Analysis of the Washington Assisted Living Services Medicaid Payment Methodology

Final Report – Winter 2019 Legislative Session

Prepared for:

Washington State Department of Social and Health Services (DSHS)

***Submitted by:***

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**Introduction**

Navigant Consulting, Inc. was engaged by the Washington State Department of Social and Health Services (DSHS), also referred to as the Department, to conduct an analysis of the current Medicaid payment methodology and rates paid for Assisted Living services relative to the efficiency, accessibility and the quality of care standards established under federal requirements. The federal requirements that apply to the methods states employ to pay for Medicaid services, which are described in U.S.C. § 1396a (a)(30)(A), specify that:

*A state plan for Medical Assistance (referred to herein as Medicaid) provide such methods and procedures relating to the utilization of, and the payment for, care and services available under the plan as may be necessary to safeguard against unnecessary utilization of such care and services and to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that such care and services are available to the general population in the geographic area.*

As such, our analysis focused on an evaluation of the current Washington Medicaid payment methodology and related rates relative to consistency with efficiency and economy, and access to care and quality of care in Washington State. The rates analyzed in this report are for State Fiscal Year (SFY) 2020.

# Section I: Overview of Assisted Living and Services Provided

An Assisted Living facility is a licensed facility of seven or more beds that provides housing, meal services and assumes general responsibility for the safety and well-being of the residents. Assisted Living facilities allow residents to live an independent lifestyle in a community setting while receiving necessary services from Assisted Living staff. Assisted Living facilities are licensed by the Department and can vary in size and ownership from small family operated facilities to a 253-bed facility operated by a national corporation. Some Assisted Living facilities provide intermittent nursing services and others may specialize in serving people with mental health problems, developmental disabilities or dementia.

The Department contracts with Assisted Living facilities to provide services packages for Medicaid residents in two Assisted Living settings – Assisted Living facilities where residents live in an apartment setting and either have their own room or they share a room.

Under federal regulations, federally-matched state Medicaid dollars may not be used to pay for the room and board costs associated with long-term care services, including the room and board components of costs in Assisted Living facilities. As such, Medicaid residents in Assisted Living facilities are responsible for paying for their own room and board in each setting, and the Department pays only for the allowable Medicaid services that residents receive in those settings, which are:

* In Assisted Living (AL) settings
	+ Intermittent nursing services – facilities must provide this service
	+ Assistance with medication administration and personal care
* In Adult Residential settings – Adult Residential Care (ARC)
	+ Assistance with medication and personal care
	+ Limited supervision, as needed
* In Adult Residential settings – Enhanced Adult Residential Care (EARC)
	+ Assistance with medication administration and personal care
	+ Limited supervision, as needed
	+ Intermittent nursing services – facilities must provide this service
* In Adult Residential settings – EARC Specialized Dementia Care Services
	+ All services provided in the EARC package
	+ Additional care and services for residents with dementia

Based on data provided to us by the Department, there were 540 Assisted Living facilities in Washington State in 2018, with 33,306 licensed beds. Of those, 318 were Medicaid contracted (59 percent of the total number of Assisted Living facilities), and those Medicaid contracted Assisted Living facilities had 20,021 licensed beds (60 percent of the total number of licensed beds). In the State of Washington, Assisted Living facilities can enter into a contract with the Department to provide care to Medicaid residents, but that contract does not require that they accept all Medicaid-eligible residents, even if they have available beds. Assisted Living facilities in Washington can refuse to accept Medicaid residents at their discretion, even if they are a Medicaid-contracted provider.

# Section II: Overview of the Current Medicaid Payment Methodology and Rates

This section describes the current process used to establish the Medicaid payment rates for Assisted Living services in Washington. This description is intended to provide a high level overview of how payment rates are set for Medicaid residents in Assisted Living facilities. This section also provides some context on how the process for establishing the rates has evolved in recent years and includes a high level overview of the newly proposed rate methodology for SFY 2020 reimbursement rates.

**Methodology Used to Establish Current Rates**

In Washington State, the rate setting process for Assisted Living services has evolved over the years. For purposes of establishing rates, in the early 2000’s, the Department facilitated stakeholder workgroups, which over a two year period identified important cost components as well as reasonable proxies to represent the market price for each of the components that could be used for rate-setting purposes. The cost components identified by the workgroups included wages, benefits, operating costs, capital costs, and occupancy rates among several others. Considering the product of these workgroups, the Department established rates for Assisted Living services. The reimbursement rates established varied by client based on each client’s assignment to one of 12 unique CARE Classifications that reflect the different levels of resources required to care for residents with different needs and also by geographic service area.

While this stakeholder process and analysis of rate components initially informed the process of establishing rates, the Medicaid reimbursement rates for Assisted Living services have been largely driven by the funding appropriated by the Legislature. Each year the Legislature allocates funding for the provision of Assisted Living services and based on the level of the funding the Department determines the daily reimbursement rates. This process occurs on an annual basis. The current reimbursement rates for AL, ARC, and EARC services still vary based on the CARE Classification an individual is assigned to as well as the geographic area where the service is provided.

