

HAS THE MEDICAID WAIVER REDUCED NURSING HOME UTILIZATION?

PART I: THE MICHIGAN EXPERIENCE

by Mary M. Ablan, M.A., M.S.W.

Summary

The Medicaid Waiver for the Elderly & Disabled is a program designed to serve frail older adults and people with disabilities who would otherwise be at risk of nursing home placement. In Michigan, the Waiver started as a pilot program in 1992, and expanded statewide in 1998. Has the Waiver had an impact on nursing home utilization? Statewide data suggest that the answer is “Yes.” Nursing home occupancy rates have declined since the Waiver expanded statewide, and the number of nursing home days paid by Medicaid dropped 17% between 1991 and 2001. Declines have occurred despite an unprecedented growth in the older population, especially those in the oldest age categories—the group most likely to need Medicaid long term care. Demographics and other factors would suggest that nursing home occupancy rates and Medicaid bed days should have increased during the past decade—instead they have gone down. We believe that the creation and expansion of the Medicaid Waiver is a critical factor in these trends.

Background

The Home and Community-Based Waiver for the Elderly and Disabled is a nationwide program initiated by the Centers for Medicare and Medicaid Services (formerly HCFA) in the early 1980s. Michigan was one of the last states in the nation to initiate this program with pilot projects in 1992 that served 500 clients in 11 counties. The program expanded gradually but slowly until 1997; that year almost 4,000 clients were served in 25 counties. In 1998, the state decided to make the Waiver a statewide program in all 83 counties with a large infusion of new funds and slots. The program grew dramatically from 4,000 clients to 15,000 clients between 1998 and 2001.

The Waiver was designed as an alternative to nursing home care under the Medicaid program, with people enrolling in the program requiring a “nursing home level-of-care.” Michigan contracted with Dr. Brant Fries at the University of Michigan to develop an assessment instrument to screen applicants to determine care needs and appropriateness for the Waiver program. All Waiver agents use this assessment instrument.

The state launched the Waiver program because of concerns about overreliance on nursing home care, the dramatic growth in Medicaid nursing home expenditures, and the impact on the Medicaid budget and the state budget overall. The Senate Fiscal Agency documented the growth in nursing home expenditures in a June 2000 issue paper entitled “Medicaid Funding For Nursing Home Services: A Historical Perspective.”

With three years of statewide Waiver experience in Michigan it is reasonable to ask: since the purpose of the Waiver is to keep people out of nursing homes, is there any statewide data that indicates whether nursing home utilization has been affected?

Growth in older population

Before looking at data documenting the usage of nursing homes in our state, it is important to look at current demographic trends and consider the expected impact of these trends on the use of Medicaid-funded long term care. It is common knowledge that nationwide, and in Michigan, we are experiencing an unprecedented growth in the older population that has been termed an “age wave” or a “senior boom.” In fact, the older population is the fastest growing age group in the state. According to U.S. Census data, Michigan has seen a 25% increase in the number of people 75-84 from 1990 to 2000, and a 33% increase in the number of people 85+ from 1990 to 2000. Significant growth in these age groups is expected to continue. Table I depicts population statistics published by the U.S. Census Bureau.

Table I
GROWTH IN MICHIGAN POPULATION: 1990 TO 2000

| AGE GROUP | 1990 | 2000 | CHANGE |
|-----------|-----------|-----------|--------|
| 0 – 17 | 2,458,765 | 2,595,767 | 5.5% |
| 18 – 24 | 1,004,527 | 932,137 | - 7.2% |
| 25 –54 | 3,928,821 | 4,328,483 | 10% |
| 55 – 74 | 1,450,561 | 1,505,919 | 4% |
| 75 – 84 | 345,716 | 433,678 | 25% |
| 85 + | 106,907 | 142,460 | 33% |
| 75 + | 452,623 | 576,138 | 27% |

Note that there are almost 125,000 more Michigianians 75+ in 2000, compared with 1990. Those 75+ are most likely to need long term care, and rates of institutionalization increase with advancing age. Another unique characteristic of these “oldest-old” is that they tend to cluster in the lower income categories and a higher percentage of this group is below poverty, compared with the population 65+. This is understandable since most people 75+ retired ten or more years ago and have been living with a fixed income since that time with inflation eroding their spending power.

Given this trend—the growth in the oldest-old population most likely to need long term care and have lower incomes, one would expect more demands for publicly funded long term care services in Michigan, including Medicaid-funded nursing home care.

Nursing home occupancy

Despite the growth in the oldest age groups, the number of nursing home beds in Michigan has remained fairly constant over the past 10 years because the state has placed a moratorium on the approval of new nursing home beds through the Certificate of Need process. If the Medicaid Waiver was keeping people out of nursing homes, one would expect occupancy rates to either remain flat or drop. Data in Table II show that occupancy rates have dropped.

