

**Testimony of
Stuart Shapiro, M.D.
President & CEO
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on
“Long-Term Care Funding:
Governor Rendell’s Proposed 2007-08 Budget”
before the
House Appropriations Committee
Subcommittee on Health & Human Services
at the
Penn State Eberly Campus
Uniontown, PA
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Chairman Manderino, Representative Mahoney and members of the Committee: I appreciate the opportunity to appear before you today to discuss the growing challenges that families face with respect to long-term care, as well as the work that the Pennsylvania Health Care Association is doing to keep our most vulnerable residents healthy and safe.

My name is Dr. Stuart Shapiro, President & CEO of PHCA, a statewide advocacy organization for the commonwealth’s elderly and disabled residents. Our sole mission is to ensure that those who need long-term care receive quality services in the most appropriate setting as they age.

Our membership --- comprising for-profit, nonprofit and government providers --- offers services that range from integrated retirement communities and multi-level care campuses to freestanding nursing homes, assisted living/personal care homes, and ancillary care/home-care enterprises. Overall, PHCA represents more than 300 long-term care and senior service providers that care for almost 33,500 elderly and disabled individuals across the state.

I want to commend this committee for its serious examination of long-term care in Pennsylvania and its commitment to look at some of the pressures facing our health delivery system, especially as the baby boomer generation ages and begins to seek services. Before we begin our discussions on the “provider assessment” renewal, Governor Edward G. Rendell’s 2007-08 budget proposal and other issues facing our frail, elderly and disabled residents, I would like to begin by giving you a snapshot of the demographic realities currently confronting our commonwealth.

When it comes to deciding how to fund the vast long-term care costs of an increasingly older population, Pennsylvania has more at stake than other states. Our commonwealth ranks third nationally by percentage of population age 65 or older, behind Florida and West Virginia, and fourth in the number of residents age 85 or older --- a segment of the population that comprises the most intensive users of nursing home care. Nearly 70 percent of Pennsylvanians turning 65 this year eventually will require long-term care.

Right now, 2 million of our 12 million residents are age 65 or older. By 2020, more than 25 percent of our population, or some 3 million Pennsylvanians, will fall into that demographic. That is a 50 percent increase in a little more than a decade. This poses significant funding and quality of care challenges for families, caregivers and state agencies whose charge it is to safeguard the elderly and others.

As our population continues to age, there will be an even greater need to strengthen and invest in our long-term care system. Pennsylvania currently has 730 nursing homes with 89,471 beds, and demand for nursing home services is growing rapidly. Our facilities, on average, are 91 percent occupied, compared to 88 percent nationally, even as nursing homes experience a dramatic shift in the face of patients under their care.

Although the typical nursing home resident tends to be female, 85 or older, and widowed, with some form of dementia, the number of post-acute hospital short-stay patients requiring intensive medical rehabilitation services is increasing. The fact that nursing homes have responded so seamlessly to this shift speaks volumes of our trained professionals. Direct nursing care averages 3.9 hours per day in Pennsylvania, compared to 3.3 hours per day nationally.

Each and every nursing home is committed to quality care. Families rely on us to provide competent, compassionate care for their loved ones. Our facilities are inspected regularly, and the data on those inspections are made publicly available. PHCA is part of the National Initiatives to Improve Quality. We also track for measurable results in ways we can provide services more effectively and efficiently, and we offer workforce development to enhance the skills of our dedicated staff of nurses and aides who care for patients.

We are proud of this recent record of success. And, we are proud of our substantial contributions to Pennsylvania's economy.

In 2005, nursing homes had \$6 billion in gross revenues and employed, directly and indirectly, 130,000 full-time and part-time individuals. The 629 facilities across the state that participate in the Medicaid Assistance program paid \$4 billion in salaries, fringe benefits and contract nursing services, and \$28 million in real estate taxes. In addition, the \$6 billion in direct revenues generated an indirect economic impact of \$14 billion, which supported 106,000 more workers. All told, nursing homes are responsible for 1.4 percent of the state's gross domestic product.

Because Pennsylvania is among the top states with rapidly aging populations, and because we are a recognized leader for the services we provide to our older residents, we also have the responsibility to be a leader in addressing the challenges facing long-term care. And, if recent surveys are any indication, we have our work cut out for us.

According to an AARP study released in December, most Americans mistakenly believe their long-term care needs will be met by government programs or their existing health insurance. That simply isn't so. About 65 percent of nursing home residents are covered by Medicaid, which helps people with low incomes pay for health care. But about one-third of recipients qualified for the program after exhausting personal assets to pay for care and services.

