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United States Government Accountability Office

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Trends and Planning
Challenges in Providing
Nursing Home Care to
Veterans
Statement of Laurie E. Ekstrand Director, Health Care

January 9, 2006
VA LONG-TERM CARE
Trends and Planning Challenges in
Providing Nursing Home Care to Veterans
What GAO Found

VA's reported overall nursing home care expenditures in its three settings increased from \$2.3 billion to almost \$3.2 billion from fiscal year 2003 through fiscal year 2005. VA officials attributed the expenditure increase from fiscal year 2003 to fiscal year 2005, in part, to a change in the cost accounting system used to develop expenditure totals for each nursing home setting. Based on VA's reported expenditures, VA-operated nursing homes continued to account for out three-quarters of VA's overall nursing home care expenditures in fiscal year 2005, as they did in fiscal year 2003. In fiscal year 2005, 77 percent of nursing home care expenditures were accounted for by VA-operated nursing homes, compared to 73 percent in 2003. VA spent the remainder on state veterans' nursing homes and community nursing homes. From fiscal year 2003 through fiscal year 2005, the percentage of overall expenditures for state veterans' nursing homes declined from 15 to 12 percent and the percentage of overall expenditures for community nursing homes declined from 12 to 11 percent.

VA's overall patient workload in nursing homes increased to an average of 34,375 patients per day by fiscal year 2005, 3.5 percent above the fiscal year 2003 workload. State veterans' nursing homes accounted for over half of VA's patient workload in fiscal year 2005. The workload percent is higher than the 12 percent expenditure in state veterans' nursing homes partly because VA pays on average about one-third of the costs for care veterans receive in state veterans' nursing homes, compared to the full cost in other settings. From fiscal year 2003 through fiscal year 2005, the percentage of workload provided in state veterans' nursing homes increased from 50 to 52 percent. In contrast, the percentage of patient workload provided in VA-operated nursing homes declined from 37 to 35 percent. The percentage of workload in community nursing homes stayed the same at 13 percent.

VA faces two key challenges in planning for the provision of nursing home care. The first challenge is estimating who will seek care from VA and what their nursing home care needs will be. This includes estimating the number of veterans that will be eligible for nursing home care, based on law and VA policy, and the extent to which these veterans will be seeking care for short-stay postacute needs or long-stay chronic needs. A second key challenge VA faces is determining whether it will maintain or increase the proportion of nursing home care demand it meets in each of the three nursing home settings or whether veterans will need to rely more on other non-VA nursing home care providers that are funded by other programs, such as Medicaid and Medicare.

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Mr. Chairman and Members of the Committee:

We are pleased to be here today as you discuss issues regarding the Department of Veterans Affairs (VA) health care program for veterans. One important part of that program is nursing home care, which accounts for about 9 percent of VA's health care expenditures. The VA nursing home program provides care in three settings. It operates its own nursing homes in 134 locations, including a nursing home in Honolulu; it pays for care under contract in non-VA nursing homes, referred to as community nursing homes, including two community nursing homes on the island of Oahu; and it pays about one-third of the costs per day for veterans in state veterans' nursing homes, one of which will be built in Hilo.¹ In addition, veterans needing nursing home care may also receive it from non-VA providers that are not funded by VA. In its three settings, a range of nursing home services is provided to veterans, including short-stay postacute care for patients recovering from a condition such as a stroke to long-stay care for patients who cannot be cared for at home because of severe, chronic physical or mental limitations. VA nursing home care is part of a continuum of long-term care services that VA provides, including services to veterans in the community and in veterans' own homes.²

As you know, meeting veterans' nursing home care needs is a key issue for VA nationally, and here in Hawaii, because of the large elderly veteran population, many of whom are in need of such care. Nationwide, the issue of meeting nursing home needs is even more urgent for the veteran population than for the general population because the veteran population is older. In 2004, 38 percent of the nation's veteran population was over the age of 65, compared with 12 percent of the general population. Similarly, in Hawaii, 38 percent of the veteran population was over the age of 65, compared with almost 14 percent of the general population.

In my remarks today I will discuss trends in VA's overall nursing home care expenditures,³ trends in the number of patients served, or "patient workload," and key challenges VA faces in planning for nursing home care for veterans. Examination of data on trends in the provision of nursing

¹In addition to operating expenses, VA also pays out two-thirds of the costs of construction for state veterans' nursing homes.

²VA noninstitutional services include home-based primary care, homemaker/home-health aid, adult day health care, skilled home health care, and home-respite care.

