



Provider Rate Adjustments

January 2023

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Approach to Rate Adjustment

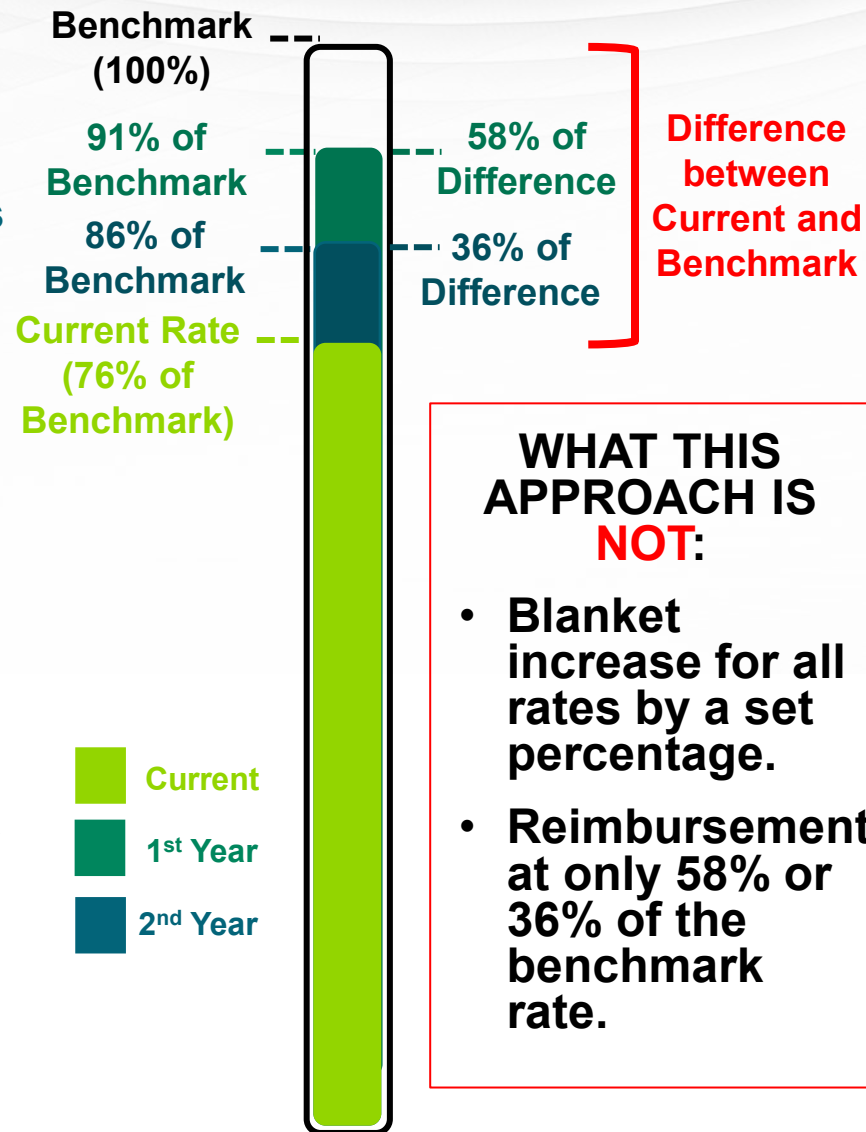
1. Provider Rate Study recommendations established a **benchmark rate** for every service reviewed.
2. The Department is proposing to implement rate increases for the reviewed services **in alignment with these benchmark recommendations**.
3. Given the scale of increases needed to finance the rate benchmarks, the governor's budget proposes a **temporary stabilizing increase in the first year of the biennium** that would **raise rates to roughly 91% of their benchmarks on average**.
4. Permanent rate increases in the second year of the biennium would **raise rates from their current reimbursement of 76% of benchmark to 86%**.
5. The budget proposes a *differential* reimbursement mechanism that applies greater or lesser increases, depending on how different current services rates are from their benchmark. **Rates lagging far behind their benchmarks would receive appropriately higher reimbursement increases than rates already near benchmark**.
6. The Department recommends reimbursing **58% of the difference between current and benchmark rates in the first year of the biennium, and 36% of the difference in the second year**.