Most Pennsylvanians are unaware of the costs associated with long-term care and overestimate the amount that government programs will pay. Among the 400 Pennsylvania residents surveyed by AARP, only 15 percent reasonably estimated the state's average cost of \$200 per day for nursing home services in Pennsylvania. Only 8 percent could estimate the \$80 average cost of an in-home visit by an aide.

There are few other health-care providers like nursing homes, which are so dependent on state and federal governments for the services they provide. Medicaid and Medicare generate nearly 80 percent of facility revenues. (Medicaid is a joint state/federal program that pays for nearly 65 percent of resident days of care in Pennsylvania's nursing homes. Medicare, a federal program, pays for approximately 13 percent of care.) Private resources and long-term care insurance make up the balance. By contrast, private insurance alone accounts for 42 percent of hospital revenues.

Virtually every nursing home in Pennsylvania, whether for-profit or not-for-profit, loses money caring for Medicaid patients. A 2006 study of the nation's Medicaid program by the national accounting firm BDO Seidman found that, while the average cost of providing quality long-term care in Pennsylvania was \$192 per day, providers were reimbursed just \$179 per day, creating a funding gap of more than \$13 per resident per day.

Nursing home costs have increased 27 percent between 2001 and 2005. During the same period, Medicaid reimbursements increased 18 percent. Providers that treat small percentages of Medical Assistance patients may be able to absorb lower rates of increase. Nursing homes cannot.

This brings me to our first issue: There is a dangerous, growing gap between the cost of quality care and the amount provided by state government. The governor's budget proposes virtually no increase for nursing homes. Although the spending plan lists nursing home funds as increasing by 2 percent, this simply mistakes the facts. Most of the \$33.2 million increase will be needed for increased acuity. Moreover, while the administration also proposes a \$23.4 million jump for increased utilization of nursing facilities, this provision is included in a budget that shows savings from transitioning nursing home residents to home- and community-based services --- a savings that, as I will explain later, may never materialize.

The budget also shows \$30 million in savings through an initiative that would require nursing homes to calculate case mix indexes quarterly rather than monthly. PHCA has two concerns with quarterly assessments. First, the adjustment goes against a commitment that the Department of Public Welfare made last year to strike the plan after PHCA members and others testified against the proposal during public hearings. Second, nursing homes that care for higher acuity Medical Assistance patients will be disproportionately harmed by the new formula. Not only does this harm the delivery of services our facilities provide, but it also conflicts with the administration's stated goal to have only the most acutely ill residents cared for in nursing facilities and lesser acuity individuals serviced at home or in community-based settings. (The higher the acuity, the sicker the patient.)

Clearly, proposed state funding is inadequate to ensure continued high-quality services to our frail, elderly and disabled residents, and it does little to help nursing homes address the sharply rising costs we confront on the front lines of care.

The largest cost for all nursing homes is the wages earned by the dedicated staff of nurses and aides that care for patients as well as the ancillary staff that provide other basic daily needs. This cost category represents approximately 70 percent of all expenditures in nursing homes. Wages increase about 5 percent per year, meaning the Governor's proposed reimbursement falls short of helping us meet this very basic need for quality staff.

Many of our buildings are getting older and need improvements. But the reimbursement for capital projects under the Pennsylvania Medicaid program is not keeping pace with the realities of building and maintaining nursing homes. In fact, the capital reimbursement in Pennsylvania has been among the worse in the nation. The reality is that replacing nursing home beds costs about \$100,000 per bed. Medicaid reimbursement is \$26,000 per bed in Pennsylvania.

A budget increase of even a real 2 percent simply isn't enough to guarantee the high level of care that nursing home residents and their families have come to expect. Consider also that the Bush administration is proposing massive cuts in Medicaid and Medicare, and you can understand that the system is at a breaking point. With so many negative budgetary variables facing our oldest, highest acuity seniors, Pennsylvania should consider dedicated funding to protect our ability to provide quality care to a rapidly aging population.

Another worrisome facet of the governor's budget, which I touched on briefly moments ago, is his plan to increase the number of elderly Pennsylvanians eligible to receive long-term care in their homes. While theoretically every citizen should have the right to receive care in the setting of his or her choice --- and PHCA supports the expanded use of home- and community-based services (HCBS) in a safe and responsible manner --- there is a mistaken notion that state resources can be saved by shifting significant numbers of nursing home residents toward home care. In fact, HCBS is a new and costly entitlement.

Let me draw your attention to the chart I have here. For your convenience, a copy is attached at the end of the testimony we submitted. We also have a copy for your stenographer.