³These expenditures do not include construction costs.

home care and of challenges VA faces in planning for nursing home care is important for oversight and strategic planning. Examination of these data is also useful in assessing whether the nursing home program is meeting current goals. My comments today are based primarily on

work we have previously completed.⁴ We updated information from our prior work with spending and patient workload data for fiscal year 2005 that VA provided. Thus we present the most current information available at the time of our November 2004 report⁶ alongside the most current information available now to assess trends between these two points in time. For fiscal year 2005, VA used a different cost accounting system to develop expenditure totals for each nursing home setting. VA told us that the accounting system used in fiscal year 2005 would result in higher expenditures than the accounting system VA used in fiscal year 2003. VA could not provide the 2005 expenditure totals using the 2003 cost accounting system, which could be used to determine the extent to which the change in expenditures resulted from real changes in the level of nursing home care expenditures or from the change in cost accounting systems. As in our previous work, we measured patient workload by using the average daily census, which reflects the average number of veterans receiving nursing home care on any given day during the course of the year. In doing our work, we discussed the updated information with VA, determined the information was adequate for our purposes, and incorporated comments from VA as appropriate. We conducted our review from December 2005 through January 2006 in accordance with generally accepted government auditing standards.

In summary, VA's reported overall nursing home care expenditures in its three settings increased from \$2.3 billion to almost \$3.2 billion from fiscal year 2003 through fiscal year 2005. VA officials attributed the expenditure increase from fiscal year 2003 to fiscal year 2005, in part, to a change in the cost accounting system used to develop expenditure totals for each nursing home setting. Based on VA's reported expenditures, VA operated nursing homes continued to account for out three-quarters of VA's overall nursing home care expenditures in fiscal year 2005, as they did in fiscal year 2003. In fiscal year 2005, 77 percent of nursing home care expenditures were accounted for by VA-operated nursing homes, compared to 73 percent in 2003. VA spent the remainder on state veterans'

⁴See Related GAO Products at the end of this statement.

⁵See GAO, VA Long-Term Care: Oversight of Nursing Home Program Impeded by Data Gaps, GAO-05-65 (Washington D.C.: Nov. 10, 2004).

nursing homes and community nursing homes. From fiscal year 2003 through fiscal year 2005, the percentage of overall expenditures for state veterans' nursing homes declined from 15 to 12 percent and the percentage of overall expenditures for community nursing homes declined from 12 to 11 percent.

VA's overall patient workload in nursing homes increased to an average of 34,375 patients per day by fiscal year 2005, 3.5 percent above the fiscal year 2003 workload. State veterans' nursing homes accounted for over half of VA's patient workload in fiscal year 2005. The workload percent is higher than the 12 percent expenditure in state veterans' nursing homes partly because VA pays on average about one-third of the costs for care veterans receive in state veterans' nursing homes, compared to the full cost in other settings. From fiscal year 2003 through fiscal year 2005, the percentage of workload provided in state veterans' nursing homes increased from 50 to 52 percent. In contrast, the percentage of patient workload provided in VA-operated nursing homes declined from 37 to 35 percent. The percentage of workload in community nursing homes stayed the same at 13 percent.

VA faces two key challenges in planning for the provision of nursing home care. The first challenge is estimating who will seek care from VA and what their nursing home care needs will be. This includes estimating the number of veterans that will be eligible for nursing home care,

based on law and VA policy, and the extent to which these veterans will be seeking care for short-stay postacute needs or long-stay chronic needs. A second key challenge VA faces is determining whether it will maintain or increase the proportion of nursing home care demand it meets in each of the three nursing home settings or whether veterans will need to rely more on other non-VA nursing home care providers that are funded by other programs, such as Medicaid and Medicare.

VA has provided nursing home care to veterans for over 40 years. The Veterans Millennium Health Care and Benefits Act (Millennium Act)s made important changes in VA's nursing home program. This act required that through December 31, 2003, VA provide nursing home care to veterans

6Pub. L. No. 106-117, §101(a)(1), 113 Stat. 1545, 1547-51 (1999).

with a service-connected disability rating of 70 percent or greater,' veterans requiring nursing home care because of a condition related to their service, and veterans who were receiving care in a VA nursing home on November 30, 1999. Subsequent law extended these provisions through December 31, 2008.⁸ VA also has established a policy to provide nursing home care to veterans with a 60 percent service-connected disability rating who also were classified as unemployable or permanently and totally disabled. For all other veterans, VA provides care in VA-operated nursing homes and contract community nursing homes on a discretionary basis, depending on available resources, with certain patients having higher priority, including veterans who require postacute care after a hospital stay. VA pays a portion of the cost to treat veterans who seek care in state veterans' nursing homes.