How Did DPHHS Identify the Services Included in the Provider Rate Study?

- The **COVID-19 public health emergency had significant operating impact** for services offered in 1915(c) home and community-based waivers and specialty children / adult behavioral health services.
 - High-level impacts included suspending congregate sites, spending more for supplies and equipment, changes in labor costs due to inflation and inflation in other costs due to economic pressures.
- **American Rescue Plan Section 9817 enhanced federal matching** provided funding to contract for a comprehensive, independent study using a cost and wage survey approach. CMS guidance did specify the types of services and programs that could be addressed with enhanced federal matching.
- DPHHS was aware that most reimbursement rates in waiver programs and specialty behavioral health services had **outdated or under-developed rate methods**, which placed Montana at a disadvantage in meeting evolving federal rate-setting standards.
 - These standards have changed significantly in recent years to bolster program integrity and reimbursement transparency.
- **Stakeholders and providers reported that services studied were under-reimbursed**, leading to ongoing access barriers throughout the state.
- DPHHS also initiated an additional study in 2022 to respond to known disruptions in the nursing home industry due to **pandemic-related impacts that were influencing facility closures** throughout the state – to identify how reimbursement could be adjusted to stabilize the provider network.

Recap of DPHHS Approach to Rate Adjustment

- DPHHS' approach allows increases to be **responsive to the specific needs and requirements of specific services**.
- The Rate Study **found significant disparities in reimbursement adequacy** among reviewed programs and a lack of standardization in reimbursement for comparable services.
- Some rates are currently better reimbursed than others. Thus, **rates should not all be treated the same**. Differences found were arbitrary and not driven by data or provider operating needs.
- To reduce these disparities, DPHHS proposes to increase rates by a percentage of the **difference between current and benchmark rates**.
- This approach promotes **parity in rate increases while targeting services by need and historic under-payment**.