In July of 2008, the CARE Classifications were expanded from 12 to 17 unique classification groups based on the funding approved by the Legislature. Federal law, described in 42 U.S.C. § 1396a (a) (30) (A), requires that Medicaid providers are reimbursed at levels consistent with efficiency, economy, and quality of care, and that the level of reimbursement is sufficient to attract enough providers to provide services to the population.

**Current Rates for State Fiscal Year 2019**

Appendix A of this report shows the SFY 2019 rates for AL, ARC, EARC and specialized dementia care services in Assisted Living facilities.[[1]](#footnote-1) Between SFYs 2018 and 2019, the reimbursement rates for these services increased by 3.9 percent across the CARE classifications. Based on data provided to us by the Department, the weighted average Assisted Living rate given the anticipated number of Medicaid beneficiaries for SFY 2019 is expected to be $78.99 per day for AL services, $63.07 per day for ARC services, $73.56 per day for EARC services, and $111.20 for specialized dementia services. The Department calculated these weighted average rates based on actual expenditures in July of 2018. Therefore, these weighted average rates would reflect the client case mix at that time.

**New Methodology Effective for State Fiscal Year 2020 Rates**

It should be noted that the Department facilitated stakeholder work group meetings in the fall of 2017 as part of an effort to redesign the Medicaid payment methodology for Assisted Living services. The Department submitted a report to the Legislature on January 5th, 2018 that describes the work group recommendations for the new methodology.

The Department proposed a new payment methodology for assisted living services for rates effective in July 1, 2019 (SFY 2020). A main goal of the new methodology was to establish data driven rates. Under the new methodology, the reimbursement rate will be comprised of the following components: client care, operations, and room and board. The reimbursement rates for SFY 2020 have not been determined yet, however, in this section we provide a high level overview the new rate methodology.

* Client Care Component:
	+ Intended to reimburse for labor costs associated with providing services.
	+ Will vary by the existing CARE classifications and, therefore, will capture variances in the time and intensity of services required by clients across the various acuity levels.
	+ Will vary by geographic area to reflect differences in labor costs across regions.
	+ Will include an adjustment for employee benefit costs and payroll taxes. This adjustment will be based on the statewide nursing facility cost ratio of benefits and payroll taxes to reported wages.
* Operations Component:
	+ Intended to reimburse for the following costs: supplies, nonlabor administrative costs, staff education and in-service training, and overhead expenses. Specifically, overhead expenses include licenses, insurance, business taxes, and occupational taxes.
	+ A flat rate that does not vary by CARE classification or geographic area.
* Room and Board Component:
	+ Intended to reimburse for costs related to recipient food and facility costs.
	+ Not eligible for federal matching funds and are subject to Washington’s rules related to client financial responsibility.
	+ Does not vary by CARE classification or geographic area.

For more information about the new rate methodology, please refer to Appendix D.

Next, we evaluate the number of Assisted Living providers in each county. The three geographic area groups used under the current rate setting methodology are King County, all other Metropolitan Counties[[2]](#footnote-2), and all Nonmetropolitan Counties[[3]](#footnote-3). The counties included in each geographic area group along with the number of providers in each county are shown on the map in Exhibit 2.1.

**Klickitat**

**(0)**

**Clark**

**(29)**

**Wahkiakum**

**(0)**

**Cowlitz**

**(11)**

**Skamania**

**(1)**

**Asotin**

**(2)**

**Walla Walla**

**(6)**

**Columbia**

**(1)**

**Garfield**

**(0)**

**Benton**

**(23)**

**Franklin**

**(1)**

**Lewis**

**(6)**

**Pacific**

**(2)**

**Yakima**

**(18)**

**Thurston**

**(14)**

**Whitman**

**(6)**

**Adams**

**(2)**

**Pierce**

**(52)**

**Grays Harbor**

**(6)**

**Kittitas**

**(3)**

**Mason**

**(3)**

**King**

**(156)**

**Kitsap**

**(24)**

**Lincoln**

**(2)**

**Grant**

**(6)**

**Spokane**

**(50)**

**Jefferson**

**(3)**

**Douglas**

**(4)**

**Snohomish**

**(44)**

**Clallam**

**(11)**

**Chelan**

**(10)**

**Skagit**

**(15)**

**Ferry**

**(1)**

**Pend Oreille**

**(1)**

**Stevens**

**(4)**

**Okanogan**

**(1)**

**Whatcom**

**(18)**

**San Juan**

**(1)**

**Island**

**(7)**

Group 1 – Non-Metropolitan (27)

Group 2 – Metropolitan (11)

Group 3 – King (1)

**Geographic Areas**

**(Number of Counties)**

Exhibit 2.1: Number of Assisted Living Facilities by Geographic Area Group

and County - 2018

Source: Data provided by the Department. Number of assisted living facilities is as of August, 2018.

**Total Statewide Assisted Living Facilities: 544**

# Section III: Access to Care

In this section, we analyze the availability of Assisted Living beds in Washington as a way to determine if barriers to access exist for Medicaid beneficiaries requiring Assisted Living services. We analyze access to care primarily using Assisted Living licensed beds and occupancy rates over time, as well as information provided to us by the Department regarding Medicaid placements.