Table II
NURSING HOME OCCUPANCY RATES IN MICHIGAN

| YEAR | QUARTER | OCCUPANCY |
|------|-----------------|-----------|
| 1996 | 1 st | 88.43% |
| 1996 | 2 nd | 89.00% |
| 1996 | 3 rd | 89.56% |
| 1996 | 4 th | 90.05% |
| 1997 | 1 st | 89.24% |
| 1997 | 2 nd | 89.11% |
| 1997 | 3 rd | 89.50% |
| 1997 | 4 th | 89.40% |
| 1998 | 1 st | 89.06% |
| 1998 | 2 nd | 88.56% |
| 1998 | 3 rd | 88.97% |
| 1998 | 4 th | 88.84% |
| 1999 | 1 st | 87.91% |
| 1999 | 2 nd | 86.89% |
| 1999 | 3 rd | 86.91% |
| 1999 | 4 th | 87.53% |
| 2000 | 1 st | 86.25% |
| 2000 | 2 nd | 86.06% |
| 2000 | 3 rd | 86.33% |
| 2000 | 4 th | 86.53% |
| 2001 | 1 st | 87.55% |
| 2001 | 2 nd | 87.42% |
| 2001 | 3 rd | 87.57% |

Source: Michigan Department of Consumer & Industry Services

Note that occupancy rates were consistently around 89% in 1996 and 1997, the year before the Waiver expanded statewide, but after statewide expansion, occupancy rates dropped to the 86-87% level.

Medicaid bed days

But perhaps the drop in occupancy rates is due to a drop in private pay bed days rather than Medicaid bed days? Assisted living facilities have grown in recent years, and they provide another long term care option for upper middle income people with low care needs.

If the drop was exclusively in the private pay arena, data would indicate no drop in Medicaid bed days. In fact, given the dramatic growth in the 75+ population, one would expect increases in the number of bed days paid by Medicaid.

Data in Table III indicate that Medicaid bed days have declined.

Table III
MEDICAID NURSING HOME DATA IN MICHIGAN

| FY | CLIENTS | SPENDING | BED DAYS | COST/DAY | LENGTH OF STAY |
|------|---------|---------------|------------|----------|----------------|
| 1989 | 43,872 | \$407,764,100 | 11,465,725 | \$35.56 | 261 |
| 1990 | 43,228 | \$454,189,000 | 11,706,847 | \$38.80 | 271 |
| 1991 | 44,136 | \$555,201,300 | 12,203,265 | \$45.50 | 276 |
| 1992 | 43,875 | \$609,727,500 | 12,016,152 | \$50.74 | 274 |
| 1993 | 43,575 | \$641,548,929 | 11,910,154 | \$53.87 | 273 |
| 1994 | 43,595 | \$674,114,546 | 11,672,678 | \$55.44 | 268 |
| 1995 | 43,224 | \$721,179,019 | 11,186,696 | \$64.47 | 259 |
| 1996 | 44,729 | \$788,553,717 | 11,061,017 | \$71.29 | 249 |
| 1997 | 45,244 | \$865,707,048 | 11,401,256 | \$75.93 | 252 |
| 1998 | 44,678 | \$898,994,947 | 10,964,698 | \$82.13 | 245 |
| 1999 | 43,814 | \$902,900,000 | 10,611,987 | \$85.08 | 242 |
| 2000 | 40,612 | \$946,900,000 | 10,200,000 | \$92.83 | 251 |

Primary source: Medicaid HCFA 2082 Reports. Spending excludes private pay, insurance, Medicare and Patient Pay amounts.

Note that in the year 2000, there were 2 million fewer nursing home bed days being paid for by Medicaid compared with 1991. The Waiver, in concert with other Medicaid home and community-based programs, appears to have triggered a 17% drop in Medicaid bed days during that period.

Between 1991 and 1996, several factors were likely in play: the creation of the Medicaid Waiver program, the expansion of the Home Help program, and the expansion of other specialized Medicaid Waiver programs for the disabled. Upward pressures took hold again in 1997, driving up bed days. However, the statewide expansion of the Waiver in 1998 squelched the increase and once again returned Medicaid bed days to a downward trend.

HAS THE MEDICAID WAIVER REDUCED NURSING HOME UTILIZATION? PART II: THE EXPERIENCE IN OTHER STATES

By Mary Ablan, M.A., M.S.W.