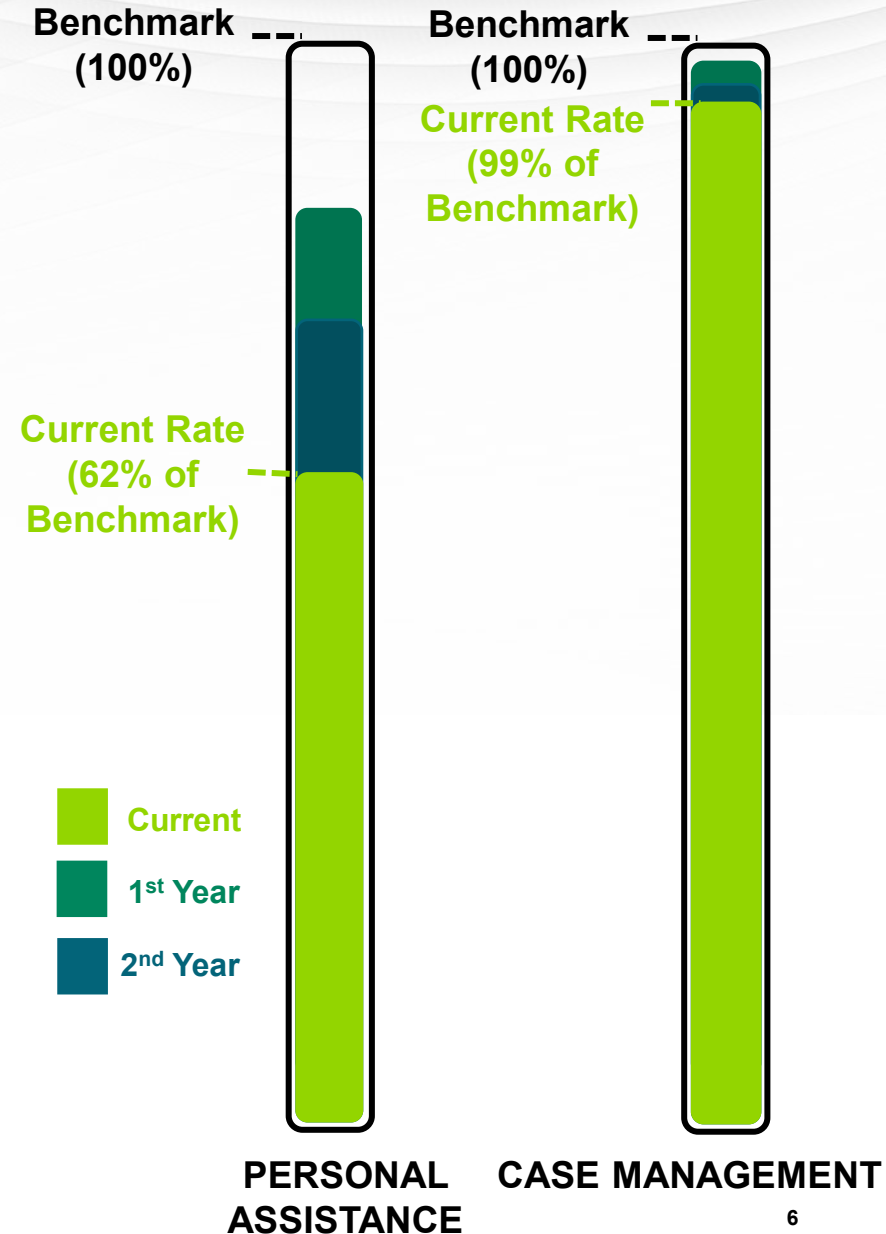
TYPICAL RATE

January 13, 2023

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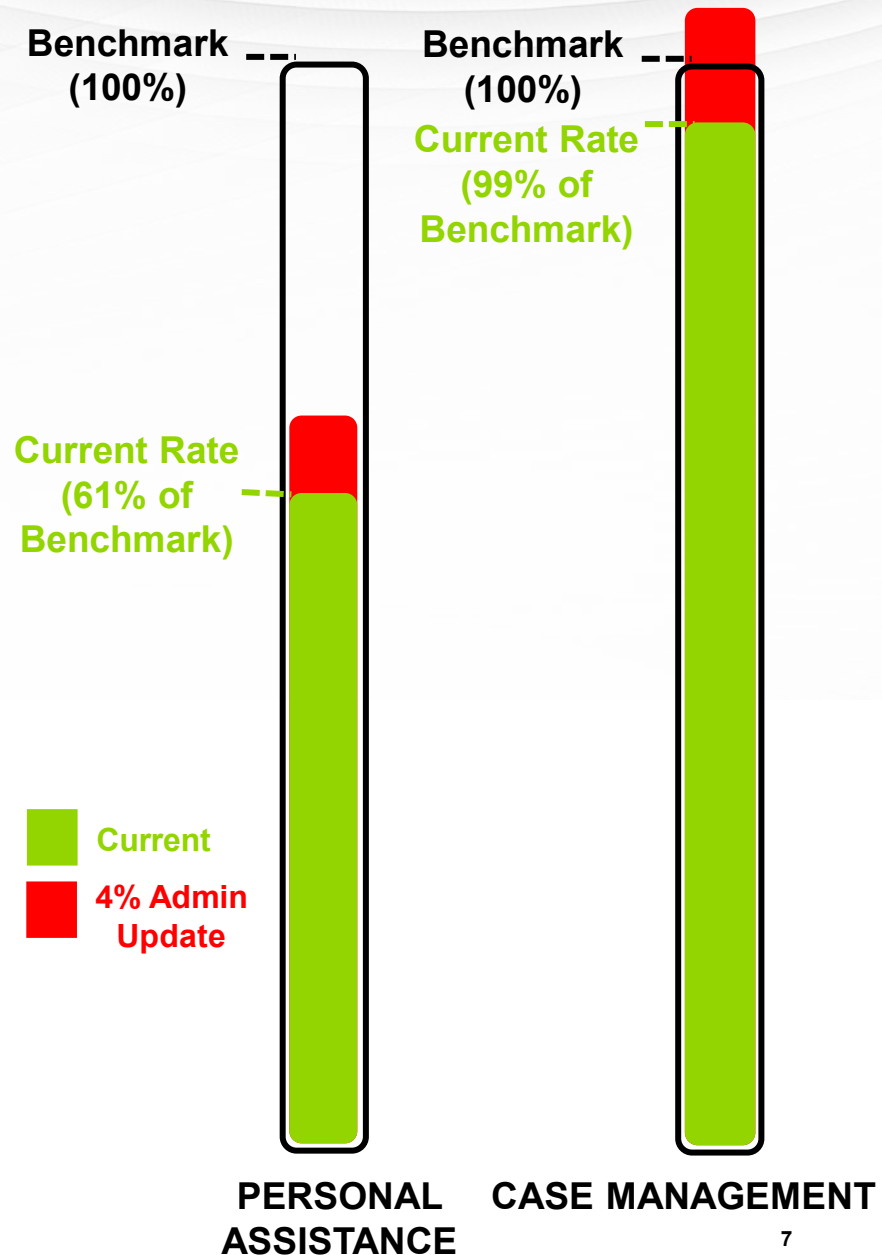
DPHHS' Approach to Rate Adjustment – Rate Disparities