**Washington Assisted Living Capacity and Occupancy from 2010 to 2019**

We first look at total Assisted Living capacity in Washington. Assisted Living capacity can be measured by the number of bed days available – that is the number of licensed beds multiplied by the number of days in the year. Table 3.1 shows the number of Assisted Living facilities, number of licensed beds and total available bed days in the state for the ten years from 2010 to 2019. This table shows that while the number of Assisted Living facilities has slightly decreased, the number of licensed beds and available bed days has increased – by more than eighteen percent – over the periods shown. We do not have data to support why there are more beds for fewer facilities; however, it is reasonable to assume that some facilities have closed and those that have remained open have added beds.

**Table 3.1: Assisted Living Facilities Capacity in Washington 2010 – 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **State Fiscal Year** | **Number of Facilities** | **Number of Licensed Beds** | **Total Number of Bed Days Available** |
| 2010 | 552 | 28,209 | 10,296,285 |
| 2011 | 553 | 28,628 | 10,449,220 |
| 2012 | 547 | 28,863 | 10,534,995 |
| 2013 | 537 | 29,084 | 10,615,660 |
| 2014 | 535 | 29,567 | 10,791,955 |
| 2015 | 543 | 30,445 | 11,112,425 |
| 2016 | 541 | 31,247 | 11,405,155 |
| 2017 | 541 | 31,917 | 11,649,705 |
| 2018 | 546 | 32,537 | 11,867,005 |
| 2019 | 540 | 33,306 | 12,156,690 |

Source:

Number of facilities and licensed beds were provided by the Department and are as of July for state fiscal years 2010 through 2019. Numbers of beds days available were calculated using the number of days in each year.

Assisted Living facilities are not required to report occupancy rates to the Department. As such, data regarding statewide occupancy levels in Assisted Living facilities for each year were not available. However, in 2000 and 2007, the Department conducted a survey of Assisted Living facilities, regarding their occupancy levels, and the results of both years’ surveys indicated an average statewide occupancy rate of 85.3 percent. It should be noted that there have been preliminary discussions with the Department, Navigant, and industry representatives about a new survey of Assisted Living providers in 2019 to determine current occupancy levels.

Table 3.2 shows Assisted Living facilities’ estimated total occupied beds based on the assumption that Assisted Living facilities realized an 85.3 percent occupancy rate. It also shows total beds occupied by Medicaid residents and the estimated average Medicaid utilization rate, that is, Medicaid’s share of estimated total occupied beds for 2010 through 2019.

**Table 3.2: Assisted Living Medicaid Utilization in Washington 2010 – 2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **State Fiscal Year** | **Total Licensed Assisted Living Beds** | **Estimated Number of Occupied Beds at Assumed 85.3% Occupancy Rate[[4]](#footnote-4)** | **Number of Beds Occupied by Medicaid Residents[[5]](#footnote-5)** | **Estimated Average Medicaid Utilization Rate** |
| 2010 | 28,209 | 24,068 | 6,675 | 28% |
| 2011 | 28,628 | 24,425 | 6,692 | 27% |
| 2012 | 28,863 | 24,626 | 6,891 | 28% |
| 2013 | 29,084 | 24,814 | 6,843 | 28% |
| 2014 | 29,567 | 25,227 | 6,726 | 27% |
| 2015 | 30,445 | 25,970 | 6,660 | 26% |
| 2016 | 31,247 | 26,654 | 6,826 | 26% |
| 2017 | 31,917 | 27,225 | 6,389 | 23% |
| 2018 | 32,537 | 27,754 | 6,334 | 23% |
| 2019 | 33,306 | 28,410 | 6,341 | 22% |

Source:

Data provided by the Department and is as of July for state fiscal years 2010 through 2019.

This table shows that the total number of licensed Assisted Living beds in the state increased by 5,097, an 18.1 percent increase, from 2010 to 2019. It also shows that the utilization of beds by Medicaid residents has fluctuated over this same period. The total Medicaid occupied beds in SFY 2019 declined by 334 compared to 2010, or 5.3 percent.

Table 3.3 shows the estimated average number of unfilled beds each day in Washington Assisted Living facilities in 2010 through 2019, based on the assumed occupancy rate for each year.

**Table 3.3: Estimated Number of Unfilled Assisted Living Beds in Washington 2010 - 2019**

|  |  |
| --- | --- |
| **State Fiscal Year** | **Estimated Average Number of Unfilled Beds per Day[[6]](#footnote-6)** |
| 2010 | 4,141 |
| 2011 | 4,203 |
| 2012 | 4,237 |
| 2013 | 4,270 |
| 2014 | 4,340 |
| 2015 | 4,475 |
| 2016 | 4,593 |
| 2017 | 4,692 |
| 2018 | 4,783 |
| 2019 | 4,896 |

Source:

Estimated Average Number of Unfilled Bed Days was calculated based on data provided by the Department.