The state veterans' nursing homes receive VA funds as part of their participation in VA's program. As of fiscal year 2005, 116 state veterans' nursing homes in 44 states and Puerto Rico received payment from VA to provide care. In fiscal year 2005, VA paid \$59.36 per day per veteran to these state veterans' nursing homes and awarded grants to states for renovations to existing facilities or construction of new state veterans' homes. States are responsible for obtaining financing sources to pay for their portion of veterans' daily cost of care and for their portion related to renovations to existing facilities or construction of new state veterans' homes. Most veterans, however, do not receive their nursing home care from the VA program but instead receive it from other providers. Care from others includes both long-stay nursing home care to assist with daily activities, such as eating and bathing, and short-stay care requiring skilled nursing home care following hospitalization. For veterans who do not receive their nursing home care from the VA program, care is financed by programs such as Medicaid, Medicare, private health or long-term care insurance, or

'A service-connected disability is an injury or disease that was incurred or aggravated while on active duty. VA classifies veterans with service-connected disabilities according to the extent of their disability. These classifications are expressed in terms of percentages-for example, the most severely disabled veteran would be classified as having a service-connected disability of 100 percent. Percentages are assigned in increments of 10 percent.

⁸The Veterans Health Care, Capital Asset, and Business Improvement Act of 2003, Pub. L. No. 108-170, § 106 (b), 117 Sta. 2042, 2045-46.

"self-financing" by the patients.' States administer Medicaid programs that include coverage for long-stay nursing home care. State Medicaid programs are the primary funders of nursing homes, and self-financing is the next most common source. Medicare primarily covers acute care health

costs and therefore limits its nursing home coverage to short stays. Private health insurance pays for a smaller portion of nursing home expenditures than the other three main sources.^{1°}

VA's reported overall nursing home care expenditures increased from \$2.3 billion to almost \$3.2 billion from fiscal year 2003 through fiscal year 2005. (See table 1.) Expenditures increased in each nursing home setting. From fiscal year 2003 through fiscal year 2005, expenditures increased by \$743 million in VA-operated nursing homes, \$80 million in community nursing homes, and \$30 million in state veterans' nursing homes. VA officials attributed the expenditure increase from fiscal year 2003 to fiscal year 2005, in part, to a change in the cost accounting system used to develop expenditure totals for each nursing home setting."

9VA is not authorized, in most cases, to bill and collect payments from Medicaid and Medicare, nor can VA bill other insurers for health care services that are related to a service-connected disability. However, a veteran's eligibility to participate in VA's nursing home program does not prohibit him or her from using these financing sources for nursing home care outside of VA's health care system, if eligible.

19See GAO, Long-Term Care: Aging Baby Boom Generation Will Increase Demand and Burden on Federal and State Budgets, GAO-02-544T (Washington, D.C.: Mar. 21, 2002).

"The change in cost accounting systems may explain why the annual growth in nursing home expenditures from fiscal year 2003 to fiscal year 2005 of over 18 percent was more than double the growth rate of almost 8 percent from fiscal year 1998 through fiscal year 2003.

Table 1: Change in Reported Nursing Home Care Expenditures, Fiscal Years 2003 and 2005

Dollars in millions

Nursing home setting FY 2003 FY 2005 Change from
FY 2003
to FY 2005

VA-operated nursing homes \$1,697 \$2,441 \$743

Community nursing homes \$272 \$352 \$80

State veterans' nursing homes \$352 \$382 \$30

Total \$2,321 \$3,174 \$853

Source: VA.

Note: Dollar amounts may not add due to rounding. VA officials attributed the increase in expenditures during this period, in part, to a change in the cost accounting system used to estimate expenditures for each nursing home setting.

Based on VA's reported nursing home care expenditures, VA-operated nursing homes continued to account for about three-quarters of VA's overall nursing home care expenditures in fiscal year 2005, as they did in fiscal year 2003. (See fig. 1.) In fiscal year 2005, 77 percent of nursing home care expenditures were accounted for by VA-operated nursing homes, compared to 73 percent in 2003. From fiscal year 2003 to fiscal year 2005, the percentage of overall expenditures for state veterans' nursing homes and community nursing homes declined. The percentage of overall expenditures for state veterans' nursing homes declined during this period because expenditures in VA-operated nursing homes increased more rapidly than expenditures for state veterans' nursing homes. Growth in the percentage of overall nursing home expenditures accounted for by VA-operated nursing homes, as well as the decline in community nursing homes during this 3-year period, was similar to the pattern we observed from fiscal year 1998 through fiscal year

2003.12 In contrast, the percentage of overall nursing home expenditures accounted for by state veterans' nursing homes increased in the prior period, but decreased from fiscal year 2003 through fiscal year 2005.

12See GAO-05-65.