- Consider two current Big Sky Waiver rates: for Personal Assistance services and Case Management.
- The current Personal Assistance rate is \$5.51 per 15 minutes. Benchmarked at \$8.92, the current rate is **only 62% of the benchmark.**
- The current Case Management rate is \$11.35 per 15 minutes. Benchmarked at \$11.45, the current rate is **already 99% of the benchmark.**
- The targeted reimbursement approach allows the Department to increase both rates equitably, while also prioritizing limited resources for the service with comparatively greater need.



Scenario: What Would Happen if Blanket Rates Increases were Implemented?

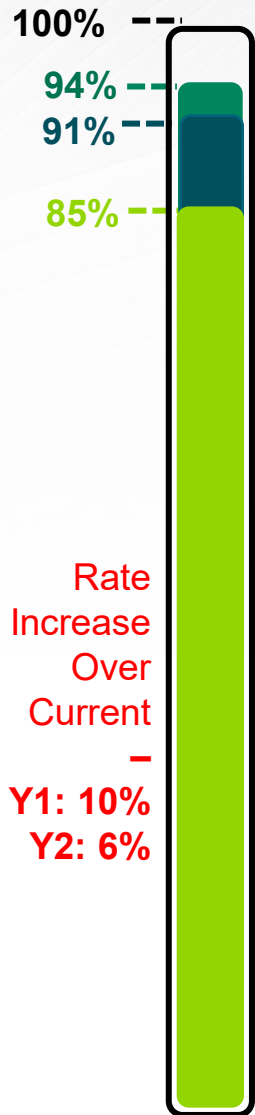
- Rate disparities are often arbitrary and the result of blanket administrative increases for different programs at different times. **The proposed reimbursement approach is designed in part to mitigate such disparities.**
- For the reviewed services, if DPHHS applied a blanket administrative percentage increase of 4%, many services would remain significantly underfunded, while others would receive dollars well above their rate adequacy benchmarks.
- DPHHS anticipates that CMS would be concerned about over-funding Medicaid services and/or incentivizing providers to serve one population vs. another with a similar service, because reimbursement is more appealing in specific programs.



Rate Adequacy Considerations

- Benchmarks **are not necessarily the minimum needed to stabilize providers.** The benchmarks established in the Provider Rate Study benchmarks reflect typical provider costs, not a floor or lower threshold of rate adequacy.
- As the Provider Rate Study itself notes, the prescribed benchmarks are largely made up of cost averages, spanning diverse groups of providers that may operate above or below, less or more efficiently, than the benchmark. **It is feasible to implement rates below benchmark levels and still maintain a reasonably sustainable reimbursement for providers that supports the business of delivering care according to program requirements.**
- There are limited regulatory levers in place that require providers to offer specific wages and competitive benefits, vs. assumptions applied in rate recommendations. The study **erred to the side of supporting providers to observe competitive industry best practices** particularly for employee compensation and benefits.
- DPHHS has elected to study rates comprehensively across major community and facility providers at one time, to look across the long-term care continuum. The Department's approach **represents an initiative not only to increase reimbursement, but also to balance competing priorities thoughtfully and systematically across multiple systems facing financial stress.**