This table shows that, based on the assumed occupancy rate, there is unused Assisted Living capacity in Washington State. It should be noted that this occupancy rate estimate is based on surveys completed in 2000 and 2007. It is possible that the overall occupancy rate for Assisted Living facilities has changed since these surveys were completed. In fact, the Department recently received feedback from some Assisted Living providers that there are overall fewer beds available. As noted earlier in this section, preliminary discussions have been held to conduct a study of the current occupancy rates in Assisted Living facilities. At the time this report was completed, however, the occupancy rate is based on the two surveys conducted since it is the most recently available estimate of occupancy rates for Assisted Living services.

**Washington Assisted Living Capacity by County, For 2018**

To assess whether Washington residents in all areas of the state have access to Assisted Living services, we analyzed the distribution of Assisted Living beds at the county level.

As of August 2018, the number of Assisted Living facilities per county ranged from zero in three counties to 156 in King County. Exhibit 3.1 shows that the number of licensed beds per county, for counties with at least one Assisted Living facilities, ranges from 16 to 9,177. As expected, the most urban and populous counties of King, Pierce, Spokane and Snohomish have the most Assisted Living beds. Currently, Wahkiakum, Klickitat, and Garfield Counties do not have Assisted Living facilities.

**Klickitat**

**Clark**

**(2,376)**

**Wahkiakum**

**Cowlitz**

**(658)**

**Skamania**

**(36)**

**Asotin**

**(58)**

**Walla Walla**

**(519)**

**Columbia**

**(30)**

**Garfield**

**Benton**

**(1,385)**

**Franklin**

**(95)**

**Lewis**

**(404)**

**Pacific**

**(80)**

**Yakima**

**(953)**

**Thurston**

**(1,073)**

**Whitman**

**(332)**

**Adams**

**(81)**

**Pierce**

**(3,672)**

**Grays Harbor**

**(280)**

**Kittitas**

**(168)**

**Mason**

**(183)**

**King**

**(9,177)**

**Kitsap**

**(1,286)**

**Lincoln**

**(28)**

**Grant**

**(350)**

**Spokane**

**(3,096)**

**Jefferson**

**(161)**

**Douglas**

**(265)**

**Snohomish**

**(2,942)**

**Clallam**

**(517)**

**Chelan**

**(606)**

**Skagit**

**(845)**

**Ferry**

**(16)**

**Pend Oreille**

**(45)**

**Stevens**

**(118)**

**Okanogan**

**(60)**

**Whatcom**

**(1,093)**

**San Juan**

**(36)**

**Island**

**(402)**

5,000 and Over (1)

500 to 999 (6)

250 to 499 (6)

1,000 to 4,999 (8)

**Assisted Living Licensed Beds**

**(Number of Counties)**

Less than 250 (15)

No Facilities (3)

Exhibit 3.1: Assisted Living Licensed Beds by County - 2018

**Total Statewide Licensed Beds: 33,426**

Source: Data provided by the Department. Number of Assisted Living licensed beds are as of August, 2018.

**Capacity of Medicaid-contracted Assisted Living Facilities**

As discussed previously, not all Assisted Living facilities are contracted with the Department to provide Medicaid services. Table 3.4 shows the change in the number of Medicaid-contracted Assisted Living facilities in Washington between 2010 and 2019 based on data provided to us by the Department, and the number of licensed beds in those Medicaid-contracted Assisted Living facilities. This table shows a similar trend as demonstrated in Table 3.1, facilities have decreased while the number of licensed beds has increased.

**Table 3.4: Medicaid-contracted Assisted Living Capacity in Washington 2010 – 2019**

|  |  |  |
| --- | --- | --- |
| **State Fiscal Year** | **Number of Medicaid-Contracted Facilities** | **Number of Licensed Beds in Medicaid-contracted Facilities** |
| 2010 | 355 | 19,347 |
| 2011 | 352 | 19,365 |
| 2012 | 349 | 19,171 |
| 2013 | 324 | 18,539 |
| 2014 | 322 | 18,601 |
| 2015 | 318 | 18,433 |
| 2016 | 320 | 19,475 |
| 2017 | 311 | 19,258 |
| 2018 | 322 | 19,850 |
| 2019 | 318 | 20,021 |

This table shows that the number of Medicaid-contracted Assisted Living facilities has fluctuated throughout the years. Between SFY 2010 and SFY 2019, the number of Medicaid-contracted facilities declined by 37 facilities. At the same time, as this table shows, the number of licensed beds in Medicaid-contracted facilities in 2019 has increased by 674 beds since 2010.

As noted earlier, Medicaid-contracted Assisted Living facilities have been determined to be qualified to accept Medicaid residents, and will accept Medicaid rates for payment of the services they provide for Medicaid residents, but they may, at their discretion, decline to accept Medicaid-eligible residents. Given this circumstance, for purposes of understanding whether there is sufficient access to Assisted Living services for Medicaid-eligible residents, it is important to know whether Medicaid-eligible residents have historically had difficulty being placed into licensed Assisted Living facilities. To understand this, we discussed Medicaid placements with Department representatives. Based on these discussions, we found that the Department generally has not experienced difficulty in placing Medicaid-eligible residents into Assisted Living facilities. But when the Department does find difficulty in placing residents, the reasons typically involve residents with special circumstances. The circumstances may involve the following:

* Bariatric (seriously obese) clients
* Clients with criminal histories, such as sexual offenses
* Clients with disabilities resulting from traumatic brain injuries or mental illness
* Clients with known histories of behavioral problems, such as physical or verbal aggression against facility staff or with other residents
* Clients with dementia and wandering

# Section IV: Quality

In the previous section we analyzed whether Washington’s Medicaid payment methodology for Assisted Living services supports sufficient access to care for Washington’s Medicaid beneficiaries. In this section, we analyze whether Washington’s Medicaid payment methodology supports provision of care at an acceptable level of quality.

