

# Improving the Nursing Home Rate Structure

## Background

Per the request of Representative Cody, the Department is submitting a model for a vastly simplified nursing home rate structure which is cost-based, rather than cost reimbursement-based. The current system reimburses nursing homes for their facility-specific expenditures; this is a complex process and drives considerable administrative work for both the Department and the providers. The new system would be primarily based on industry-wide costs with three main components: direct care, indirect care, and capital. The direct care and indirect care components will be centered on median industry-wide costs, which will be rebased every two years. The median costs will result in a flat rate for the direct care and indirect care cost components. The direct care component will be performance-adjusted for acuity (case mix). The capital component will be based on a fair market rental system. In addition, a quality rate enhancement will be added for facilities that meet or exceed performance standards. The current Safety Net Assessment (SNA) will continue. The basis of the new system methodology will be placed in RCW with the specific details written in WAC. The Legislature will control both the overarching principles and the funding for the system.

## Details

- The **direct care component** encompasses the old components of direct care and therapy care as well as food, laundry, and dietary services. The component will be at the industry median with no minimum occupancy applied. The direct care component will be case mix adjusted every six months.
- The **indirect care component** includes the old components of administrative, maintenance costs, and housekeeping services. A minimum occupancy of 90% will be applied and the component will be at 90% of the industry median.
- The **capital component** fair market rental system sets a price per bed. The component is adjusted for facility age and minimum occupancy at 90%.
- Direct care and indirect care will be regionally adjusted for non-metropolitan and metropolitan statistical areas.
- There will not be any settlement of costs for any component.
- This model assumes there will be minimum staffing ratios for aides and licensed staff.
- A key piece of this new system will be a quality incentive for facilities that meet or exceed the established standard. The quality incentive will look at “days out of compliance” for each facility. Each facility will receive a rate enhancement unless they are categorized as “out of compliance” by Residential Care Services for more than a specified number of days during the calendar year. Additionally, the overall quality standard will be tied to performance based on the Federal 5-Star Quality Rating System.