

Sequestration

On March 1, 2013, after the failure by Congress to act on the 2013 budget, President Obama issued a sequestration order of \$85 Billion for the remainder of this fiscal year. Although Medicaid is currently exempt from the cuts associated with sequestration, long-term care providers could face Medicare funding cuts of approximately 2% per year over the next 8-10 years. The \$85 Billion sequestration order issued by President Obama included cuts in the amount of \$10 Billion for the Medicare program for 2013. This will likely translate to a total loss of more than \$700 Million of reimbursement to Skilled Nursing Facilities (SNFs). Sequestration could result in excess of an \$8 Billion reduction to SNFs reimbursement over the next ten years.

However, if Congress reaches an agreement on the budget to end Sequestration, there are four likely cuts currently being discussed to reduce federal spending on SNFs. The first is by additional cuts to “bad debt” payments. Since many Medicare beneficiaries are unable to pay their part of the cost-sharing, Congress provides additional funding to compensate SNFs for this loss. However, Congress could reduce such “bad debt” funding by 25%, which would reduce reimbursement by an estimated \$11 Billion over the next ten years. A second method of reduction includes assessing readmission penalties on SNFs. SNF readmission penalties are special penalties assessed on SNFs with excessive readmission rates to hospitals or SNFs. These penalties would be assessed by reducing the reimbursement to SNFs with high readmission rates by 3%. This reduction could reduce payments to SNFs by \$2 Billion dollars over the next ten years. Thirdly, Congress may reduce Federal spending through rebasing. Rebasing is the reduction in payments to SNFs through decreasing their profit margin by an average of 4% each year. This translates into a \$23 billion dollar reduction over the next ten years. Finally, there may be massive cuts to Medicaid spending. These cuts would be implemented by capping the Medicaid Tax reimbursement rate at 3.5-5.5% instead of the current 6%. This translates to a reduction in funding of \$11-\$22 billion dollars over the next ten years.

While any reduction in reimbursement may not be a favorable outcome for SNFs, the reduction of only \$8 billion dollars through sequestration over the next 10 Years may be more favorable than some of the alternatives currently being discussed by Congress. As seen above, some of these cuts could result in \$10-\$22 billion dollars in lost reimbursement for SNFs. It is important for SNFs to understand the changes that are occurring and the long-term impact on their revenue stream so that they can take preemptive measures to ensure a profitable business for years to come.

If you have any questions pertaining to SNFs or Medicare reimbursement, please contact any Abrams Fensterman health care attorney at (516) 328-2300.