



DSS Announces 2015 Medicaid Wage Enhancement Program



George W. Thomas, CPA, CHFP
Principal

September 28, 2015

On September 22, 2015, the Department of Social Services (DSS) released program details related to the Medicaid reimbursements for eligible direct and indirect care employees wage increases discussed as part of this year’s legislative session, as well as benefit increases proposed by DSS. Following are the key details of the information released:

A. The wage enhancement program consists of three potential funding increase areas for nursing homes as follows:

1. Direct and indirect care wage increases as approved by the legislature for \$26 million dollars
 - a. For each participating nursing home, eligible direct and indirect care employee salaries shall be totaled from the following line-items from the facility’s 2014 cost report:

Line 5 - Dietary Service

- b. Food Service Supervisor
- c. Dietary Workers

Line 6 - Housekeeping Service

- a. Head Housekeeper
- b. Other Housekeeping Workers

Line 8 - Laundry Service

- a. Supervisor
- b. Other Laundry Workers

Line 12 - Professional Care of Residents

- a. Directors and Assistant Director of Nurses
- b. RN
 - 1. Direct Care
 - 2. Administrative
- c. LPN
 - 1. Direct Care
 - 2. Administrative
- d. Aides and Attendants

Presently, indirect care positions related to Physical, Speech and Occupational Therapy, Dietician, Social Services and Recreation are not included in the costs indicated by DSS as being allowable under the wage enhancement.

- 2. Increase in additional salary and wages for maintenance workers and other benefits as approved by OPM and DSS for \$6.6 million.
 - a. Each participating nursing home shall submit to the Commissioner a schedule of additional costs in the wage and benefit categories listed below and the effective date of such wage and/or benefit increases. These costs shall reflect new annualized costs incurred on or after July 1, 2015 for the following:
 - 1. Increase in Existing Pension Plan Benefits
 - 2. Health Care Insurance
 - 3. Increase for Healthcare Services Workers
 - 4. Wage increase for Maintenance Workers
 - 5. Training Activities
- 3. Increase for an Implementation of a new pension plan as approved by OPM and DSS for \$2.9 million.

DSS also provided, as part of the information released, four requests for information:

Request for Information #1: Wage Increases from October 1, 2014 – June 30, 2015

Request for Information #2: Wage Increases from July 1, 2015 – June 30, 2016

Request for Information #3: Benefit Increases from July 1, 2015 – June 30, 2016

Request for Information #4: Attestation

In addition, they provided example demonstrations of how the wage enhancement funds will be distributed. Unfortunately, an explanation of the compliance/audit measurement for wage enhancement has not yet been provided.

B. Issues and open items related to the wage enhancement information, which exists and has been presented to DSS, include:

There remains a number of questions related to the eligibility of certain costs, the administration of the program and the specifics of the state's audit approach during future audits.

1. Timing Items

- a. Does the department have an overall timeline when this initiative will be implemented that can be shared with the industry?
- b. Specifically the information released by the department does not indicate a filing deadline date for the requested information. When is the requested information due back to DSS?
- c. The information that was sent out by DSS is based on a draft plan amendment to CMS. Is there an expectation of when CMS will approve the plan amendment and what would occur if the draft plan is not accepted?
- d. When do salary increases need to be implemented by and how will the rate increase be impacted if the increase is done at various dates?
- e. As some facilities may want to implement rates back to July 1, 2015, a significant cash flow expenditure will exist. When does the department expect cash to be distributed and is it possible for a portion of the distribution to occur prior to the final rate determination?

2. Audit and compliance of the initiative

- a. For facilities to be effective in implementing this initiative, it would be helpful to understand the specific approach that will be used for auditing, including the source document that will be audited. These costs will be included in future cost report submissions but other source documents, such as individual payroll records pre- and post-wage increase, may be a better method to audit the specifics of the wage enhancement that could be completed on a more timely basis.
- b. Will there be different requirements of the audit process for facilities that are on an interim rate or maybe on an interim rate in the future?

3. Clarification of the wage enhancement language

- a. Will the state consider bonus payments as meeting the criteria of a wage enhancement? – *It appears unlikely that bonuses will count for the wage enhancement*
- b. Will other staffing adjustments and cost changes, such as replacement of retiring employees with lower cost employee, usage of nurse pool or reduction of cost

based on census changes, have an impact on the wage enhancement payment, or is the amount of the payment strictly related to proving a wage increase to employees?