Based on data from DPW, you can see that since the 2002-03 fiscal year, the annual number of nursing home users on Medicaid has remained relatively constant, around 80,000. Over the same period, however, the number of HCBS beneficiaries has more than doubled, from 17,964 users to a projected 36,787 users. Some argue that without expanded HCBS programs, these 20,000 individuals would be in nursing homes. That simply isn't true.

Not only has the number of annual nursing home users on Medicaid stayed steady while HCBS services doubled, but the average daily Medical Assistance census for Pennsylvania also has remained constant. The acuity level of most individuals being added to the HCBS program does not rise to a level of care that those in nursing homes need. What the Medicaid HCBS program really has done is expand long-term care eligibility and coverage for a broader population. Most of these individuals previously would have been cared for by family members, friends or the community. Now, their care is paid for with Medicaid dollars. While we fully support HCBS, the dollars for it should not be taken from those needed to provide quality nursing home services.

The theory that nursing-home utilization will decrease as seniors are moved toward home care has not panned out in other states --- and is even less likely to do so in states like ours with rapidly aging populations. In fact, several states have experienced skyrocketing, unchecked demand for HCBS care, which resulted in unexpectedly higher state costs. It also is essential that the full and real costs of HCBS be carefully tracked to include housing, meals, housekeeping, routine health-care services and therapies, social services, transportation, drugs, respite care, etc. These same costs are included in the nursing home daily rate.

Facility care and home care are not mutually exclusive; they are complementary --- and each must be adequately funded as part of the entire long-term care continuum. You cannot rob Peter (nursing homes) to pay Paul (home-based care), and past commitments to nursing homes should not be sacrificed to create new entitlements.

Let me emphasize that PHCA's sole mission is the delivery of quality health-care services to our frail, elderly and disabled residents, regardless of setting, so they can age in the most appropriate place at each stage of life. We understand the difficult decisions that residents face with respect to long-term care, and we look forward to working with you and the administration to make sure we develop the policies that make those decisions easier for all Pennsylvanians.

In addition to appropriate reimbursements, there are three other issues we believe are keys to improving the long-term care delivery system in Pennsylvania and assuring the providers have the resources to provide quality health care services that I would like to briefly discuss. These include renewing the "provider assessment," expanding the use of long-term care insurance, and enacting assisted living licensure legislation.

First, provider assessment: Created in 2003, this "provider assessment" has generated more than \$1 billion in federal matching funds to support the state's long-term care facilities. In the current fiscal year alone, the state is projected to receive \$408 million in federal funds to help facilities maintain a high quality of care without having to pass on additional costs to residents.

Future funding remains uncertain, however. Without prompt legislative action, the provider assessment will sunset June 30, 2007, costing the state hundreds of millions of dollars in matching federal funds each year. Reauthorization is critical. If this funding is not available, Pennsylvania's frail, elderly and disabled residents would suffer dramatically.

Second, long-term care insurance: PHCA strongly supports legislation that will encourage Pennsylvanians of all ages to purchase comprehensive long-term care insurance, which will relieve some of the pressures on government programs, enable families to plan and pay for their future health-care needs, and close the current cost-payment gaps that challenge facilities.

Long-term care insurance, along with other sources, currently pays for only about 2 percent of residents in Pennsylvania nursing homes and accounts for 2 percent of revenues. By contrast, private insurance accounts for about 40 percent of hospital revenues.

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We believe long-term care insurance policies should include provisions that will cover care in all settings, including nursing homes, assisted living facilities and in the home, whichever is the most appropriate for care at each time point in the aging cycle.

Third, assisted living licensure: In Pennsylvania, there currently is no distinction between “personal care home” and “assisted living residence.” Facilities that advertise themselves as assisted living residences are licensed as personal care homes, and both must adhere to the same licensure qualifications and standards regardless of whether they provide a higher or lower level of care to residents.

We believe the services offered by each provider type and in each location must be clearly defined to minimize confusion and frustration on the part of consumers and their families. Our association is working with the legislature and administration to create separate licensure categories for assisted living residences and personal care homes, with criteria for each defined in statute rather than in regulation.

By passing legislation, Pennsylvania would join approximately forty other states --- or more than three-fourths of the country --- in specifically defining “assisted living.” It is long overdue in Pennsylvania, and I strongly urge the Legislature to pass legislation this session.

Let me close by reminding you that PHCA currently is working with House and Senate members to schedule tours of local facilities to give you a firsthand look at the services we provide, as well as the challenges our members face. I invite each of you to take us up on this offer to see how the homes in your district operate and to meet the men and women running them in your community. We would be more than happy to make these arrangements for you.

Chairman Manderino, Representative Mahoney and members of the Committee: I thank you for your time and attention, and am happy to answer any questions you have at this time. Thank you.

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