Inspections are one of the numerous quality assurance activities that occur in Assisted Living facilities. The Department has a comprehensive inspection protocol in place, which includes the identification and assessment of citations. Remedies for citations are dependent upon the severity of the circumstances, and can range from providing consultation with no plan of correction for initial citations where there is no potential harm to residents in the Assisted Living facility, to civil penalties for repeat citations, to the most severe remedy, which can result in license revocation or stop placement. For a complete description of potential enforcement action options for Assisted Living facilities, see Appendix B.

Based on the General Guidelines for Assisted Living inspections, the purpose of an inspection is to determine if the home is in compliance with applicable licensing laws and regulations, all of which are documented in the State WACs and RCWs. Licensing laws and regulations also include those that are specific to Medicaid-contracted services to assure that the facilities meet the additional Medicaid contracting requirements.

It should be noted that inspections are not limited to Assisted Living facilities providing services to Medicaid-eligible residents. All Assisted Living facilities licensed in the State of Washington are subject to licensing inspection requirement.

The following lists the operational principles for conducting an inspection of an Assisted Living facility in Washington:

* Assisted Living facilities must meet, and always be in compliance with, the applicable minimum licensing requirements.
* Assisted Living facilities are required to deliver quality care to residents in order to meet the requirements.
* Assisted Living facilities must correct all deficiencies in a timely manner. Time frames must be acceptable to the department.
* Timeliness of data collection is critical for enforcement.
* Assisted Living facilities must begin correction of any citation as soon as they are notified of a deficiency.
* The field staff will contact the Field Manager when deficiencies involving resident care issues and the likelihood of compromised resident safety should result in shortened plan of correction timeframes.
* The Field Manager will immediately refer any situation involving the likelihood of life threatening risk to a resident (imminent risk, imminent harm) to the Compliance Specialist/Assistant Director for possible immediate enforcement.
* The field staff will follow the written inspection and follow up visit principles and procedures to ensure that inspections and follow up visits are done in a consistent manner.
* Homes that do not meet all of the licensing requirements during the full inspection may have up to two follow-up inspections prior to contacting the Compliance Specialist/Assistant Director.

At a minimum, the Department is required to conduct inspections of every Assisted Living facility at least once within a 18 month period. Based on our discussions with Department staff, inspections are currently being conducted at least once every 15 months.

Table 4.1 shows the number of citations for the past ten years in Assisted Living facilities which, based on the enforcement protocols shown in Appendix B, did require a Plan of Correction.

**Table 4.1: Assisted Living Facility Inspection Citations Requiring Plan of Correction, 2009 - 2018**

|  |  |
| --- | --- |
| **Calendar Year** | **Number of Citations** |
| 2009 | 4,570 |
| 2010 | 4,842 |
| 2011 | 4,698 |
| 2012 | 4,122 |
| 2013 | 4,956 |
| 2014 | 4,542 |
| 2015 | 3,999 |
| 2016 | 4,314 |
| 2017 | 5,072 |
| 2018 | 3,392 |

Source: Citation data provided by the Department. Note that for calendar year 2018, citation data was available through August 31st at the time this table was completed.

Table 4.1 shows that the number of citations requiring a plan of correction varied between 2009 and 2017. Citations were at the lowest point in Calendar Year 2015 and the highest point in Calendar Year 2017. According to the Department, one possible reason for this may be a stabilization in staffing. From 2009 to 2017, the number of citations requiring a plan of correction increased by about 11 percent. The 2018 citations in Table 4.1 represent actual citations through August 31, 2018, and we have not attempted to make adjustments to project the number of citations for the remaining four months of the year. Further, we did not rely on this partial year of information in drawing conclusions regarding quality.

# Section V: Comparison of the Costs of Assisted Living Services to Current Rates

In the previous sections of this report, we analyzed whether Washington’s Medicaid payment methodology for Assisted Living services supports sufficient access to care for Washington’s Medicaid beneficiaries and whether Washington’s Medicaid payment methodology supports provision of care at an acceptable level of quality. In this section of the report, we analyze the level of the current reimbursement rates compared to the costs to providers for providing services.

Assisted Living providers are not required to submit cost data to the Department, and as such, it is not possible to make comparisons of current rates to current cost data from the providers of Assisted Living services. However, it is possible to look back to historical data, using trending assumptions to take into consideration inflation over time, and make comparisons of rates to costs.