- c. It is our belief that wage enhancements do not need to be uniform by employee or job category, can you please confirm?
- d. Are the benefits items included on Request for Information #3 going to be analyzed on audit to meet the enhancement criteria in total or are they included on a line-by-line basis?
- e. Could the department provide some examples of training activities which would be allowed for reimbursement as a benefit?
- f. Are any types of pension plan increases to existing pension plans allowed regardless of plan type and structure?
- g. Are market adjustment premium increases of health insurance allowed or is there a requirement of a specific change to lower employee cost required? In a plan that requires an employee to pay 20% of the cost, the facility could increase that payment amount to 25% to cover the additional market increase. We believe that market adjustments should be included to allow facilities to not increase employee contributions.
- h. Will wage enhancement given to employees of a nursing home's affiliated residential care home be eligible for funding?
- i. Regarding the wage enhancement defined in Part 1, if there are contracted services for any of the positions listed (such as dietary), is it only the salaries listed on page 10 of the cost report that are eligible? Or can the management fees reported elsewhere on the cost report, but covering the same positions as those listed on the worksheet, be included?
- j. If prior to July 1, 2015, a service such as dietary was provided through a management contract, and the service is brought in-house between July 1, 2015 and June 30, 2016, what will be used as the benchmark amount to determine the amount of the wage enhancement?

4. Items for potential inclusion in the wage enhancement

- a. Currently part 2 of the wage enhancement does not include reimbursement for federal and state payroll tax and workers' compensation increases. These become mandated costs of the wage enhancement program as soon as wages are increased. As the department has historically considered these as an employee benefit on page 13 of the Medicaid cost report, we believe that these costs should be included.
- b. Currently part 1 of the wage enhancement does not include all indirect care employees, which are included historically in the rate computation report, certain

positions such as Dietician, Physical, Speech and Occupational Therapy, Social Service and Recreation should be included to meet the requirements of the statute.

- c. The request for information #1 asks for information for wage enhancements made between October 1, 2014 through June 30, 2015, but these costs are not recognized as allowable costs for the wage enhancement. We believe this is unfair to facilities that have given wage enhancements in the current cost report year without the benefit of appropriate state reimbursement. We believe that these wage increases should be included for reimbursement in the wage enhancement program.

5. *Logistical issues of implementation*

- a. Certain facilities give wage increases on anniversary dates of individual employees. Would the wage enhancement program be able to handle this methodology or will the facility need to change the approach to this wage increase?
- b. Certain payroll systems only allow wage increases to be made on a weekly basis. July 1 occurred on a Wednesday, forcing the increase to be given for system purposes on June 28 or June 29. Will these increases be considered as of occurring on July 1 for wage enhancement reimbursement?
- c. Is the state committing to the wage enhancement increase to the Medicaid rate for one, two or multiple years regardless of other state budget issues?
- d. Is it necessary for the attestation to be notarized and indicate penalty of perjury? As this is a new program, we are all working together to try to have it implemented in the most effective manner possible and, based on the ambiguity of the system, it would seem to be an unnecessary item.

C. Based on the information we have learned to date, here are a few items to remember when considering the potential financial impact on your company/organization:

1. If you have prepared your 2016 budget without any increase in salary, a change to include the impact of the wage enhancement will have a negative impact on your bottom line.
 - a. The wage enhancement will only account for the percentage of reimbursement a facility receives from Medicaid so, for example, if a nursing home is 30% private and Medicare, 30% of any related wage increases given will be a non-reimbursable expense.
 - b. If payroll taxes are not reimbursed, all of these additional costs will be a reduction to net income.

- c. If spending in the state exceeds the previously mentioned program cost figures that the legislature, OPM and DSS have allowed for these programs, you may be reimbursed at only a percentage of your costs for the program which, in turn, will be a reduction to net income.
- d. If the state reduces rates, these costs will be embedded in your operating cost structure in the future, which will be a reduction to net income.

D. Next steps

Even though there are a number of open questions remaining to be answered, you should consider starting to evaluate the impact of this program on your facility. As we indicated earlier, this is not a 100% cost reimbursement scenario. Depending on your facility size and payor mix, there could be a significant impact to net income as a result of providing wage increases and participating in this program. We recommend that you prepare a pro forma reimbursement calculation using the calculation templates DSS has released. This will help you make an informed decision on the financial impact of this program on your facility.

We expect that DSS will provide additional clarification and guidance in the near future. If you have any questions related to the wage enhancement program, please contact me at 860.561.6853 or gthomas@blumshapiro.com.