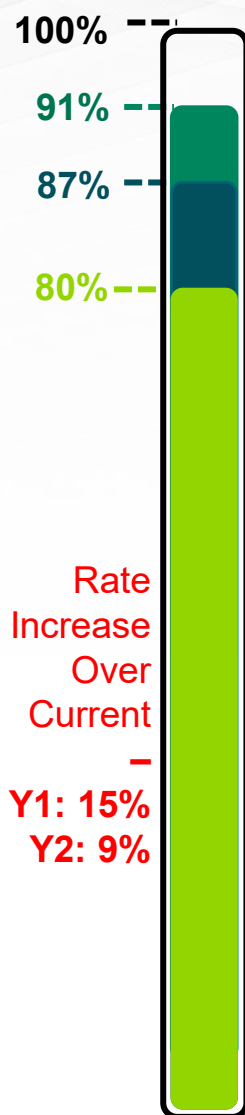
Proposed Reimbursement Increases



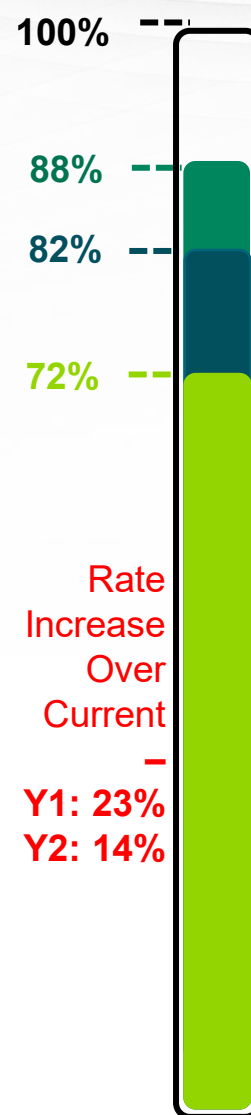
Rate Increase Over Current
—
Y1: 10%
Y2: 6%



Rate Increase Over Current
—
Y1: 8%
Y2: 5%



Rate Increase Over Current
—
Y1: 15%
Y2: 9%



Rate Increase Over Current
—
Y1: 23%
Y2: 14%



Rate Increase Over Current
—
Y1: 20%
Y2: 12%

Proposed Reimbursement Increases

- The governor's budget represents a large commitment of new dollars for services for Montana's most vulnerable populations, especially compared to historic increases. The proposed **rate adjustments collectively amount to 16% higher spend in the first year, and a permanent rate increase of 10% overall.**
- We have reviewed the outcomes among peer states engaged in similar reimbursement initiatives. Many are following a similar path to implementation.
 - For example, **South Dakota's annual executive budget proposes reimbursing comparable programs at 90% of the benchmarks for these services**, which would result in an 18% annual increase in reimbursement, raising rates between 6-26% depending on program.
- As detailed in the Provider Rate Study, rate comparison shows that increasing rates to the benchmark would raise rates well beyond the current rates of other peer Medicaid programs. **Even below the benchmark, rate increases included in the budget proposal would still position Montana as a leader in comparative Medicaid reimbursement for these services**, particularly within the mountain region.
- By using the benchmarks as a "north star" for setting percentage increases, the Provider Rate Study offers a long-term DPHHS rate setting methodology. **Factors in the methodology can be continuously measured, adjusted, and trended forward** at DPHHS' discretion.