As discussed in Section II of this report, in the early 2000’s, to determine the costs of providing services and what an appropriate level of reimbursement would be, the Department staff and Home and Community residential care industry representatives, providers and interested parties formed workgroups. Over a two year period, the workgroups conducted research and held monthly meetings to discuss their results, proposals and issues. During this process, all cost components of providing Home and Community residential care and services were systematically identified and proxies or benchmarks were chosen to represent the market price for these components. The workgroups chose to use proxies and benchmarks for identified costs because of the prohibitive cost of collecting and updating actual cost data from the State’s Assisted Living providers. The workgroups selected various industry benchmarks for wage and salary levels, supplies, insurance, food, utilities and capital costs. The Department used this information to establish rates for 2004.

After considering the level of the reimbursement rates based on the components and proxies identified by the workgroups, the Department also made a comparison of the established rates to the actual costs of Assisted Living services from a sample of 40 Assisted Living service providers. The Department collected actual cost data from these 40 participating providers for calendar year 2003. Note that this sample was a voluntary sample, and was not a probability sample that could be used to statistically extrapolate the sample findings to the total population of Assisted Living providers in the State. The results of the comparison do, however, provide some insights as to the relationship between the established rates and total actual costs at that time.

At the conclusion of this process, DSHS prepared a report in 2004, entitled *Report to the Legislature, CARE & Medicaid Payment System for Licensed Boarding Homes, Chapter 231, Laws of 2003, December 2004.* That report, which is attached to this report as Appendix C, provides a description of the process used by the Department to analyze reimbursement levels for SFY 2004.

Based on the analysis provided in that report, the statewide median rate established for SFY 2004 was lower than the median actual cost per day of the 40 providers in the voluntary sample. However, it is also important to understand that the costs incurred by the Assisted Living facilities in the voluntary sample may have included cost elements that were not necessary for the provision of the basic level of care required for Medicaid residents. Because of this issue, and understanding that it is difficult to draw conclusions from a voluntary sample of 40 providers, the Department acknowledged in the above referenced report that it is difficult to draw conclusions as to the actual costs of providing services to Medicaid residents. In the report, the Department concluded that the costs of providing these services to Medicaid residents can best be evaluated by looking at the actual rates (established independently through the pricing method), and the effect of actual rates on services provided. As such, the Department determined that the rates established through this study for SFY 2004 were a reasonable proxy for the reasonable and necessary costs of providing Assisted Living services to Medicaid residents.

Since Assisted Living providers are not required to submit cost data to the Department, as mentioned earlier, and the Department concluded through the extensive study conducted that the SFY 2004 rates established are a reasonable proxy for the costs of providing services at that time, for the purposes of this report the best information of the costs for providing services we can rely on are the SFY 2004 calculated reimbursement rates.

As stated previously in this report, the Department does not use this analysis of the SFY 2004 reimbursement rates as a means for establishing current reimbursement rates. The reimbursement rates are currently dependent upon the funding appropriated by the Legislature for these services, where each year the Department establishes the reimbursement rates based on that available funding. However, this analysis does provide useful proxy data for purposes of understanding the costs of providing Assisted Living services.

**Analysis of Payment-to-Cost Coverage for SFY 2019**

Based on the assumption that the rates determined in the SFY 2004 study represent a proxy for the reasonable and necessary costs of providing Assisted Living services to Medicaid residents, we can determine an estimate of the cost of providing Assisted Living services in SFY 2019 by applying a trend factor to approximate inflation between SFY 2004 and SFY 2019. To estimate Assisted Living providers’ current costs, we applied a trend factor to the SFY 2004 weighted average rate for Assisted Living services to account for inflation between December 2003 to December 2018, the midpoints of SFY 2004 and SFY 2019, respectively.

We inflated the SFY 2004 cost assumption to December 2017 using Consumer Price Index (CPI) data for the Western Region of the US and for the Seattle Metropolitan Area as published by the U.S. Bureau of Labor Statistics. [[7]](#footnote-7) Then, because the CPI data are only available through August 2018, we had to extrapolate available CPI data to estimate inflation in subsequent periods. To calculate the inflation factor necessary to inflate the weighted average cost to December of 2018, we determined the annual percentage change in the CPI between the midpoint of SFY 2017 and SFY 2018. We then applied this percentage change to the index at the midpoint of SFY 2018 to estimate the index at the midpoint of SFY 2019. We then compared this amount, inflated to the midpoint of SFY 2019, to the weighted average rate for Assisted Living services in SFY 2019.

To determine the inflation factor from the midpoint of SFY 2004 to SFY 2020, we applied the annual percentage change in the CPI between the midpoint of SFY 2017 and SFY 2018 to the estimated index for the midpoint of SFY 2019. We then compared this amount, inflated to the midpoint of SFY 2020, to the current weighted average rate for Assisted Living services.

Note that we also examined the actual distribution of Medicaid residents among the CARE classifications, settings and geographic area groups in SFY 2004 and SFY 2019 and determined that the percentage of clients classified in levels 11 through 17 and the percentage of clients classified in levels 1 through 10 has remained almost unchanged throughout this time period. Note that while the weighted average rate reflects this change in case mix, we have not made any adjustments for changes in client mix to the proxy for costs used in the analysis.

