anna Eshoo, potential E & C Ranking Member
Republicans Win Solid Majority in Senate

Control of the 113th Senate (2012-2014)

- Total Seats: 53
  - Democrats: 53
  - Republicans: 45
  - Independents: 2

Control of the 114th Senate (2014-2016)

- Total Seats: 52
  - Democrats: 44
  - Republicans: 52
  - Independents: 2
  - Undecided: 2

Analysis
- Republicans secured at least 52 Senate seats on election night, flipping the Senate from blue to red
- Additional GOP wins in Louisiana and Alaska are still possible
Senate Outlook - Republicans Gain Control

- Mitch McConnell, Majority Leader
- Orrin Hatch, Senate Finance Chair
- Harry Reid, Minority Leader
- Ron Wyden, Senate Finance Ranking Member
2015 Legislative Session
Risks

✓ Multiple risk windows (SGR, Debt limit, Omnibus?)
  ▪ SGR expires March 31
  ▪ Budget usually passed in mid April
  ▪ Debt limit expires in March but likely extended into Summer of 2015 (July-August)

✓ Significant legislative activity in 2015 with threat of reconciliation instructions (51 vs. 60 to pass legislation) potentially expediting passage of big number legislation where we are a “pay-for”
Macro-Risks Associated with Republican Majority – Policy and Procedure

<table>
<thead>
<tr>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ More Managed Care Friendly Environment</td>
</tr>
<tr>
<td>- Medicare</td>
</tr>
<tr>
<td>- Medicaid</td>
</tr>
<tr>
<td>✓ Provider Tax Skeptics</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Ryan will use must-pass legislation as vehicles for larger reforms</td>
</tr>
<tr>
<td>- budget/block grant/Medicare plans</td>
</tr>
<tr>
<td>✓ McConnell moves toward regular order in Senate</td>
</tr>
<tr>
<td>- Necessitates more committee engagement</td>
</tr>
<tr>
<td>- Less of a chance leadership will step in</td>
</tr>
</tbody>
</table>
Threats—Sound Familiar?

- Market Basket Cuts
- Provider Tax Reductions
- Block Grants
- Rebasing
- Bad Debt
Our Response

✓ Extensive Media Campaign

✓ 4th Quarter 2014 and 1st Quarter 2015 Tour Effort focused on Therapy

✓ Front-load political activity in Q1 with particular focus on key committee members and Leadership

✓ Finalize payment reform concepts and savings consistent with recommended schedule

✓ Actively preview concepts with key decision makers in December
Our Response

- Advance concept as a “pay-for” solution in SGR debate
- Establish White House Strategy to defend against any major, harmful entitlement reforms
- Engage Senate Democrats and friendly House Republicans on Provider tax issue
- Re-Engage DGA and RGA on provider tax issue
Media Campaign – Theme & Timeline

CARE
- Advance quality
- Enhancing outcomes
- Improving lives

CUTS
- There are better solutions than cuts
- We can help.

JANUARY 12

APRIL 1
Media Campaign – Next Steps

- AD BUYING STRATEGY: OCT
- AUDIENCE PROFILES: NOV
- THEME DEVELOPMENT: DEC
- AD CREATIVE: JAN
- JANUARY LAUNCH: JAN