Allow More Flexibility in Use of Long-Term Care Funding Increases

The October 1, 2007 nursing facility rate increase of 1.87% required that 1) 75% of the money made available by the rate adjustment must be used for increases in compensation related costs, and 2) two thirds of the 75% must be used to provide a wage increase to all eligible employees (other than employees covered by a collective bargaining agreement), in an equal hourly percentage and effective on the same date. These same requirements were imposed on the 2% cost of living adjustment (COLA) provided to all other long term care providers in both years of the budget. In addition, the House Supplemental Budget Proposal would impose the same requirements on the additional 2% cost of living adjustment for nursing homes.

While the Long-Term Care Imperative supports the proposals for funding increases for long term care providers, we oppose this "double encumbrance" of the funding. The following are some of the problems created by the current language:

1. **Requiring increase on the same date for all employees.** This is particularly tough for providers that have historically provided increases on an employee's anniversary date, as they have to change their pay practices to comply with the state requirement if they want to receive the rate increase. It is an even bigger challenge for nursing facilities attached to hospitals that use the anniversary date, since they either have to use different pay practices the nursing home than in the hospital, or change the pay practices of their entire organization in order to receive the rate increase.

2. **Requiring the same percentage increase for all employees.** This significantly limits the ability of providers to reward employees on the basis of merit. Since 2/3 of what they receive is required to be used for an equal per hour increase, and most or all of the rest has to go to cover increases in other compensation costs (payroll taxes, retirement, health insurance), there is virtually no opportunity to use the salary plan to reward higher performing employees with better increases. This policy also limits an employer's ability to achieve other goals – like giving more to those at the bottom of the wage scale, or directing dollars to licensed nursing staff being lured by acute care settings. The potential loss of these employees as a result hurts the ability of facilities to provide quality care.

3. **Targeting of 2/3 of the increase to salary increases.** This requirement reduces the ability of providers to target their compensation funding to where it is most needed, which in some cases would mean greater spending on health insurance and retirement benefits. Leaving only 1/3 of the compensation money unrestricted means that in many cases benefits, particularly health insurance, will have to be reduced in order to provide a salary increase. Without the double encumbrance requirement, providers could distribute the available dollars between salaries and benefits in the way that is most appealing to their employees.

4. **Compliance with the "double encumbrance" has come at the cost of other employment-related benefits.** According to the 2008 Long-Term Care Imperative Legislative Survey a majority of respondents indicated that their compliance with this equal hourly wage increase policy came at the expense of either health care benefits, retirement benefits, life insurance benefits or other steps that would have benefited the staff, such as merit increases or retaining valued employees.

Solution:

Caregivers are the single most important asset to providers of long-term care. However, providers need flexibility in using funds to best address their workforce needs, as well as other escalating costs associated with providing quality long-term care.

We urge the legislature to repeal the double encumbrance language in current law and that which is associated with new COLA spending. If the legislature feels the need to place some requirements on the use of long-term care COLA dollars, the Long-Term Care Imperative asks that the legislature simply require that 75% of the total increase go to wage and benefit increases for employees, reverting to prior, more flexible language that had been adopted in several prior legislative sessions.

If you have any questions about these issues, please contact Kari Thurlow, Vice President of Advocacy for the Minnesota Health and Housing Alliance (651.603.3512) or Jon Lips, Vice President of Advocacy for Care Providers of Minnesota (612.860