The weighted average Assisted Living services rate for SFY 2004 that the Department calculated was $59.50, which again, we assume for purposes of this analysis is a proxy for the actual costs that are necessary for providing Assisted Living services to Medicaid residents in SFY 2004. Table 5.1 below shows that inflating this $59.50 cost proxy in SFY 2004 to SFY 2019 yields an estimated current cost of providing Assisted Living services of $83.84 or $85.74, depending on which CPI inflation factor is selected.

**Table 5.1: Estimated Cost of Providing Services in SFY 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **SFY 2004** | **Inflation Factor between Midpoints of SFY 2004 and SFY 2019 (Dec. 2003 and Dec. 2018)** | **Estimated Weighted Average Assisted Living Cost for SFY 2019** |
| **CPI West Region** | **CPI Seattle Area** | **Using West Region CPI** | **Using Seattle Area CPI** |
| Average Weighted Cost for Assisted Living Services | $59.50 | 1.409 | 1.441 | $83.84 | $85.74 |

We compared the estimated weighted average cost of providing Assisted Living services in SFY 2019 with the estimated 2019 weighted average Assisted Living rate for Medicaid residents of $81.15 which was calculated by the Department. As Table 5.2 below shows, we estimate that payment-to-cost coverage for SFY 2019 is approximately 96 percent, assuming the rates shown in Appendix A of this report.

**Table 5.2: Medicaid Payment-to-Cost Ratio SFY 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Inflating FY 2004 Average Weighted Cost by:** | **Estimated Weighted Average Cost for Assisted Living Services in SFY 2019** | **Weighted Average Rate for Assisted Living Services for SFY 2019[[8]](#footnote-8)** | **Payment-to-Cost Ratio** |
| CPI West Region | $83.84 | $81.15 | 96.8% |
| CPI Seattle Area | $85.74 | $81.15 | 94.6% |

The payment-to-cost ratio for SFY 2019 is 96.8 percent and 94.6 percent for the CPI West Region and the CPI Seattle area respectively. We also evaluated the estimated payment-to-cost ratio for SFY 2020. Since reimbursement rates for SFY 2020 have not been determined yet, for the purposes of this comparison we assume that the weighted average reimbursement rate for services remains unchanged.

**Table 5.3: Estimated Cost of Providing Services in SFY 2020**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **SFY 2004** | **Inflation Factor between Midpoints of SFY 2004 and SFY 2020 (Dec. 2003 and Dec. 2019)** | **Estimated Weighted Average Assisted Living Cost for SFY 2020** |
| **CPI West Region** | **CPI Seattle Area** | **Using West Region CPI** | **Using Seattle Area CPI** |
| Average Weighted Cost for Assisted Living Services | $59.50 | 1.453 | 1.491 | $86.45 | $88.71 |

As Table 5.4 below shows, the payment-to-cost coverage for SFY 2020 is estimated at 93 percent, assuming the rate levels for SFY 2020 remain the same as SFY 2019.

**Table 5.4: Medicaid Payment-to-Cost Ratio SFY 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Inflating FY 2004 Average Weighted Cost by:** | **Estimated Weighted Average Cost for Assisted Living Services in SFY 2020** | **Weighted Average Rate for Assisted Living Services for SFY 2020** | **Payment-to-Cost Ratio** |
| CPI West Region | $86.45 | $81.15 | 93.9% |
| CPI Seattle Area | $88.71 | $81.15 | 91.5% |

The estimated payment-to-cost ratio for SFY 2020 is 93.9 percent and 91.5 percent for the CPI West Region and the CPI Seattle area respectively

**Comparison of Medicaid Reimbursement to Other Payers**

In addition to examining the payment-to-cost ratios for Medicaid’s reimbursement, we also compared Medicaid reimbursement rates to commercial reimbursement data. The purpose of this comparison is to determine how Medicaid’s reimbursement for Assisted Living services compares to reimbursement by non-public payers.

The information below was published in the 2018 Genworth Cost of Care Survey for the purposes of this comparison. The Genworth Cost of Care Survey is a comprehensive survey of private pay rates for long-term care providers across the U.S. Assisted Living facilities are included as part of this survey, and in 2018, a total of 6,300 agencies completed the survey. Since licensing standards across states for Assisted Living facilities vary, the Genworth study included both small homes and large multi-service facilities as part of the study. Genworth publishes the results from the private pay rate surveys and determines national average rates as well as rate minimums, medians and maximums for each state. The 2018 Genworth study found that the median daily private pay cost for a private bedroom in an Assisted Living facility in Washington was $141.

More detailed information about the variance in the reported rates is not available. By comparison, Washington’s daily weighted average rate of $81.15 is just over half of the median private pay reported in the survey.

It is difficult to draw meaningful conclusions from a comparison of Medicaid reimbursement rates to reimbursement rates for commercial payers. In general, commercial payment rates tend to be higher than Medicaid rates and we would expect that the commercial rates would be driven to some extent by prevailing market conditions at any given time. In other words, rates would vary depending on variables such as the amenities provided by the Assisted Living provider, the location of the facility relative to other facilities, and commercial demand for Assisted Living services.

