Uncompensated Care
Medicare Bad Debt Coverage to Skilled Nursing Facilities: A Critical Lifeline

The federal government requires that beneficiaries who receive care in a skilled nursing facility (SNF) must pay their Medicare co-pay on the 21st day of a Medicare-qualified stay. These beneficiaries are either seniors who rely solely on Medicare for cost coverage, or seniors who qualify for both Medicare and Medicaid, also known as dual eligibles. Due to their financial situations, many beneficiaries are unable to cover the Medicare co-pay. In particular, dual eligibles, who are by definition underprivileged, account for more than 90 percent of the bad debt incurred in SNFs. This leaves a gaping hole between the cost of providing care for these vulnerable seniors and the actual payments received for such care in SNFs.

Currently, the Medicare program allows SNFs to turn to the government to recoup some of the cost. When dealing with dual eligibles, the federal government allows the state Medicaid program to provide a reimbursement for the unpaid co-payment. However, the Medicare statute allows states the ability to pay an amount less than the full co-payment or even refuse to reimburse the co-pay entirely. Because the vast majority of bad debt is directly related to this failure of the government to cover the cost of the federally mandated copay, SNFs would be forced to provide billions of dollars in uncompensated care without any legal recourse due to Medicare and Medicaid protection under federal law. Recognizing this imbalance, the federal government has traditionally provided a remedy to allow SNFs to make up much of the cost associated with patients’ bad debt. Currently, Medicare reimburses SNFs a portion of the copay that the states fail to provide for dual eligibles, and reimburses a portion of the copay that seniors solely on Medicare are unable to pay. This has been a key element in ensuring SNFs can continue providing care to vulnerable seniors on both Medicaid and Medicare.

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. Then starting in FY 2013 (Oct 2012), the legislation gradually reduced Medicare bad debt reimbursement from 70% to 65% for non-dual eligibles. Medicare bad debt payment reductions for dual eligible will be implemented in phases: 88% in FY 2013 (Starting in Oct 1 2012); 76% in FY 2014 (October 1 2013); 65% in FY 2015 (October 1 2014). The estimated impact of this legislation is a $3 billion dollar cut to SNFs over the next 10 years.

Additional reductions would add strain to a sector that has already been rattled with rounds of government reductions and threaten their ability to provide care to vulnerable seniors. Congress must look at other avenues to find government savings that don’t jeopardize access to care and protect the current bad debt reimbursement lifeline for SNFs.

Key Facts
- The federal government requires a copay on the 21st day of a Medicare-qualified stay in a SNF.
- Many dual eligibles are unable to pay, as they are poor, and make up 90% of the bad debt incurred by SNFs.
- Per the Medicare formula, the state Medicaid program is allowed to pay a reduced copay or none at all.
- SNFs have no legal remedies to receive the remaining balance because of Medicare and Medicaid laws.
- For this reason, the federal government has reimbursed SNFs for this debt to ensure facilities can continue providing care to vulnerable seniors.
- Congress should maintain this lifeline to SNFs and protect access to care for the frail elderly.

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