Does Medicare Prospective Payment for Nursing Homes Affect Their Participation in the Subacute Care Market?

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“Yes,” say LHC Scholar Robert Weech-Maldonado and colleagues. “Even though the change in reimbursement from cost-based to prospective payment system (PPS) was not associated with an immediate change in nursing homes’ participation in the subacute care market, the data show a declining trend. This may result in a long-term decline in the number of nursing homes offering subacute care services.”

Subacute care involves a range of medical and rehabilitative services for patients who experience a serious illness or lingering disease and need continued care. Nursing homes in the U.S. entered the subacute care market rapidly during the 1990s due to implementation of PPS for hospital acute care reimbursement, technological advances that allowed services to be offered in non-hospital settings, and the growth of managed care. The environment has changed in recent years including implementation of the Balanced Budget Act (BBA) in 1997 and the increased number of nursing home substitutes like home health care and assisted living.

To describe nursing home participation in subacute care this study analyzed data from 1994 to 2000 taken from the Online Survey Certification of Automated Records, the Area Resource File, Medicare managed care market penetration data files, and Medicaid reimbursement surveys. Subacute care was defined as dedicated unit beds for one or more of the following services: hospice, dialysis, ventilator, head trauma, Huntington’s disease, AIDS, ventilator, and special rehabilitation services. The results showed that nursing homes with a higher proportion of Medicare residents were more likely to exit the subacute care market. In contrast, nursing homes were more likely to offer subacute care in markets with higher Medicare managed care penetration and Medicaid reimbursement. Nursing home ownership and size were also important—for-profit chain affiliated as well as larger nursing homes were more likely to have subacute care units.

“Nursing homes in the U.S. respond strategically to the demands of a competitive environment,” say the researchers. “Facilities are influenced by the bargaining power of buyers, the bargaining power of suppliers, new entrants to the market, rivalry among existing organizations, and substitute products and services.”