

ISSUE BRIEF

Lowering of Provider Tax Threshold Would Reduce Already Inadequate Medicaid Funding, Jeopardizing the Quality of Care and Threatening Jobs

BACKGROUND: Federal law allows states to use provider-specific tax revenues to help pay for the state's share of Medicaid funding. The amount of such revenues that can be rebated to providers is capped at no more than 6% of net patient revenues. Federal law also prevents holding providers harmless for tax payments by adjustments to Medicaid rates. States have disproportionately relied on provider taxes for skilled nursing facilities (SNFs) to fund their Medicaid programs as compared to other Medicaid providers. In addition, substantially more SNF provider tax programs operate at or near the 6% federal ceiling than those for other providers. In FY 2012, for example, 41 states and the District of Columbia used nursing home taxes, with 20 states operating at the 6% ceiling.

Policy makers have made various proposals to reduce the provider tax ceiling. For example, House Republicans have proposed reducing the threshold from 6% to 5.5% in 2013, cutting \$11.3 billion in payments to all providers over 10 years, while the Administration has proposed reducing the threshold from 6% to 3.5% over three years, cutting \$21.8 billion in payments to all providers over 10 years. The lion's share of such cuts, however, likely will be borne by SNFs.

IMPACT: STATES LOSE VITAL FUNDING

Cuts billions in state Medicaid funding. Merely reducing the threshold to 5.5% would affect the 20 states operating at the 6% ceiling for SNFs. The predicted loss of funding ranges from \$39 million in Vermont to \$1.1 billion in Ohio.ⁱ More aggressive proposals, of course, would result in even greater payment cuts for larger numbers of states.

Further reduces already insufficient Medicaid funding.

Recent studies project that state Medicaid programs

already pay nearly \$20 per patient per day less than the actual cost of providing care.ⁱⁱ The gap between payment and reasonable costs has increased steadily since 1997 – when Congress eliminated any federal requirement that state Medicaid programs pay reasonable rates for care. Provider taxes have been the only vehicle available to states to avoid dramatic and potentially devastating cuts to already inadequate Medicaid payments to SNFs.

Intensifies financial strain from Medicare cuts. In addition to \$65 billion in Medicare payment reductions (between FY 2012 and FY 2021) as a result of cuts already made, SNFs face the possibility of billions more in Medicare cuts over the next decade due to deficit reduction proposals.

Jeopardizes quality of patient care. Lower Medicaid reimbursement rates are correlated with lower total staffing levels, less qualified staffing, and fewer nursing staff hours per patient.ⁱⁱⁱ Nursing homes with lower staffing levels have been shown to provide poorer quality of care on a number of indicators when compared to facilities with higher staffing levels.^{iv}

Threatens Jobs. Since 70% of SNF costs are labor-related, a reduction in Medicaid payments could lead to layoffs.

ALLIANCE POSITION

Neither proposal to reduce the Medicaid provider tax threshold should be implemented. Policy makers should avoid reductions in the provider tax threshold until such time they develop and implement alternative mechanisms to assure that states provide sufficient Medicaid payments to SNFs.

IN CONTEXT: \$65 BILLION 10-YEAR REDUCTION IN SNF MEDICARE PAYMENTS (FY 2012-FY 2021)

Productivity Adjustment (ACA-mandated): \$34 Billion; Forecast Error (Case-Mix) Adjustment: \$16 Billion; Forecast Error (Market Basket) Adjustment in FY 2011 Rule: \$3 Billion; Bad Debt (Middle Class Tax Relief & Job Creation Act of 2012): \$3 Billion; Sequestration (1/1/13): \$9 Billion (Source: Avalere Health)



i. American Health Care Association. Provider Assessments. http://www.ahcancal.org/facility_operations/medicaid/Pages/Provider-Taxes.aspx

ii. Eljay, LLC. A Report on Shortfalls in Medicaid Funding for Nursing Home Care. American Health Care Association. 2011.

iii. Harrington C, et al. Nurse Staffing Levels and Medicaid Reimbursement Rates in Nursing Facilities. *Health Serv Res* (42:3). June 2007.

iv. Schnelle JF, et al. Relationship of Nursing Home Staffing to Quality of Care. *Health Serv Res* (39:2). April 2004.