Summary

Some states implemented home and community-based care (HCBC) programs in the early 1980s and have 20 years of experience in assessing their impact on nursing home utilization. Research performed on these states by The Lewin Group (for the AARP Public Policy Institute) and the U.S. General Accounting Office (GAO—the research arm of Congress) documents the significant impact of HCBC in reducing nursing home utilization. The Lewin Group estimates that savings of 11-17% of the total long term care budget was achieved in one year as the result of HCBC. The GAO notes that while the number of nursing home beds increased by 20% nationwide in a ten-year period, the number of beds in the states with large HCBC programs actually declined. Wisconsin officials estimate that while it has 29,000 Medicaid residents in nursing homes, without HCBC it would have 58,000.

Background

The Home and Community-Based Medicaid Waiver for the Elderly and Disabled is a nationwide program initiated by the Centers for Medicare and Medicaid Services (formerly HCFA) in 1981. While Michigan was one of the last states to implement this optional Medicaid program in 1992, other states started an elderly & disabled waiver program in the early 1980s. Given the experience of two decades in these other states, has the Medicaid Waiver had a significant impact in reducing their nursing home utilization?

A review of recently published research, along with data collected by these states, suggests that the answer to this question is “Yes.”

This answer may be surprising to some familiar with studies produced during the 1980s that suggest that home care is not cost-effective. A May 8, 2000 report entitled “State Cost Containment Initiatives for Long-Term Care Services for Older People,” authored by Joshua Wiener, and produced for the Congressional Research Service/Library of Congress, summarizes the research.

“In almost every state, home and community-based services are “sold” primarily on their ability to achieve cost savings, although meeting the needs of people in the community and providing consumers with the services they want is also important. While states hope to save money by substituting lower cost home and community-based services for more expensive nursing home care, most research suggests that expanding home care is more likely to increase rather than decrease total long-term care costs. The primary reason for this result is what many call the “woodwork effect.” While many older persons would forgo paid long-term care services if given only the option of nursing home care, many of these same individuals would use home care services if

given the choice. Thus, the costs associated with large increases in home care use could more than offset the relatively small reductions in nursing home use. Budget neutrality or cost savings will be especially difficult to obtain if the cost per person of serving people in the community is high. **Despite this traditional view among researchers, some recent research is more encouraging about the potential cost-effectiveness of home and community-based care. For instance, a 1996 study of Washington, Oregon, and Colorado by Alecxi et.al. concluded that home and community-based services were cost-effective alternatives to institutional care in these states. A 1994 study by the U.S. General Accounting Office came to similar conclusions about home and community-based services in Washington, Oregon, and Wisconsin.**” (emphasis added)

The four states cited above (Washington, Oregon, Colorado and Wisconsin) have invested considerable state resources in HCBC through Medicaid waiver programs, along with 100% state-funded HCBC programs, since the early 1980s.

AARP Study

The 1996 study produced by The Lewin Group for the AARP Public Policy Institute is entitled, “Estimated Cost Savings From the Use of Home and Community-Based Alternatives to Nursing Facility Care in Three States.” AARP launched this in-depth study of three states because despite the pessimistic conclusions of earlier research regarding cost-effectiveness, several states continued to look toward home and community-based care as a potential cost-containment strategy and were insisting that their HCBC programs had, in fact, saved public money. Was it possible that the greater availability of home care options, along with states’ growing experience and sophistication in designing and managing home and community-based programs had changed the story on cost-effectiveness?

To answer this question, The Lewin Group projected what long term care costs would have been in each state in the absence of a Waiver program, given demographic and other national trends. Then they compared these projections with actual spending over the period that each state operated an elderly & disabled waiver program.

The study found that actual spending on long term care in each of the three states was significantly less than would have been expected. The cost-savings for each state was calculated, taking into account the possibility that factors other than expanded HCBC could have caused the reduced reliance on nursing facilities, and adjusting projections accordingly to reflect national trends. Even after adjusting for national trends, all three states had significant cost savings. For the year 1994 alone, estimated savings for Colorado was almost \$43 million (14% of total LTC budget); Oregon, \$49 million (17% of total LTC budget); and Washington nearly \$75 million (11% of total LTC budget). The cumulative savings from the beginning of their Waiver programs were \$132 million for Washington (3% of total LTC budget); \$278 million for Oregon (13% of total LTC budget); and \$108 million for Colorado (5% of total LTC budget). The report concludes, “Even in the study’s most stringent analyses—which adjusted for national trends, greater impairment in nursing facility residents, and other government costs—home and community-based care resulted in savings.”

The study also looked at a number of relevant indicators, comparing the experience of the three states to data from all other states. For example, the percentage increase in average monthly nursing home recipients funded by Medicaid in all three states was much lower than in the rest of the nation. Washington's Medicaid-funded nursing home population increased by 10.9% from 1984 to 1994, compared to an increase of 18% in the rest of the nation. Oregon's Medicaid-funded nursing home population actually decreased by 8.6% between 1981 and 1994, compared to an increase of 19% in the rest of the nation. And Colorado's Medicaid-funded nursing home population increased by 9% from 1983 to 1994, compared to an increase of 22% in the rest of the nation.