Appendix: Inflation Factors

Trend Development: Community Provider Rate Study

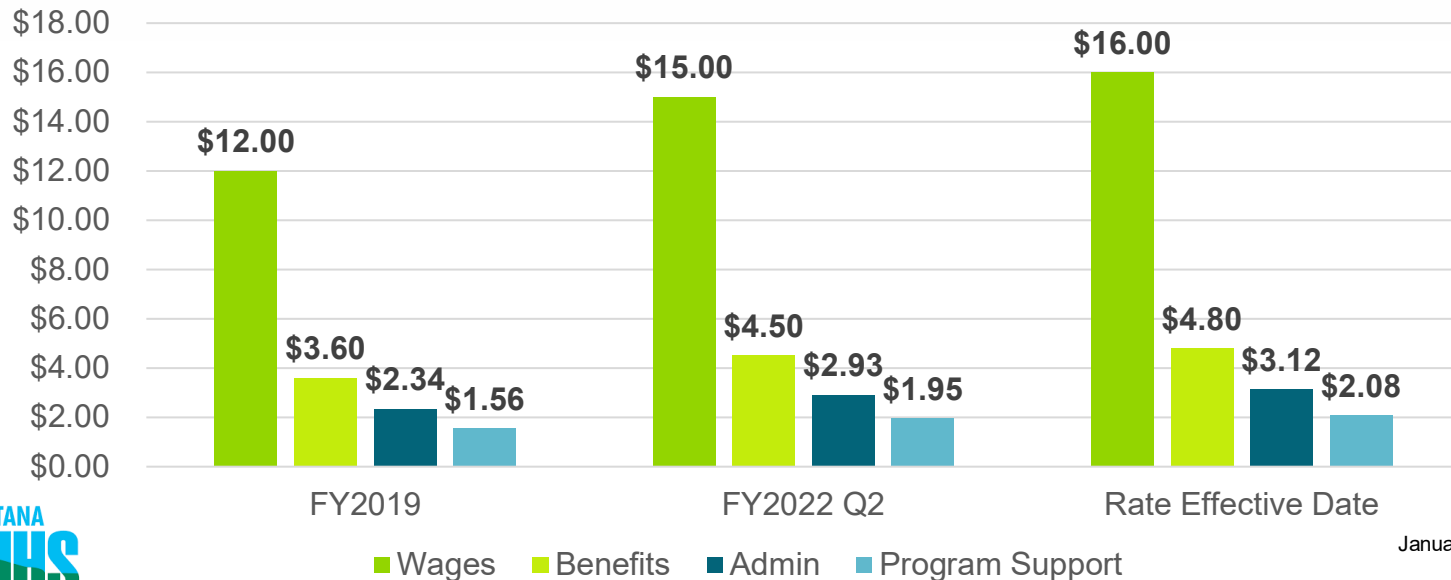
Guidehouse's used provider-reported inflation data to develop a trend factor for rate setting.

- For the independent cost build-up approach used for home- and community-based rate setting, most of the cost components included to estimate providers' overall costs are captured as a percentage of direct care compensation costs.
- Because indirect costs are represented as a percentage of the cost of direct care staff wages and benefits, these estimated costs will increase proportionately as direct care compensation is adjusted for inflation.
- Inflation effects overall are accounted for by applying inflationary adjustments to wage assumptions, since other cost components are built as a factor of these wages.
- The Rate Study of Montana's community providers developed an inflation factor based on providers' reported experience of wage growth in CY 2021, as reported in a cost survey completed in March 2022.
- This data showed an average annual wage growth of **5%**, which was applied to the wage data reported in the survey to estimate provider wages for FY 2023.

Independent Cost Build-Up Approaches and Cost Data from Different Time Periods

- In the following **hypothetical** example, a survey reveals a **25%** increase in wage costs between FY2019 and the 2nd quarter of FY2022.
- Inflation indexes suggest that wage costs may grow another **7%** next year.
- The cost survey shows that benefit costs fall at **30%** of wage costs on average.
- Survey analysis also finds that administrative costs were around **15%**, and program support another **10%** of total direct care compensation in FY2019.
- **Rate models would indicate a 33% increase across all costs.**

Ratios of Direct to Indirect Costs



Trend Development: Nursing Facilities

Guidehouse developed a trend factor to inflate the base rate to the mid-point of the rate year, using actuarially sound principles.

- Guidehouse inflated the data from the 2021 cost reports to January 1, 2024 the mid-point of the rate year, based on each facilities specific year end.
- The trend took into account recent labor cost inflation activity along with other drivers of cost.
- The trend is based on a series of inputs including historical information, Bureau Of Labor Statistics (BLS) data and the stakeholder survey data to inform the likely direction of costs over the 30-month inflation period.
- Study reviewed direct, indirect, and capital actual trends from CY 2021 to June 30, 2022. The combined actual and projected trends were applied for 30 months (2.5 years) of total trend.
- The total 30-month Trend is **14.8%**.