As mentioned earlier in this report, Washington’s weighted average rate is based on multiple services; Assisted Living, ARC, EARC and specialized dementia care services. The services provided in each of these service settings vary, and therefore the Medicaid reimbursement rates vary as well. In addition, for ARC and EARC services (including specialized dementia care), clients will share a room in most cases, which is reflected in the Medicaid rates. This may explain in part why the Medicaid weighted average rate is lower than the median reported commercial rate. The Genworth survey data represents rates for a single bedroom apartment.

# Section VI: Conclusion

The purpose of this report is to determine whether Washington’s SFY 2019 Medicaid reimbursement rates for Assisted Living services are consistent with the federal requirements described in U.S.C. § 1396a (a)(30)(A). These requirements specify that Medicaid reimbursement rates should be sufficient to enlist enough providers for services and to ensure the services provided are of adequate quality. As such, in this report we focused on evaluating access and the quality of services provided over the past ten years.

Our evaluation of access to Assisted Living services can be found in section II of this report. Between SFY 2010 and SFY 2019, the number of Assisted Living providers has remained fairly stable while the number of licensed beds and available bed days have increased by approximately 18 percent. Over the same period, although the number of beds occupied by Medicaid residents has fluctuated, in 2019 the number of Medicaid occupied beds fell short of the number of beds occupied in 2010 by 334 beds. In addition, the number of beds occupied by Medicaid residents has remained fairly stable in recent years and there have been no waiting lists for Assisted Living placement generally. There are waiting lists if a client limits a request to a specific Assisted Living facility, as all homes have a specific capacity, and may be full at the time of a specific request.

It should be noted that the number of Medicaid-contracted facilities as well as the number of Medicaid-licensed beds have declined in recent years. It is difficult to attribute this decline to specific factors, such as the adequacy of rates, or perhaps a decline in the demand for services. Based on all of the information related to access, there do not appear to be issues with access to services.

Based on our review of available citation data provided by the Department for CY 2008 through CY 2017, we can’t determine if the quality of services provided is declining.We recommend that the Department continue to monitor citations.

The rates that Washington State pays for Medicaid-contracted Assisted Living services are consistent with federal requirements for efficiency and economy, to the extent that they are based on what the State has determined to be reflective of the market-based prices for the various components used to calculate rates. Moreover, the Assisted Living rates are prospective and standardized – that is, rates are the same for all providers for each CARE Classification (with some geographic adjustment). As such, providers know the rates in advance of contracting with the Department and accepting Medicaid residents. Because the rates are standardized and prospective without a retrospective cost settlement component, the payment methodology provides additional incentives for providers to prudently manage the costs associated with providing services.

We understand that it is difficult to directly attribute trends in utilization, capacity, quality, and other factors described in this report to the rates paid for services, and to know with certainty how these trends might be affected by rates established by the Department. As such, we recommend that the Department continue to monitor changes in access and quality over time so that any issues that might arise can be investigated and addressed in a timely manner.

1. Washington’s current reimbursement rates are published on the DSHS website and can be found here: <https://www.dshs.wa.gov/sites/default/files/ALTSA/msd/documents/All_HCS_Rates.xls> [↑](#footnote-ref-1)
2. Metropolitan Counties are those counties that are in one of the national Metropolitan Statistical Areas, and comprise Benton, Clark, Franklin, Island, King, Kitsap, Pierce, Snohomish, Spokane, Thurston, Whatcom, and Yakima counties. [↑](#footnote-ref-2)
3. Nonmetropolitan Counties are those counties that are outside of one of the national Metropolitan Statistical Areas, and comprise Adams, Asotin, Chelan, Clallam, Columbia, Cowlitz, Douglas, Ferry, Garfield, Grant, Grays Harbor, Jefferson, Kittitas, Klickitat, Lewis, Lincoln, Mason, Okanogan, Pacific, Pend Orielle, San Juan, Skagit, Skamania, Stevens, Wahkiakum, Walla Walla and Whitman counties. [↑](#footnote-ref-3)
4. From 2009 until 2014 an assumed occupancy rate of 85.32 percent was used to calculate the estimated number of occupied beds. From 2015 through 2019, an assumed occupancy rate of 85.3 percent was used. [↑](#footnote-ref-4)
5. The total number of occupied beds by Medicaid residents for SFYs 2017 through 2019 are based on a snapshot of client claims data on July 1 of each year. [↑](#footnote-ref-5)
6. Based on 365 days in the calendar year for 2009, 2010, 2011, 2013, 2014, 2015, and 2017, and 366 days in the calendar year for 2012, and 2016. [↑](#footnote-ref-6)
7. Consumer Price Index – All Urban Consumers, All items and CPI – All Urban Consumers, Seattle-Tacoma-Bremerton, All items. [↑](#footnote-ref-7)
8. These weighted average rates were calculated by the Department based on actual expenditures in July of 2018 and did not vary by CPI region. This represents the weighted average rate for AL, ARC, EARC and specialized dementia care services. [↑](#footnote-ref-8)