VA's overall patient workload in all three nursing home settings, as measured by average daily census, increased to an average of 34,375 patients per day by fiscal year 2005, 3.5 percent above the fiscal year 2003 workload. (See table 2.) However, the small increase in overall workload masked different workload trends in VA's three settings. Strong growth in state veterans' patient workload offset a small increase in community patient workload and a decline in VA operated patient workload. From fiscal year 2003 through fiscal year 2005, average daily patient workload in the nursing homes VA operated declined by 215, whereas workload in community nursing homes increased by 221 and workload in state veterans' nursing homes increased by 1,155. The continued strong growth in workload in state veterans' nursing homes largely contributed to growth in overall patient workload during this 3-year period and was consistent with the trends that we observed from fiscal year 1998 through fiscal year 2003.

Table 2: Change in Patient Workload, Fiscal Years 2003 and 2005

Average Daily Census

Nursing home setting FY 2003 FY 2005 Change from
FY 2003
to FY 2005

VA-operated nursing homes 12,373 12,158 (215)

Community nursing homes 4,202 4,423 221

State veterans' nursing homes 16,639 17,794 1,155

Total 33,214 34,375 1,161

Source: VA.

Note: The workload measure is average daily census, which represents the total number of days of nursing home care provided in a year divided by the number of days in the year.

The percentage of workload provided in state veterans' nursing homes continued to account for about half of VA's overall patient workload, increasing from 50 percent in fiscal year 2003 to 52 percent in fiscal year 2005. In contrast, the percentage of patient workload provided in VA-operated nursing homes declined. The percentage provided in community nursing homes stayed the same. (See fig. 2.) In fiscal year 2005, state veterans' nursing homes accounted for over half of VA's overall workload, and they accounted for 12 percent of overall expenditures for patient care. The relatively low proportion of expenditures can be explained in large part by VA's per-diem rate for care in state veterans' nursing homes, which on average accounts for about one-third of the cost for care in this setting. Continued growth in the percentage of overall patient workload accounted for by state veterans' nursing homes during this 3-year period was similar to the pattern we observed from fiscal year 1998 through fiscal year 2003.

VA faces two key challenges in planning for the provision of nursing home care. The first challenge is estimating who will seek care from VA and what their nursing home care needs will be. To do this, VA will need to estimate the number of veterans that will be eligible for nursing home care based on the Millennium Act and VA policy or that will be able to receive such care

on a discretionary basis, based on available resources. Moreover, VA will need to estimate the extent to which these veterans will be seeking care for short-stay postacute needs or long-stay chronic needs. To meet this challenge, VA needs to establish a baseline for current nursing home needs being met by obtaining more complete information on the eligibility of veterans currently receiving services and on whether they are using short-stay or long-stay nursing home care. Although VA collects data on eligibility and length of stay for its VA-operated nursing homes, it lacks comparable data on eligibility and length of stay for state veterans' nursing homes and on length of stay for community nursing homes. We recommended in November 2004 that VA work to close this gap.¹³ VA agreed to do so, but has not fully implemented our recommendations. VA 13GAO-05-65.

has begun to collect and report eligibility data on veterans receiving care in VA community nursing homes. Data on eligibility and length of stay for state veterans' nursing homes and community nursing homes are especially critical because these two settings account for almost two-thirds of VA's overall nursing home workload. Without these data, VA does not know how the three settings in combination are being used to serve veterans of different eligibility, and what proportion of short-stay and long-stay needs are being met in all three settings. As a result, VA does not have a baseline from which to estimate future demand for nursing home care in each setting as the overall veteran population and its needs change over time.

A second key challenge VA faces is determining whether it will maintain or increase the proportion of nursing home care demand it meets in each of the three nursing home settings or whether veterans will need to rely more on other non-VA nursing home care providers that are funded by other programs, such as Medicaid and Medicare. To meet this challenge, VA needs to make policy determinations concerning which veterans it will provide nursing home care to in the future and the mix of short-stay and long-stay services it will offer. For example, to what extent will VA continue to provide nursing home care to veterans in addition to those that it is required to serve under the Millennium Act? To what extent will VA provide short-stay nursing home care, and to what extent will it provide long-stay nursing home care? VA told us that such policy decisions have not been made. These policy decisions are needed to establish criteria to be used to identify which veterans VA will serve and what nursing home services it will offer as a matter of policy, in addition to those required by law. Then VA can begin to generate the information it needs for planning. This may include, for example, how many nursing homes are needed in each setting and where they should be located.

VA is working on these challenges and has developed a draft long-term care strategic plan. Completing the long-term care strategic plan could help VA determine how to maximize the use of resources for meeting nursing home needs of veterans across the country in each of the three nursing home settings. VA has not given a timeline for completion of the long-term care strategic plan. In May 2004, the Secretary of Veterans Affairs acknowledged that a strategic plan would be necessary to help

achieve VA's goals, including ensuring that veterans have access to an appropriate range of services.¹⁴

Mr. Chairman, this concludes my prepared remarks. I will be pleased to answer any questions you or other Members of the Committee may have.