Can More Efficient Skilled Nursing Facility Placement Generate Savings for Health Systems Responsible for Post-Acute Care Costs?

Manatt Health: Issue Brief

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Overview

Why is this important?

Manatt Health modeled the extent to which hospitals and health systems could save money on PAC by taking a strategic, data-driven approach to Skilled Nursing Facility (SNF) placement. Specifically, we tested whether a model based on historical facility claims data can inform more cost-effective SNF referral strategies, while maintaining or improving quality of care.

How did we assess the savings opportunity?

Focusing on joint replacement procedures—the most common inpatient procedure for the Medicare population—we developed two models to test whether a SNF's cost performance in a prior year could be used to improve a health system's SNF partnership and referral strategy. First, we estimated the effect on costs of referring patients to the most efficient (based on their historical cost performance) SNFs with comparable or better quality ratings. Second, we estimated the effect on costs of referring patients away from the highest cost SNFs. These models were compared against the health system's actual referral strategy.

What did we find?

- **In the aggregate, both referral models performed better than existing referral strategies.** This suggests opportunities for health systems to save money through more efficient SNF placement without jeopardizing quality of care. There was, however, variation by geography, with the models performing better in markets with a high degree of competition (i.e., lower market concentration) among SNFs, and where there is greater variation in episode costs across SNFs.

All Hospitals	Actively Refer to Top Performers	Shift Referrals Away From Bottom Performers
Impact on Episode PAC Spend, $M	($160.2)	($31.2)
Impact as a % of Total Spend	-7%	-1%

- **Savings vary by the level of variation in PAC episode spend across SNFs**. Hospitals that are in the most competitive areas with the largest variation in episode spending could generate average

savings of $1,647 per episode if they actively refer patients to top performers, compared to $711 per episode for those in less competitive regions.

Average Per Episode Savings for Referrals to Most Efficient SNFs

		Level of Competition	
		Top 20%	Bottom 80%
Level of variation in SNF episode costs	Top 20%	($1,647)	($1,356)
	Bottom 80%	($777)	($711)

- **Evidence does not suggest that more efficient SNFs are lower in quality.** Clinicians and patients may be concerned that a lower-cost SNF will deliver lower-quality care. The 2014 and 2015 post-acute SNF cost and quality profiles did not provide evidence to support this concern. Higher quality SNFs (as proxied by ratings on Medicare's Nursing Home Compare five star quality rating scale) were not, on average, higher cost; in fact, there is some evidence to suggest that they may be slightly lower-cost, although the differences are small.

What are the implications for health systems?

Health systems in select markets that are accountable for the cost of post-acute care can achieve significant cost savings by guiding patients to the highest value SNFs, using models like the one we developed. While health systems cannot direct patients to a SNF due to Medicare freedom of choice rules, they can influence their decision-making by sharing cost and quality information. We encourage health systems to develop more strategic referral recommendations, and consider their framing when presenting options to patients—including the number of and order in which choices are presented, how options are described, and whether there is a "default" selection

Methodology

We conducted a retrospective analysis of institutional claims incurred by Fee-for-Service Medicare beneficiaries who received total hip or total knee arthroplasties from Jan. 2014–Sept. 2015. The study examined the institutional claims beneficiaries incurred in the 90 days following their discharge from the hospital (the "anchor" hospitalization) to a skilled nursing facility. Beneficiaries were matched based on age, sex, reason for Medicare eligibility, type of inpatient admission (emergency, urgent, or elective) and whether the patient's joint replacement was due to a fracture. Beneficiaries' institutional costs for the 90 days following SNF admission were assessed. Beneficiaries were linked to a SNF based on their index SNF admission, and SNF-level cost profiles were developed. SNFs were compared within and between markets based on cost profiles and quality ratings (using Nursing Home Compare star ratings). The study ranked SNFs of equivalent quality (as assessed by star ratings) based on beneficiaries' 90-day costs, and modeled the potential effects of various strategies referring beneficiaries to SNFs that had better historic efficiency than the SNF where the beneficiary actually sought care.

Note: This analysis was conducted for Insights@ManattHealth, a subscription service that provides a searchable archive of all of Manatt Health's content and features premium content that is available only to subscribers. In addition to gaining access to more detailed findings from our analysis of SNF-placements and PAC spending, subscribers have access to: weekly updates of key federal and state health policy activity; detailed summaries of federal Medicaid, Medicare and Marketplace federal regulatory and sub-regulatory guidance; 50-state surveys on a range of critical healthcare topics; and much more. If you are interested in learning more, please contact Patricia Boozang at PBoozang@manatt.com.