Another indicator cited in the study is the ratio of people in nursing homes relative to the population age 75 and older. In all three states, the number of people in nursing homes relative to this age group decreased faster than the average for the rest of the nation. In Washington, the ratio dropped by 21% between 1984 and 1994 (compared to a 9% drop in other states). In Oregon, the ratio dropped by 41% between 1981 and 1994, compared to a drop of 15% in the rest of the nation. And in Colorado, the ratio dropped by 24% between 1983 and 1994, compared to a 9% drop in the rest of the nation.

It is important to note that despite the reduction in nursing home utilization, and the consequent cost savings, all three states experienced significant growth in Medicaid spending for nursing home care from 1980 to 1994 (as did the nation as a whole). The increases in Washington, Oregon and Colorado were less than in other states, however. When the growth of the population 75+ is taken into account, Medicaid nursing home spending increased by 140% in the rest of the nation, while it increased by 121% in Washington, 69% in Oregon, and 92% in Colorado. Although the purpose of this study was not to analyze the cause of this growth, Washington state officials reported that pressure from the state's nursing home industry to increase rates was the major factor driving up costs, rather than increased impairment levels in nursing home residents.

GAO Study

The 1994 study by the U.S. General Accounting Office is entitled "Medicaid Long-Term Care: Successful State Efforts to Expand Home Services While Limiting Costs," and was prompted by a request from Congressman John Dingell to review states' experience in expanding HCBC for the purpose of restraining Medicaid LTC expenditures. The GAO selected three states making substantial efforts to expand HCBC—Washington, Oregon, and Wisconsin.

The GAO documents the concerted efforts of each of the three states to reduce the number of people being served in nursing homes, and increase the number of people being served in HCBC. The GAO concludes that "Home and community-based services have helped control growth in overall long-term care expenditures by providing an important alternative to nursing facility care, thus helping states exercise greater control over nursing facility capacity and use. While the total number of nursing facility beds operated in the United States increased by 20.5 percent between 1982 and 1992, the combined number of beds in Oregon, Washington, and Wisconsin declined 1.3 percent. These three states have accommodated all or most of the growth in their total long-term care programs in home and community-based care."

According to the GAO, Washington has a formal policy to deliver long-term care through home and community-based settings whenever possible. The state established—and met—a specific goal of reducing the ratio of nursing facility beds per 1,000 older persons (65+). From 1982 to 1992, the ratio of nursing home beds per 1,000 older persons dropped from 59 to 49.

Oregon operates under a policy that considers nursing homes to be the placements of last resort. The state has also placed great emphasis on developing alternative living arrangements, such as assisted living facilities and adult foster homes. (Oregon's Medicaid program pays for care in these alternate settings.) These strategies have resulted in a drop in the ratio of nursing home beds per 1,000 older persons from 47 in 1982, to 36 in 1992, one of the lowest ratios in the country.

Wisconsin has a history of high nursing home utilization, according to the report, which has been moderated by its expansion of HCBC. Wisconsin's ratio of nursing home beds per 1,000 older persons declined from 89 in 1982 to 75 in 1992.

More Recent Data

Since the GAO and AARP studies were published, Washington, Oregon, Colorado and Wisconsin have continued to invest in HCBC and seen results in reducing their usage of institutional care.

According to data published by the AARP Public Policy Institute, Washington's ratio of nursing home beds per 1,000 older persons dropped from 49 in 1992 to 40 in 1999. Oregon's ratio of nursing home beds per 1000 older persons dropped from 36 in 1992 to 32 in 1999. Wisconsin's ratio of nursing home beds per 1000 older persons dropped from 75 in 1992 to 68 in 1999. Colorado's ratio of nursing home beds per 1000 older persons dropped from 58 in 1992 to 50 in 1999. (The absolute number of nursing home beds has also dropped in Washington, Oregon and Wisconsin, as has nursing home occupancy rates.)

In a 1998 report to the Wisconsin Legislature, the Wisconsin Bureau of Aging & Long Term Care Resources says "The COP* and the Medicaid home and community-based waivers have made possible a lower Medicaid utilization of nursing home beds in Wisconsin... Since the beginning of COP and the development of alternatives to nursing home care, days of care paid for by Medicaid in nursing homes have declined." A chart prepared by the Bureau illustrates the actual number of nursing home residents funded through Medicaid along with a projection of the number of nursing home residents if the state had not implemented HCBC. The difference is dramatic—29,000 residents (actual) versus 58,000 residents without HCBC.

*The Community Options Program is a HCBC program for the elderly and disabled started by Wisconsin in 1981 that is 100% state-funded.